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1. Introduction

The purpose of this Annual Economic Review is to serve as background to the proposed Annual Economic Report submitted by the Commission for adoption by the Council. It analyses the main features of the Community's economic performance, and of macroeconomic policy in the recent past.

This introduction gives a brief guide to the chapters that follow.

Chapter 2 analyses the Community's hesitant growth performance in the period since the 1973 oil crisis, against the pattern of stronger and more stable growth in the preceding decade. It describes how the sharp recovery of 1976 gave way to a phase of slower growth in 1977 and 1978, and how a more expansionary phase of policy opened up in the course of 1978, in part as a result of the concerted action Decision agreed by the Council on 24th July.

Chapter 3 shows how the slow growth performance has affected labour markets: employment has stabilised at a low level after a sharp decline in 1974-75, while the rate of increase of unemployment has been aggravated by the rapid rise of the population of working age, compensated to some limited extent by a virtual cessation of net immigration from outside the Community. The results of some longer-run projections suggest that the rise of the working-age population will further accelerate in the first half of of nineteen-eighties, but then stop quite abruptly under the effect of the decline in fertility rates that began in 1965.

Chapter 4 reviews progress in the fight against inflation. This progress has been significant in 1978, with the Community average consumer price rise falling well below the double-digit level for the first time since 1973. Price control policies are reviewed, both where such instruments have been used actively, and where, as in the case of France in 1978, they have been largely removed. Incomes policy and wage bargaining developments are also reviewed; the picture that emerges is one of the widespread efforts by governments to influence nominal settlements, falling short, however of statutory intervention.

Chapter 5 examines the convergence or divergence of economic performance as between the Member States of the Community, notably as regards prices, growth

and income per capita levels; these criteria being relevant to the task of making renewed progress towards economic and monetary union. Considerable progress has been made in reducing both the dispersion, (as well as the average), in inflation rates. Differences of income levels, by Member State and by region, have not on the whole lessened, although the high Irish growth is a relatively new and positive development. The inequality of income per capita between Member States is also shown to be substantially less when measured with purchasing-power-parities, compared to market exchange rates.

Chapter 6 reviews the course of budgetary policy in more detail, leading notably to the concerted action Decision of 24th July 1978. It shows how policy has had to respond to the double challenge of countering both the deep recession and the tendency in many countries for public expenditure and transfers to grow to excessively high levels in relation to the gross national product.

Chapter 7 reviews the course of monetary policy, and notably the relatively new experience for most Member States in pursuing quantified money supply or credit objectives. It also discusses briefly the prospects for harmonising such policies to a higher degree in the Community, a task which will be increasingly significant with the establishment of a European Monetary System.

Chapter 8 analyses the Community's balance of payments since the 1973 oil crisis. It shows how the Community's current balance has related to the world balance of payments structure; 1978 has seen the Community's first substantial current account surplus since the oil crisis. The Community's balance of payments are then analysed in more detail, by type of transaction on current and capital accounts, and by Member State. Exchange rate changes are compared with relative price performance, giving an indicator of developments in competitiveness.

Chapter 9 examines the nature of structural changes in the Community economy in the period since the 1973 oil crisis by comparison with those that were in evidence in the previous decade of faster and steadier economic growth. The analysis concentrates on the shares in value-added of 20 sectors and branches, their rates of growth, and performance in terms of productivity, employment and

external trade. It emerges that no single sector has been unaffected by the crisis; however, the wide 'hierarchy' of growth rates between sectors that lies at the heart of growth process appears to have been attenuated. The situation of the food industry has relatively improved, that of investment and durable goods industries relatively moderately affected, while many branches producing intermediate industrial goods and non-food consumption goods have been among the most adversely affected.

The Statistical Annex gives for a selection of main economic indicators a complete time series of annual data from the beginning of the E.E.C. in 1958 to 1977 or 1978 wherever estimation has been possible. Four of the tables give Community budget expenditure and receipts, gross borrowing and net indebtedness, also in a complete time series from 1958 to 1978 or, for the budget, 1979.

2. Growth of demand and output

(i) GDP growth performance

The fifteen years, 1958 to 1972, saw in the Member States a period of sustained expansion. Certainly there were slow-downs - in most countries in 1961-62, 1966-67 and in 1971-72 - in which the rate of growth briefly faltered but generally remained positive.

In 1974 the Community countries together with the rest of the industrialised world experienced the beginnings of the deepest recession in the post-war era. Despite a substantial recovery in 1976, prolonged into 1977 in the United States, the growth rate in most industrialised countries seems to have reverted last year to figures generally about half the average of the 1960s. There seems to have been a substantial reduction in the spontaneous momentum of economic expansion. It is the purpose of this chapter to analyse the factors which appear to be behind the change in the trend in growth rate which followed the 1974-75 recession.

Table 2.1 gives growth rates for the countries of the Community, the United States, Japan and the OECD member countries as a whole for the decade 1960 to 1970 and for subsequent years. For the 1960 to 1970 period the similarity of average growth rates, notably among the original six member countries of the Community, is noteworthy though the actual annual rates show considerable variability from year to year. The standard deviation of growth rates for the period 1961 to 1970 varied from 0.9 percentage points for France with the steadiest growth rate to 2.7 for Denmark with the most volatile. But one important difference between the decade to 1970 and subsequent years is that in the former period cyclical movements were less synchronous than in the latter period. Thus in the 1970s cyclical swings have been magnified by the coincidence of fluctuations in domestic and foreign demand, in turn interacting with commodity price movements which reacted to the cycle in the industrialised world.

TABLE 2.1

Increase in the volume of gross domestic product

(percentages)

	1960-1970	1971-1972	1973	1974	1975	1976	1977	1978
DK	4,9	4,0	5,2	0,6	-1,2	6,3	1,8	0,0
D	4,7	3,5	4,9	0,5	-2,1	5,6	2,8	2,7
F	5,6	5,7	5,4	2,8	0,3	4,6	3,0	3,0
IRL	4,2	4,9	4,6	2,1	1,2	2,9	5,5	6,0
I	5,6	2,3	6,9	4,2	-3,5	5,7	1,7	2,2
NL	5,4	4,2	5,9	4,2	-0,9	4,5	2,4	1,9
B	4,9	4,8	6,5	4,7	-2,1	5,7	1,3	2,0
L	3,3	5,4	11,3	5,0	-11,0	2,9	1,3	2,5
UK	2,8	2,6	6,6	-0,6	-1,6	2,6	0,7	3,2
EC	4,6	3,8	5,8	1,7	-1,6	4,7	2,2	2,6
US	3,8	4,3	5,4	-1,4	-1,0	6,0	4,9	3 1/2
JAPAN	10,7	8,1	9,7	-1,2	2,3	6,0	5,0	5 3/4
OECD	5,3	4,6	6,0	0,1	-1,0	5,2	3,6	3 1/2

Note : EC totals based on 1970 exchange rates, OECD totals for 1960-1970 based on 1963 exchange rates and 1970 exchange rates thereafter. The price base is 1970, except for 1978, which is based on the prices of the preceding year.

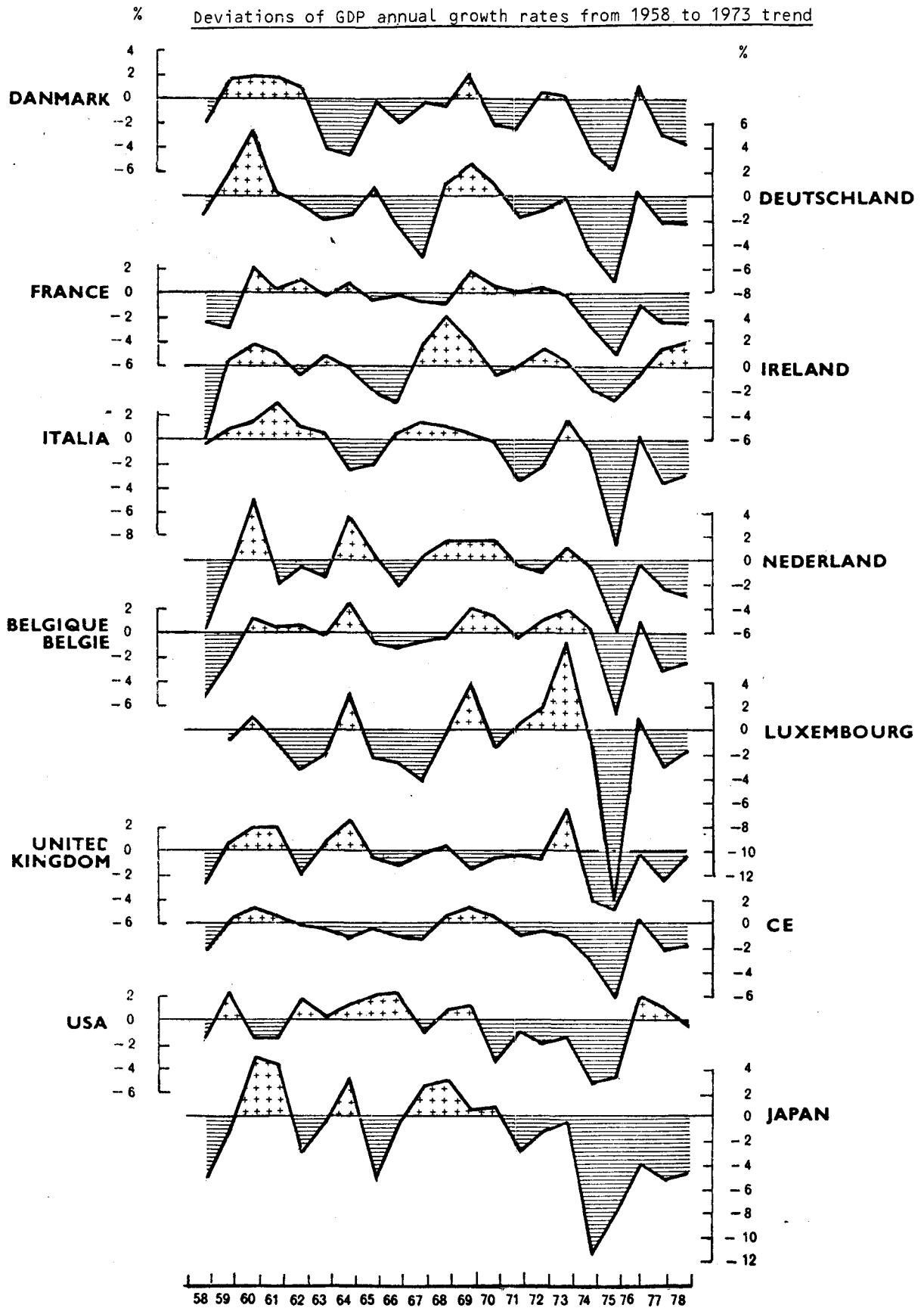
Source: Eurostat and estimates of the Commission services for 1977 and 1978.

The various causes of the 1974-75 recession in the industrial countries are fairly well known, though their relative strength remains disputed. In brief there was a surge in production in the developed economies in 1973, not because those economies were individually expanding abnormally fast compared with earlier years (except perhaps Luxembourg which being a raw-material processing country effectively proves the rule), but because they were atypically in phase. The resulting rapid rise in demand for raw materials led to an explosion of industrial raw material prices. This, together with the inflation in foodstuffs which was largely climatic in origin, and the quadrupling of oil prices in 1973-74, in turn generated inflationary pressures in the industrialised countries; the adverse shift in the terms of trade and as will be seen the reaction of different economic agents to them, sowed the seeds of generalised recession. The export prices of developing market economies excluding crude petroleum rose 43 % in 1973 and 42 % in 1974. This rise was made up of 43 % and 33 % respectively for food, 84 % and 14 % for agricultural goods excluding food and 22 % and 53 % for minerals ⁽¹⁾. The boom in world activity leading to the detonation of the world price level was sanctioned in advance, some would say was brought about, by the rapid rise in the world money stock from 1971 onwards. The world money stock grew at an average of 14 % per year from 1971 to 1973 inclusive, compared with 7 1/2 % over the years 1968 to 1970 and 6 1/2 % over the decade 1961 to 1970. Also in the early 1970's in certain countries the stance of budgetary policy was significantly more expansionist than on average during the 1960's. This was the case notably in the United Kingdom where the public sector borrowing requirement moved 4 % of GDP in an expansionary direction from 1971 to 1973, and to a lesser extent in Italy, Ireland and Denmark.

The recovery in the Member States which began in the second half of 1975 was vigorous but short-lived, and petered out towards the end of 1976 or early 1977. The growth in GDP in the Community in 1977 was, at 2.2 %, the lowest for the nine countries together since 1958 apart from the 1974-75

(1) United Nations series, Monthly Bulletin of Statistics, Table 59.

GRAPH 2.1



recession years. The figure of 2.6 % foreseen for this year is the second lowest, and reflects a weak demand in all countries except Ireland.

The extent of the shortfalls in GDP growth below the previous trend rates and thus an impression of output forgone is shown in the graph 2.1. Extrapolating the 1958 to 1973 trend line would imply an increment to Community GDP by 1978 of 25 % rather than the 10 % actually obtained, suggesting a "loss" of 15 % of 1973 GDP. For the individual countries the corresponding figures are : Denmark 18 %, Germany 11 %, France 10 %, Ireland 6 %, Italy 18 %, Netherlands 17 %, Belgium 10 %, Luxembourg 23 %, and the United Kingdom 12 %. However, in discussing the inadequacy of the recovery the effects of both the change in the structure of demand caused by relative price changes which may have rendered a lot of capital equipment in certain industries permanently unprofitable, and the low rates of investment in the last three years on productive capacity are relevant. There are signs that in certain industries, such as automobiles and paper, capacity constraints are already beginning to bite, though other sectors remain characterised by considerable underutilization. Business surveys carried out by the Commission give evidence here. The measure consists of the average balance for all industrial sectors of positive over negative replies in the three surveys each year to the question "is productive capacity more than sufficient to meet demand?". Though these data, like all capacity utilization series, are to be interpreted with prudence, they do suggest that the degree of underutilization is in general on the increase.

The difficulties experienced in putting the Community economy back on to its desired growth path are illustrated by a comparison of growth performance in recent years with official targets or forecasts.

TABLE 2.2Index of capacity underutilisation derived from business surveys

	1973	1974	1975	1976	1977	1978 ⁽¹⁾
D	4	26	52	32	37	37
F	-22	-20	39	22	26	28
IRL	:	7	25	21	4	5
I	10	13	57	41	40	48
NL	3	10	52	43	45	43
B	-2	8	54	51	61	60
L	-27	-21	51	72	72	69
EC (2)	-4	13	49	30	36	38

Note : The index represents the balance of the respondents who consider productive capacity more than sufficient to meet demand against those who consider it less than sufficient.

- (1) Average of result of January and May surveys, except for FR Germany, which shows January survey result.
- (2) Based on weighted average of countries for which survey data are available.

Source: Commission business surveys.

An average target growth rate for the Community for 1975 was published in the 1974 Annual Report on the economic situation in the Community. Reflecting worries about the effects of the oil price rise, both on prices and balance of payments position, the figure was a modest 2 1/2 %. The following March it was revised downwards to 1 1/2 % in the Commission Communication to the Council on the adjustment of the economic policy guidelines. In the event the rate was -1.7 %. The next Annual Report - that for 1975 - set a target of 4 % for 1976 and no revised figures was given the following spring though it was considered that the initial target was relatively unambitious. Indeed the average growth rate in 1976 reached 4.9 %. For 1977 the target was set at 4% and in the spring it was thought that 3 1/2 % would be the maximum obtainable in the light of the sluggishness of the recovery. The outcome was 2.3 % growth. Last year's Annual Report established a target zone of 4 to 4 1/2 % for the Community as a whole in 1978, compared now to a probable outcome of 2.6 %.

The most recent indication of an objective for the Community was contained in the conclusions of the President at the European Council in April, 1978. It was for a growth rate of 4 1/2 % in annual average terms by mid-1979, thus putting back for half a year the target adopted by the Finance Council in October 1977. This set in train a detailed analysis of how concerted demand management action by all Member States with individual contributions modulated according to balance of payments, inflation and public finance constraints, could enable a stronger growth rate to be achieved.

The final package was discussed at the European Council in Bremen and at the Western economic summit in Bonn in July and settled at the Economic and Finance Council in July. The policy commitments of individual Member States are discussed elsewhere in this report (1).

(ii) Components of growth

The major contribution to the growth rates of the decade, 1960-1970, derived from the growth of consumer expenditure. Table 2.3 gives the contributions of the various components of demand (with government fixed investment taken together with government consumption). Among the Member States consumer expenditure contributed from just less than half the rise in real aggregate demand in Belgium to just over two-thirds of the rise in Italy, and 2.7 out of the 4.6 % growth for the Community as a whole. As regards private investment, its greatest contributions were in fast-growing countries, France and the Netherlands, but the contribution of private investment in Italy, also fast-growing, was relatively modest. In the slowest-growing economy, the United Kingdom, the sluggishness of private investment was clearly a major explanatory factor. The government contribution to growth tended to be small, only 0.7 points for the Community as a whole with Denmark showing the highest contribution from this component, largely due to a high rate of public authority investment. Also over the decade only in Denmark were stock changes or the foreign balance significant in their net effect.

Of course these average figures for a decade conceal many shorter-run fluctuations in economic behaviour.

(1) See Council decision of 24 July, 1974, OJ N° L 220/27 and The Economic situation in the Community N° 2/1978, Commission of the European Communities.

TABLE 2.3

Contributions to changes in real GDP as a percent of GDP
in the previous year at 1970 prices

	1960-1970	1971-1972	1973	1974	1975	1976	1977	1978
DK pr.con.	2,5	1,4	3,1	-1,5	2,7	3,8	0,5	-0,3
pr.inv.	0,6	1,0	1,4	-1,9	-2,8	3,3	-0,4	-1,1
pub.exp.	1,9	1,0	-0,4	0,4	1,2	1,4	0,7	0,8
stocks	-1,6	-0,6	1,3	-0,2	-3,0	2,6	-0,4	-0,4
for.bal.	1,5	1,1	-2,5	2,7	1,8	-5,1	1,5	1,3
D pr.con.	2,7	2,8	1,4	0,7	1,9	2,1	1,7	1,9
pr.inv.	1,2	1,1	0,0	-2,3	-1,0	1,3	0,9	0,9
pub.exp.	0,8	0,7	0,5	0,3	0,2	0,3	0,1	0,7
stocks	0,1	-1,0	0,5	-0,2	-0,9	1,6	-0,2	-0,2
for.bal.	0,0	-0,2	2,4	2,1	-2,8	0,4	0,0	-0,5
F pr.con.	3,4	3,8	3,4	1,8	1,8	3,1	4,5	2,1
pr.inv.	1,6	1,2	1,3	0,1	-0,9	1,0	1,5	0,2
pub.exp.	0,7	0,9	0,6	0,2	0,9	0,7	-1,0	0,6
stocks	0,0	-0,3	0,5	-0,1	-2,6	1,5	0,1	-0,1
for.bal.	0,0	0,1	-0,5	0,8	1,1	-1,7	1,0	0,2
IRL pr.con.	2,7	2,5	3,4	-0,3	-3,8	1,9	3,5	5,2
pr.inv.	0,9	1,5	3,5	-3,1	-2,4	0,8	1,9	2,1
pub.exp.	0,9	1,5	1,8	1,8	1,1	1,3	0,3	1,4
stocks	0,1	-0,5	0,4	1,8	-7,0	2,5	1,2	-0,4
for.bal.	-0,4	-0,4	-4,7	1,2	12,4	-3,3	-1,4	-2,3
I pr.con.	3,9	2,1	3,8	1,7	-0,3	2,2	1,4	1,4
pr.inv.	1,0	-0,4	1,4	0,6	-1,0	0,2	0,2	-0,3
pub.exp.	0,6	0,8	0,4	0,5	0,3	0,3	0,1	0,4
stocks	0,1	-0,9	2,5	0,0	-1,0	2,8	-1,6	0,1
for.bal.	0,0	0,6	-1,3	1,4	0,9	0,2	1,6	0,6
NL pr.con.	3,7	2,2	2,3	1,5	2,0	1,3	2,5	2,1
pr.inv.	1,7	-0,1	1,3	-0,8	-1,3	-0,3	2,2	0,5
pub.exp.	1,0	0,4	0,0	0,3	1,1	0,6	0,6	0,3
stocks	-0,4	-0,8	1,2	1,1	-3,6	2,3	0,1	-0,2
for.bal.	-0,5	2,5	1,1	2,1	0,6	0,7	-3,0	-0,9
B pr.con.	2,4	3,3	4,9	2,2	0,3	3,8	1,3	1,2
pr.inv.	1,1	0,1	1,5	1,5	-0,6	0,2	-0,1	0,0
pub.exp.	0,9	0,8	0,6	0,5	0,9	0,7	0,5	0,8
stocks	0,2	-0,4	1,0	0,9	-2,9	1,2	-0,1	-0,1
for.bal.	0,4	1,0	-1,5	-0,3	0,1	-0,5	-0,3	0,0
L pr.con.	2,2	2,9	2,5	2,8	1,3	4,0	0,9	1,1
pr.inv.	0,8	2,0	1,6	0,1	-1,7	0,4	-0,7	0,5
pub.exp.	0,3	1,0	1,0	0,4	0,4	0,2	0,4	0,4
stocks	0,3	0,4	4,1	0,3	-2,4	-1,5	2,0	-0,2
for.bal.	-0,3	-0,9	6,1	0,1	-6,0	-0,3	-1,3	0,7
UK pr.con.	1,5	2,8	3,0	-0,8	-0,7	0,3	-0,5	3,4
pr.inv.	0,6	0,4	0,5	-0,1	-0,2	-0,5	0,4	0,5
pub.exp.	0,7	0,5	1,3	0,1	0,6	0,3	-1,1	0,3
stocks	-0,1	-0,4	2,5	-1,4	-2,5	1,9	0,7	0,3
for.bal.	0,2	-0,7	-0,2	1,0	0,9	1,1	1,6	-1,3
EC pr.con.	2,7	3,0	2,8	0,9	1,0	2,2	1,3	2,0
pr.inv.	1,2	0,7	0,8	-0,7	-0,9	0,6	0,9	0,4
pub.exp.	0,7	0,7	0,6	0,3	0,5	0,6	-0,3	0,5
stocks	0,0	-0,7	1,2	-0,2	-2,0	1,9	-0,2	-0,1
for.bal.	0,0	0,2	0,4	1,5	-0,2	-0,4	0,5	-0,2

Notes: See foot of page 2.10.

This decade of relatively stable growth contrasts with the 1970s. In most countries, the contribution of private investment fell sharply in 1971 and 1972, the exceptions being Denmark, Ireland and Luxembourg, and in all countries but Luxembourg a running-down of stocks had a negative impact, to the extent of cutting the average growth in the Community by 0.7 %.

1973 was a year of rapid expansion, save in Denmark where increased imports to a large extent met the rise in domestic demand. Elsewhere too imports responded to increased demand and the net trade effect was negative, save in Germany, Luxembourg and the Netherlands. In general, however, this was more than offset by the strong contribution of private consumption, private investment and stock-building, though their respective roles differed considerably between countries.

In 1974-75 recession saw wild fluctuations in the rôle of different components of demand and major differences between countries. However, a certain amount of generalisation is possible. Taking the two years together there was clearly a lower contribution from consumer demand throughout the Community relative to previous years. Consumer expenditure in real terms actually fell in Denmark in 1974, in Italy in 1975 and in Ireland and the U.K. in both years. Elsewhere

(Notes to Table 2.3)

Source: As Table 2.1, which also gives the corresponding GDP aggregate data.

Note : pr.con.: Consumer expenditure
 pr.inv.: Private fixed capital investment
 pub.exp.: Government expenditure on goods and services
 stocks : Changes in stocks
 for.bal.: Net foreign balance

Differences between the sum of the components and the rates of growth in GDP given in Table 2.1 arise from rounding, and in the case of the UK, from the fact that this table uses the expenditure measure of GDP growth while Table 2.1 uses the compromise measure. The price base is 1970, except for 1977 and 1978 each of which are based on the prices of the previous year.

consumer expenditure showed some rise in volume terms but, in most cases, at a rate considerably lower than, say, the trend rate of the 1960s. However, the fall in private investment and stock decumulation contributed more to the recession than the weakness of household demand. With few exceptions private investment, both fixed and in stocks, fell in real terms in both years of the recession, while the role of the foreign balance tended, aided by exports to countries outside the Community, in particular the OPEC member countries, to support economic activity particularly in 1974.

In 1974 because of inflation and balance of payments worries, government expenditure was cut back in several countries and indeed in all countries, except Ireland, its real contribution to aggregate demand was much less than in earlier years but still slightly positive. In France and the United Kingdom the restraint in public expenditure was particularly marked compared to 1973. In 1975, the contribution of government expenditure generally rose moderately, though not in Germany or Italy.

In assessing fiscal policy it is of course necessary to look at the general government budget as a whole and this is done in Chapter 6. At this point it may be noted that, partly because of discretionary fiscal policy and partly because of the automatic effects of lower tax revenues caused by the recession, the overall budget was in most countries a good deal more expansionist between 1973 and 1975 than public expenditure alone (see Annex Table 26). The budget deficit as a percentage of GDP increased most in Germany (by some 7 1/2 %) and Ireland (by 9 %). Thus to an important extent governments were absorbing the deflationary effect of the deterioration in the terms of trade in those years, in which Community import prices rose 64 %, Community export prices rose 48 % and the Community current account deteriorated from 5.5 billion EUA in 1972 to 1.1 billion in 1975.

The year 1976 showed a return to a stronger pattern of demand growth. The major motor behind the recovery was growth in consumer expenditure and the replacement of stocks. Private investment generally remained sluggish and actually fell in real terms in the Netherlands and the United Kingdom. Public sector expenditure made some contribution to growth in most countries, more particularly in Denmark and Ireland, but noticeably less than in the previous year in the Netherlands and the United Kingdom. Indeed as a percentage of GDP the general government deficit was reduced in several countries, notably Germany, France and the United Kingdom. The foreign balance contribution became significantly negative in Denmark, France and Ireland.

1977 and 1978 have been years of sluggish growth. That growth that has taken place has been on the whole due to the generally hesitant expansion in private consumption, though this has recently shown some greater dynamism in the United Kingdom and Ireland, and in certain countries. In Denmark and Italy there has been a significant contribution from the foreign sector. Private investment has been depressed in all countries except Ireland. The role of government expenditure has been marginal or even negative in its contribution to aggregate demand taking these two years together, again with the exception of Ireland. As is evident from Table 6.1 (and as analysed in more detail in Chapter 6) in most countries the general government deficit diminished in 1976 and 1977. This tendency was reversed in the course of 1978, in the first place through the more expansionary initial posture of the 1978 budgets, and secondly, in the framework of the concerted action programme, by subsequent supplementary budgets and commitments, especially by Germany, to a more expansionary policy in 1979.

(iii) The role of private consumption

The fact that weakness of private consumption was in most countries the major immediate factor behind the 1974-1975 slump and that its recovery in 1976 preceded a new further slowing down (1) begs the question of whether there has been a change in the behaviour of households over and beyond that which can be explained by earlier reactions to changes in real disposable income or inflation. It has often been alleged that consumer reticence has been increased by the threat of unemployment or the fall in the real value of liquid assets. Certainly, the savings ratios given in Table 2.4 show a tendency to rise in several but not all countries up to 1975, when inflation was at its peak, but in most cases by 1977 they have reverted to their 1972-1973 levels. In Ireland there has been a substantial and continuous upward trend (which has coincided with high rates of investment and economic growth), and in the United Kingdom there was a significant increase up to 1975, which has not been reversed. Germany is the only case where the 1977 level remained below that of 1972-1973.

The ratios of household savings to disposable income do not in themselves demonstrate a new reticence in consumer expenditure. The changes in the savings ratio may simply reflect the established reaction to higher disposable income or to inflationary expectations. Quarterly, or, where quarterly data are not available, annual series were used to estimate regression equations "explaining" the level of total consumer expenditure by real disposable income and the consumer expenditure deflator. Statistical tests were then carried out to determine whether there was clear evidence of a change in the rôle played by either of the explanatory variables. In effect the quarterly data showed that in the case of Germany from the beginning of 1974 while households spent as high a proportion of additional disposable income - some 82 % - there has been a longer delay than in earlier years in adjusting consumption to a change in disposable income. In the case of the United Kingdom there appeared to be a change in the reaction of households to price rises. Whereas in the past, price increases, present and anticipated, appear to have stimulated expenditure, from mid-1973 onwards

(1) This is illustrated by the year-on-year differences in the contributions to real GNP change in Table 2.3 for the Community as a whole.

TABLE 2.4Ratio of household saving to gross disposable income

	1972	1973	1974	1975	1976	1977
DK	0,16	0,16	0,15	0,18	0,16	0,16
D	0,14	0,13	0,14	0,14	0,13	0,12
F	0,17	0,17	0,18	0,19	0,17	0,18
IRL	0,13	0,16	0,19	0,24	0,21	0,23
I	0,25	0,24	0,23	0,27	0,27	0,26
NL	0,17	0,18	0,18	0,16	0,18	:
B	0,21	0,21	0,22	0,21	0,23	0,21
L	:	:	:	:	:	:
UK	0,10	0,11	0,13	0,14	0,14	0,14
EC	0,16	0,17	0,17	0,18	0,17	0,17

: Data not available.

Source: 1972-1976, except Denmark and Ireland: Eurostat, otherwise national data, where necessary adjusted to SEC definitions. 1977, estimates of Commission services.

the effect of increased inflation seems rather to have been to depress expenditure.

Of course consumer demand may also lack dynamism because of the slow growth of real disposable income. The latter generally moved very much in line with GDP over the period. However, the falls in Italy in 1974, and Denmark and Ireland in 1974 and 1975 and in the United Kingdom in 1976 and 1977 were out of line with the evolution in GDP. At least in these cases there are grounds for attributing some of the sluggishness of consumers' expenditure to falls in real disposable income effected by demand-management or wages and prices policies, generally designed to protect the balance of payments.

Apart from the new tendencies to react to changes in disposable income more slowly in Germany and to react negatively to inflation in the United Kingdom, the econometric evidence does not point to any clear changes in consumption behaviour. The fact that consumer expenditure has not done more to sustain the recovery in 1977 and 1978 can largely be attributed to the low growth in real disposable income, which in certain cases has been reduced by stabilisation policies but in others merely reflects the weakness of other demand components.

(iv) The role of private investment

The principal factors behind the low rates of private investment since the 1974-1975 recession are generally considered to include the depressed level of profits, continuing high levels of capacity underutilisation, uncertainties created by fluctuating exchange rates, the effect of high nominal rates of interest on the cash flow implications of borrowing and a general lack of confidence in demand management policies. Different arguments apply with different force in different countries and indeed in different sectors within the same country.

As regards depressed profits, the reverse side of the same argument is of course the excessive growth of earnings. The weight of the argument is seen in figures for the share of wage and salary earnings in net national income (see Table 2.5). It is clear that in general the wage share has risen substantially since the 1960s and though the timing of the rise has varied from country to country, the inflection has generally been accelerated by the 1974-1975 recession. While labour was able to force up wage rates to maintain the real value of earnings, the weakness of demand and in some countries, Italy, France, the United Kingdom in particular, price policies prevented the increased labour costs being fully passed on. For the Community as a whole the wage share was on average some 59 % during the 60's. It rose to 66 % in 1975 and since then it has fallen somewhat and should be about 62 % in 1978.

In order to test whether there has been a discontinuity in the behaviour of private investment, annual, and where possible quarterly, regression equations were estimated for each Member State. Changes in industrial output or total domestic demand, the relative costs of capital and labour and an index of the degree of capacity utilisation were used to explain changes in the rate of private investment. This gives some evidence to suggest that in France, Italy and Denmark the fall in output during the recession discouraged investment relatively more than the earlier year-to-year fluctuations in output would have implied. In general, however, there is no clear pattern of underprediction or overprediction when the equations based on the years 1960-1973 are used to forecast private investment in the post-1973 period. The recent lethargy of private sector investment is largely explicable without recourse to special arguments. In short the high degree of capacity available together with the expected level of demand does not warrant higher levels of investment, though this does not rule out the role of such factors as uncertainties about exchange rates, low profit levels and high interest rates in certain sectors.

TABLE 2.5Share of compensation of employees in net national disposable income

	1960-70	1971-72	1973	1974	1975	1976	1977	1978
DK	0,57	0,60	0,59	0,64	0,66	0,65	0,64	0,63
D	0,59	0,62	0,63	0,65	0,65	0,63	0,63	0,62
F	0,57	0,57	0,57	0,59	0,61	0,61	0,62	0,61
IRL	0,55	0,55	0,53	0,57	0,59	0,59	0,58	0,58
I	0,54	0,57	0,58	0,59	0,64	0,63	0,64	0,63
NL	0,60	0,63	0,63	0,65	0,68	0,66	0,65	0,65
B	0,58	0,59	0,60	0,61	0,64	0,64	0,64	0,64
L	0,66	0,62	0,54	0,54	0,65	0,69	0,70	0,68
UK	0,65	0,66	0,67	0,72	0,75	0,73	0,70	0,70
EC	0,59	0,61	0,61	0,64	0,66	0,65	0,63	0,62
US	0,67	0,69	0,69	0,71	0,70	0,69	0,73	:
JAP	0,57	0,56	0,57	0,59	0,62	0,66	0,71	:

Note: Series adjusted to eliminate the effects of variations in the proportion of wage and salary earners in total employment (1975 = 100).

Source: Eurostat and estimates of the Commission services for 1977 and 1978

3. Employment and unemployment

(i) Labour demand and supply

In the period 1960 to 1973 the level of employment in the Community increased only at a slow rate from some 103 to 106 million persons, while the total population rose far more strongly from some 233 to 257 millions. Salaried employment, however, was growing a good deal faster than total employment - at about 1 per cent per annum. Unemployment fluctuated, but stayed within a range from 2 to under 3 million (Graph. 3.1).

Since 1973 the Community labour market has been subjected to drastic changes, on both demand and supply side.

The recession in 1975 led to a sharp reduction of 1.2 per cent in salaried employment, whereas the following year's strong but temporary recovery in economic growth gave no increase in salaried employment at all. Since then, in 1977 and 1978, there has been a modest increase in employment, essentially due to special employment measures by governments. While the form of these measures has been very diverse, the general pattern appears to be a continuing decline in industrial employment, with the increase in employment arising mainly through direct job-creation in the public sector (see also chapter 9 for a longer-run view).

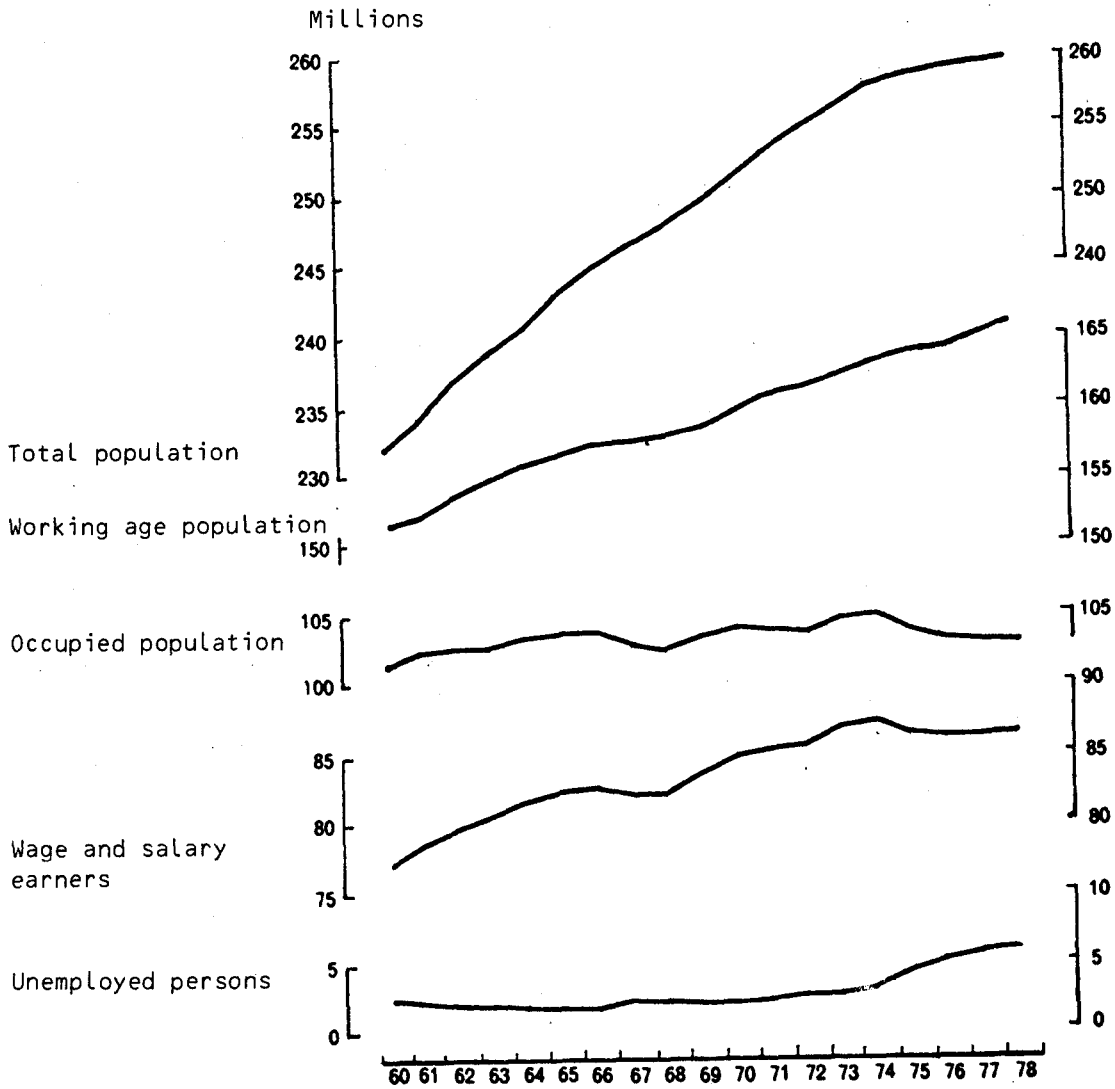
The weakening labour market has been due in part to demographic trends. An increasing rate of growth of the working-age population has been apparent since the end of the 'sixties (1). The most dramatic change has occurred in Ireland where the working-age population is growing in the present decade at over 1 per cent per year compared to a decline of almost 1 per cent per year two decades ago in the 'fifties. Germany represents the other extreme case, turning from a growth of working-age population of over 1 per cent per annum in the 'fifties to nearly 1/2 per cent per annum in the present decade (2). These changes are already doubtless having an effect on the pattern of economic growth in the countries

(1) Source: "The Economic Implications of Demographic Change in the European Community 1975-1995", Report of a Study Group of the Commission of the European Communities, Brussels, 1978.

(2) The decade as a whole, however, saw a change of trend with a stronger growth in the first half.

GRAPH 3.1

Population, employment and unemployment in
the Community 1960-1978



Source : Eurostat and estimates of the Commission services for 1977 and 1978

TABLE 3.1

Development of salaried employment and productivity
changes over preceding year

a) : Number of wage and salary earners

b) : Productivity (production per wage and salary earner)

(percentages)

		1960-1970	1971-1972	1973	1974	1975	1976	1977	1978
DK	a)	2,0	2,2	1,0	- 0,3	- 2,5	1,6	0,6	0
	b)	2,9	2,1	1,8	0,4	1,5	2,7	1,3	0
D	a)	0,8	0,2	0,6	- 1,1	- 3,5	- 0,5	0,1	0,3
	b)	3,7	3,5	4,2	2,4	0,9	6,1	2,7	2,4
F	a)	2,0	1,6	2,3	1,5	- 0,9	0,6	0,2	0,4
	b)	3,8	4,2	3,0	1,3	1,2	4,1	2,8	3,6
IRL	a)	1,2	- 0,1	1,8	1,9	- 2,1	- 1,5	:	:
	b)	3,1	5,6	2,6	- 0,5	2,4	4,8	4,9	:
I	a)	0,8	0,5	1,6	2,0	0,4	1,3	0,5	- 0,5
	b)	4,5	2,7	5,3	2,2	- 3,9	4,5	1,2	2,7
NL	a)	2,0	- 0,8	0,4	0,4	- 0,4	0,1	0,8	0,5
	b)	3,4	4,7	5,5	3,8	- 0,8	4,3	1,6	1,4
B	a)	1,6	0,5	2,0	2,0	- 1,5	- 0,5	- 0,3	- 0,5
	b)	3,3	5,0	4,4	2,7	- 0,7	6,2	1,5	2,5
L	a)	1,6	4,4	3,4	3,3	0,8	- 1,6	- 0,6	- 1,0
	b)	1,7	2,3	12,0	0,2	-13,5	4,3	1,9	3,5
UK	a)	0,3	- 0,1	2,4	0,5	- 0,4	- 0,1	0,3	0,4
	b)	2,6	2,5	4,1	- 1,1	- 1,2	3,4	0,7	2,8
CE	a)	1,0	0,5	1,6	0,4	- 1,2	- 0,0	0,3	0,2
	b)	3,6	3,5	4,0	1,4	- 0,5	4,8	2,0	2,4

Source : Eurostat and estimates of Commission services for 1977 and 1978.

concerned, notably in Ireland's transition to a high growth economy, compared to an adjustment to a more moderate growth rate in Germany.

In most Member States acceleration in the rise of the rate of activity of women appears to have been more than offsetting the reverse trend of declining activity rates among the male population, the latter due to the prolongation of education and some lowering of the average retirement age; the proportion of the population undergoing full-time education rose from 16.4 per cent in 1965-66 to 19.9 per cent in 1975-76.

Immigration contributed between 1963 and 1973 about one quarter of the total increase in population in the Community, foreign workers reaching 7.8 per cent of the salaried employment by 1973. The change since 1973, however, has been a radical one with restrictive measures applied in Germany and the United Kingdom since 1973 and France and Benelux countries since 1974. About 1 million foreign workers have returned to their home countries since 1973.

A further factor supporting the labour market has been the modest rise in productivity, which in 1973 to 1978 rose on average at under half the rate experienced in 1960 to 1973. The only recent year of strong growth, 1976, saw on the other hand a sufficiently sharp rise in productivity to leave the employment level unchanged in that year.

As the outcome of this series of (partly offsetting) influences, the main increase in unemployment occurred in the course of 1974 and 1975, the rate of unemployment for the Community as a whole rising from 2.5 per cent in 1973 to 4.9 per cent in 1976. Since then there has been a continuing but decelerating increase in the Community aggregate, and by 1978 the trend was being reversed in some individual Member States, notably Ireland and Germany.

Despite help from governmental measures it has been hardly possible to absorb the massive change in labour supply/demand conditions evenly throughout the labour force. A pattern observable in almost all Member States has been the increase in the share of female unemployment from 33 per cent of the total in 1973 to 41 per cent in 1977, reflecting the increasing participation rates and the marginal economic situation of much female employment. The second general phenomenon has been the increase in youth unemployment (see Table 3.3), also reflecting of course the rigidities in existing employment structures in conditions of weak labour demand. This has in turn led to an increase in the average duration

TABLE 3.2

Rate of unemployment; registered wholly unemployed in the civilian labour force

(percentages)

	1960-1970	1971-1972	1973	1974	1975	1976	1977	1978 (1)
DK	1,2	1,2	0,7	2,0	4,6	4,7	5,8	6,6
D	0,8	0,8	1,0	2,2	4,2	4,1	4,0	3,9
F	1,4	1,7	1,8	2,3	3,9	4,3	4,9	5,1
IRL	4,7	6,0	6,0	6,3	8,8	9,8	9,7	8,9
I	5,7	5,0	4,9	4,8	5,2	5,5	6,4	7,0
NL	0,9	1,8	2,3	2,9	4,1	4,4	4,3	4,2
B	2,2	2,5	2,9	3,2	5,3	6,8	7,8	8,3
L	0,1	0	0	0	0,2	0,3	0,6	0,9
UK	1,9	3,4	2,5	2,4	3,8	5,3	5,7	5,7
CE	2,1	2,6	2,5	2,9	4,4	5,0	5,3	5,5

(1) Average January-August.

Source: Eurostat

of unemployment for young persons. For example, in each of Germany, France, and the United Kingdom the number of youths unemployed for more than 12 months was very small in 1974 (1 to 3 per cent of total youth unemployment), whereas by mid-to-late 1977 it had risen to more significant proportions (7 to 10 per cent of the total).

TABLE 3.3

Distribution of wholly unemployed by sex and ageNumber of unemployed women, as % of total registered unemployedNumber of unemployed aged less than 25, as % of total registered unemployed (May)

	1960-1970	1971-1972	1973	1974	1975	1976	1977
DK Women	13,4	18,8	23,0	26,4	29,2	37,1	42,2
Less than 25	:	24,6	26,7	22,7	24,9	25,2	30,0
D Women	31,3	43,0	44,9	44,2	42,1	46,8	49,8
Less than 25	:	:	:	23,1	24,9	25,6	26,6
F Women	40,4	45,9	50,9	52,9	49,1	52,5	53,4
Less than 25	:	27,1	29,8	31,6	36,4	37,0	38,3
IRL Women	16,3	18,3	18,0	18,8	19,4	19,1	20,1
Less than 25	:	:	:	:	:	:	:
I Women	29,6	32,7	34,0	36,0	36,7	37,3	39,0
Less than 25	:	27,3	30,1	32,6	34,1	36,8	:
NL Women	14,6	16,1	19,5	20,9	21,7	24,2	29,5
Less than 25	:	31,7	28,7	30,8	36,0	36,3	37,0
B Women	31,0	38,2	47,9	53,2	52,3	57,0	59,5
Less than 25	29,9	28,4	22,8	33,0	34,7	33,9	29,7
L Women	40,0	77,7	70,9	60,6	35,1	38,7	39,8
Less than 25	47,6	43,9	61,8	30,6	42,5	43,0	48,8
UK Women	22,4	16,8	16,7	16,6	20,5	24,8	27,9
Less than 25	31,6	25,4	30,4	41,8	43,9	45,6	:
EC Women	28,1	29,5	33,1	35,9	36,3	38,8	41,3
Less than 25	:	:	:	:	:	:	:

Denmark and United Kingdom : July

Belgium : 1972 and 1973 (March)

Luxembourg : unemployed aged less than 21 (March)

Italy : persons aged less than 21 seeking first employment

Source : Eurostat

(ii) The Labour market in the Member States

In Denmark, the stabilisation of employment following the weakening in the recovery phase observed since 1976 and the accelerated growth in the labour force have been translated into a strong upsurge in unemployment. Thus, the unemployment rate which was traditionally lower than the Community average exceeded it; in 1978 the numbers out of work reached 190,000. The increase in participation rates of women, and more especially married women, has played an important role in this progression.

In the Federal Republic of Germany the labour market situation deteriorated less rapidly in 1977 and slightly improved in 1978; nonetheless the total number of persons in employment fell by 1.7 million between 1973 and 1978. The number of unemployed increased by about a third of this figure, whilst 600 000 people left the labour force and half a million immigrant workers returned home. Had this not been so, the present unemployment rate (3.9 % for January to August 1978) could well have been doubled. The domestic labour supply, which had been steadily falling and had subsequently stabilised, began to rise again in 1976 for demographic reasons.

In France, where relatively few jobs were lost because of the crisis, the slight recovery of employment observed in 1976 and 1977 appears not to have continued into 1978. Production per employee increased faster than the Community average. The increase in labour supply due to demographic factors and to the increased participation rate of women contributed to unemployment. As in the other Member States, there is a continuing increase in the number of young people entering the labour market; but in France, this is combined with a relatively small number of workers reaching retirement.

Employment in Ireland has started to rise again since 1976; unemployment remained steady in 1977, and fell slightly in 1978. The improvement is due in particular to foreign firms' moving in and to government measures to support employment. However, it masks problems inherent in the structure of the Irish labour market: the relatively marked influence of demographic factors, the paramount importance of agriculture and the shortage of skills in some sectors.

The employment situation in Italy, already suffering from the effects of demographic factors (young people entering the labour market in very large numbers), was further aggravated by the return of some 200 000 emigrants between 1975 and 1977. Employment had increased during the recession years 1974 and 1975, a development contrary to that observed in the other Member States. After the statistics were revised it transpired that the labour force and the level of unemployment had both probably been much higher since 1977 than was previously thought. On the most recent assessment, the number of wholly unemployed as a percentage of the labour force in Italy is now among the highest in the Community.

In the Netherlands, where the employment situation had deteriorated sharply even before the oil crisis, the number of persons employed continued to fall between 1975 and 1978. At the same time, productivity gains were becoming smaller, particularly in industry. Although the population of working age was increasing more rapidly between 1975 and 1978 than between 1971 and 1974, the number of unemployed increased on an annual average by about the same amount (20 000 compared with 22 000). This is mainly connected with the increased numbers of those unsuitable for employment and of those wishing to take further their vocational training.

Since the 1975 recession, employment in Belgium has fallen considerably more than has the Community average. The deterioration continued into 1977 and 1978. The considerable increase in the population of working age and fairly liberal social legislation had encouraged the extension of unemployment since 1970. This trend continued even after demographic factors became less influential.

Only after 1976 did employment begin to fall in Luxembourg. Since then, and for the first time since 1963, registered unemployment has been appreciable, in spite of the fact that migratory flows have been reversed and that measures have been implemented to support employment.

In the United Kingdom, the level of employment, which had been falling since 1974, rose slightly in 1978. The improvement was not solely due to the improved economic climate, but also to some jobs' being maintained, to a change in the structure of demand for labour and, in general, to specific employment policy measures that, according to official estimates, should make it possible to maintain some 300 000 jobs. The upward trend of unemployment since 1969 continued until 1977 with the deterioration of the economic situation and the increased participation rate. Since then, unemployment stabilized between the autumn of 1977 and that of 1978, although the stabilization is probably temporary. The number of persons retiring and leaving the labour market is much higher in the United Kingdom than in the other Member States, and this was no doubt a contributory factor in the stabilization of unemployment.

(iii) Longer-run demographic trends

Demographic changes have, as already seen above, been coming increasingly to the forefront as a variable of importance in the planning of economic policy. But knowledge in this domain is far from sure, especially when it comes to behavioural aspects of labour market participation.

A report recently prepared by a group of independent experts ⁽¹⁾ has sought to explore the nature of the longer-term trends at work for all Member States, using a consistent methodology, with a view to estimating potential labour supply through to 1995. Some of the main features of this work are summarised here.

The purely demographic characteristics of the potential labour force can be calculated through to 1995 with relative accuracy since most of the working-age population of this period is already born (see Table 3.4). This age group (15 to 64) has been growing faster at about 0.5 per cent per annum in the 'seventies than in the late 'sixties. In the 'eighties, however, a double change of trend is expected, first a marked acceleration in the first half of the decade to a rate of 0.9 per cent per annum, this reflecting the peak in fertility rates observed in most of the Community in 1964 (this in turn apparently related in part to the pre-war upswing in fertility rates in the late 'thirties and the fact that this generation was little affected by the war). The sharp decline in fertility rates since 1964 (also doubtless reflecting important sociological factors and improved contraceptive techniques) will then lead to only a small growth in working-age population in the second half of the 'eighties (0.1 per cent per annum), followed by a small decline in the early 'nineties.

Projections of labour supply then have to take account of actual participation rates, and their expected trends, for the various age groups and by sex. Table 3.5 shows separately the experts' estimates for the 'demographic' and 'activity rate' components in their total active labour force projections.

In the period 1975-1985 the demographic component is dominant with increases of about 4 million in each of the five-year periods 1975-80 and 1980-85.

(1) The Economic Implications of Demographic Change ... op.cit.

TABLE 3.4

Total population of the Community 1955-1975, and projectives to 1995.

	Millions								
	1955	1960	1965	1970	1975	1980	1985	1990	1995
<u>Total Population</u>									
Children 0-14	52,7	56,3	58,9	61,0	60,6	55,7	52,3	52,2	54,0
Working age 15-64	147,3	150,8	156,7	159,4	163,4	167,9	175,7	176,7	176,3
Retirement age, over 64	23,1	25,1	27,9	31,0	34,3	36,5	34,7	36,5	37,6
Total	223,1	232,2	243,5	251,5	258,3	260,2	262,7	265,4	267,9
	Percentages								
	55/50	60/55	65/60	70/65	75/70	80/75	85/80	90/85	95/90
<u>Annual growth rate</u>									
Children 0-14	0,32	1,32	0,91	0,73	-0,14	-1,65	-1,26	-0,05	0,68
Working age 15-64	0,58	0,47	0,77	0,34	0,50	0,54	0,91	0,12	-0,5
Retirement age, over 64	1,59	1,67	2,13	2,13	2,04	1,29	-1,05	1,02	0,58
Total	0,62	0,80	0,95	0,64	0,54	0,15	0,19	0,21	0,18

Source: Commission of the EC, derived from tables in chapter 1 of The Economic Implications of Demographic Change in the European Community: 1955-1995, Brussels, June 1978 (mimeo: publication forthcoming).

Thereafter the demographic component becomes less important, as one would expect from the simple working-age population data already noted.

The activity rate projections necessarily rely on many assumptions notably as regards trends in female and male participation rates. Over the period 1975 to 1995 the female labour force is projected to grow at 1.4 per cent per annum, the male labour force at only 0.3 per cent, with a total of the order of 0.7 per cent. The female participation rates is assumed by 1995 to reach levels varying from 46.8 per cent in the Netherlands to 63.3 per cent in the United Kingdom (as against respectively 26.6 and 55 per cent in 1975).

By age group, a stabilisation over time of the activity rate for youths (15-24) is expected, compared to the decline currently experienced; the fall in the participation rates of older people (60 and above) is expected to continue but at a slower pace than at present.

The overall projection is for a rising activity rate component in the growth of the potential labour force, with the increases of the order of 0.9 million in each of 1975-80 and 1980-85, rising to 1.5 million or more in each of 1985-90 and 1990-95. In noting these figures it is to be stressed that the 'activity rate' projections are deliberately supposed to represent underlying tendencies as assessed at the time of the study and do not seek to reflect shorter-run developments in employment expectations. Indeed it is quite possible that a sustained weak outlook for labour demand in the period ahead could itself influence the underlying trend in the direction of lower participation rates.

TABLE 3.5

Projections of the total labour force, 1975-1995

(millions)

Total level of labour force, and projected changes

Age group	1975	1975-80	1980-85	1985-90	1990-95	1995
	level	Changes				
15-24	19.7	0.5	1.0	- 1.0	- 2.3	17.9
25-44	49.8	3.4	2.8	4.0	1.8	61.9
45-59	28.5	2.9	0.8	1.4	3.0	36.6
60	8.1	-2.2	0.5	- 0.5	- 0.3	5.6
Total	106.1	4.6	5.1	3.9	2.2	121.9

Demographic component in changes

Age group	1978-1980	1980-1985	1985-1990	1990-1995
15-24	0.8	1.1	- 1.1	- 2.4
25-44	1.9	1.6	3.1	1.3
45-59	2.3	0.3	0.3	1.9
60	- 1.2	1.1	- 0.7	-
Total	3.8	4.1	2.3	0.8

Activity rate component in changes

Age group	1978-1980	1980-1985	1985-1990	1990-1995
15-24	- 0.4	- 0.1	0.1	0.1
25-44	1.6	1.3	1.0	0.5
45-59	0.6	0.5	1.1	1.1
60	- 0.9	- 0.8	- 0.5	- 0.3
Total	0.9	0.9	1.7	1.5

Source : The Economic Implications of Demographic Change in the European Community, Part 1, Table 3.2, op.cit.

4. Prices and incomes

(i) Price and wage income trends

After being halted in 1977, the deceleration in inflation in the Community was resumed in 1978. For the Community as a whole the increase in consumer prices may have been around 7 %, compared with around 10 % in 1976 and 9 % in 1977 (See Table 4.1). In terms of the implicit price of GDP the slowdown between 1977 and 1978 has probably been less marked. This mainly reflects an improvement in the Community's terms of trade in 1978 after a small deterioration in 1977 but also a higher rate of increase, in some countries, in construction prices than in consumer prices in 1978 following a year when the reverse had been true. The slowdown in the increase in consumer prices which has been a feature of all the Community countries except France has been most marked in the member-countries with the highest inflation rates: Italy, Ireland and the United Kingdom. (The question of convergence of inflation rates is considered in more detail in Chapter 5).

The rate of increase of consumer prices in the Community as a whole in 1978 came closer to the rates recorded in the US and Japan and to the OECD average (probably about 7 %) than at any time since the oil crisis.

At the level of consumer prices, the slowdown between 1977 and 1978 has been most marked in food prices. Table 4.2 shows the profile of some components of consumer prices through the two halves of 1977 and the first half of 1978. After rising rapidly in the first few months of 1977, food commodity prices in dollars fell back, reflecting both an adjustment of tropical beverage prices and heavier temperate-zone crops in 1977 following the drought of the previous year. For the Community as a whole the annual rate of increase of consumer food prices halved from about 17 % in the first half of 1977 to about

TABLE 4.1

Increase in consumer prices and GDP prices

		(percentage)							
		1960-70	1971-72	1973	1974	1975	1976	1977	1978
DK	con.pr.	5,5	5,4	8,2	15,3	8,4	9,3	10,9	9,0
	GDP pr.	6,0	7,3	10,3	11,3	12,1	8,5	8,9	9,5
D	con.pr.	2,9	5,8	7,6	7,0	6,3	4,4	3,9	2,5
	GDP pr.	3,5	6,6	6,0	6,9	7,1	3,2	3,6	3,8
F	con.pr.	4,2	5,7	6,8	13,4	11,7	9,9	9,1	9,2
	GDP pr.	4,4	6,0	7,8	11,6	13,2	10,0	8,8	10,1
IRL	con.pr.	4,6	9,2	12,4	15,2	21,8	17,0	13,9	8,0
	GDP pr.	5,4	11,7	15,9	7,1	23,6	18,1	13,6	10,0
I	con.pr.	4,0	6,2	12,2	21,0	17,6	17,9	18,0	12,5
	GDP pr.	4,6	6,7	11,7	8,2	6,6	10,6	7,4	13,6
NL	con.pr.	4,2	8,3	8,9	9,7	10,3	9,2	6,7	4,4
	GDP pr.	5,1	8,6	8,2	8,6	11,1	8,3	6,6	5,4
B	con.pr.	3,1	4,8	5,7	12,3	12,1	7,7	6,6	4,0
	GDP pr.	3,4	5,4	6,6	12,1	12,5	7,2	7,6	4,4
L	con.pr.	2,5	4,7	5,5	9,5	10,7	9,8	6,7	3,1
	GDP pr.	4,2	2,3	10,6	15,4	4,4	6,4	6,5	4,4
UK	con.pr.	4,0	7,6	8,2	16,4	23,3	15,5	14,3	8,6
	GDP pr.	4,2	8,5	7,4	14,6	27,9	15,3	13,9	9,3
EC (1)	con.pr.	3,7	6,3	8,7	12,8	12,8	10,0	9,1	6,9
	GDP pr.	4,2	7,1	7,9	11,7	15,0	10,5	10,2	7,7
US	con.pr.	2,6	3,9	5,4	10,8	8,2	5,8	6,5	7,0
JAPAN	con.pr.	5,6	5,4	11,0	21,5	11,0	9,3	8,1	5,0

con.pr. : Implicit price of consumers' expenditure
 GDP pr. : Implicit deflator of gross domestic product

(1) For both consumer prices and GDP prices the EC figures are derived using current exchange rates. The EC figures for GDP are thus not directly comparable with those in Annex Table 5, derived using 1970 exchange rates.

Source : Eurostat, estimates of the Commission services for 1977 and 1978, OECD "Economic Outlook".

8 % in the second half. Since food has a weight of around 30 % in consumption in the Community the contribution to the decline in overall inflation in the second half of 1977 was substantial.

Consumer prices for fuel and light have in part reflected the freeze in oil prices and the movement of exchange rates against the dollar, but in a number of countries they have been heavily influenced by public policy, as have rents and the prices of publicly-provided services.

The deceleration in the prices of non-food consumer goods between 1977 and 1978 has been less dramatic but nonetheless important. For the Community as a whole the annual rate of increase declined from around 11 % in the first half of 1977 to around 7 % in the second half. The increase in the first half of 1978 remained at or below the lower rate of the second half of 1977.

The underlying rate of increase of manufacturing wholesale output prices appeared to be edging up to an annual rate of around 7 or 8 % in the second quarter of 1978 (after very moderate rates of increase earlier in the preceding year, largely as a result of falling prices of fuel and materials imports in the second half of 1977 - see Graph 4.1). This may imply that the rate of increase of prices for non-food consumer goods might remain in the second half of 1978 at the moderate levels recorded in the previous two half-years, but with no marked further deceleration.

TABLE 4.2

Components of consumer price developments

(increases from previous half-year at percentage annual rates),
not seasonally adjusted)

	1977 I					1977 II					1978 I						
	Total	Food	Non food (1)	Fuel & Light	Ser-vices (2)	Total	Food	Non food (1)	Fuel & Light	Rent	Ser-vices (2)	Total	Food	Non food (1)	Fuel & Light	Rent	Ser-vices (2)
DK	9,4	11,2	7,3	5,0	12,4	14,2	13,8	15,6	19,4	9,9	12,3	8,9	9,4	9,8	9,8	8,4	10,0
D	5,7	9,6	3,5	1,7	3,5	2,1	0,4	2,2	-0,2	2,9	4,3	3,7	2,8	5,2	4,7	3,3	3,2
F	9,0	13,0	6,6	14,9	7,4	10,1	12,9	8,4	6,0	7,4	8,8	8,2	7,3	6,2	4,7	8,3	9,1
IRL	16,6	20,3	14,9	30,3	8,0	7,8	11,0	6,5	4,0	-0,1	11,9	6,6	6,6	6,4	5,6	-20,3	4,9
I	20,9	23,3	22,7	39,3	8,1	12,8	15,3	11,3	8,7	6,2	9,0	12,3	12,6	11,9	18,6	4,9	12,3
NL	6,6	4,5	9,4	11,9	4,2	5,0	3,1	4,2	13,0	6,0	5,0	3,8	-1,2	7,7	10,5	0,7	5,0
B	7,3	6,9	4,8	11,9	11,9	6,0	3,9	3,8	11,9	11,9	12,0	4,1	1,4	2,9	11,9	11,9	7,5
L	8,0	9,6	7,1	14,0	:	3,3	6,8	-2,2	1,6	:	:	2,9	3,2	2,5	-0,2	:	:
UK	20,3	26,8	19,2	14,5	18,1	9,5	6,5	11,3	15,2	4,9	4,8	7,8	9,2	7,4	4,3	4,1	14,9
EC	12,2	17,0	11,0	14,4	14,6	7,8	7,9	8,4	8,3	7,1	8,2	7,1	5,0	6,7	7,4	7,2	6,8

(1) Non-food goods in Germany, France, Italy, Netherlands, Belgium, UK and Denmark. Total non-food consumption in Luxembourg and Ireland.

(2) Services excluding rent, except in Belgium.

Source : OECD Main Economic Indicators, Commission services.

GRAPH 4.1

Prices and labour costs in manufacturing

(1970-1978, quarterly figures, average 1970 = 100)

- Unit labour costs in manufacturing
 - - - Raw materials prices in manufacturing
 - Wholesale output prices in manufacturing
- Semi-Log scale

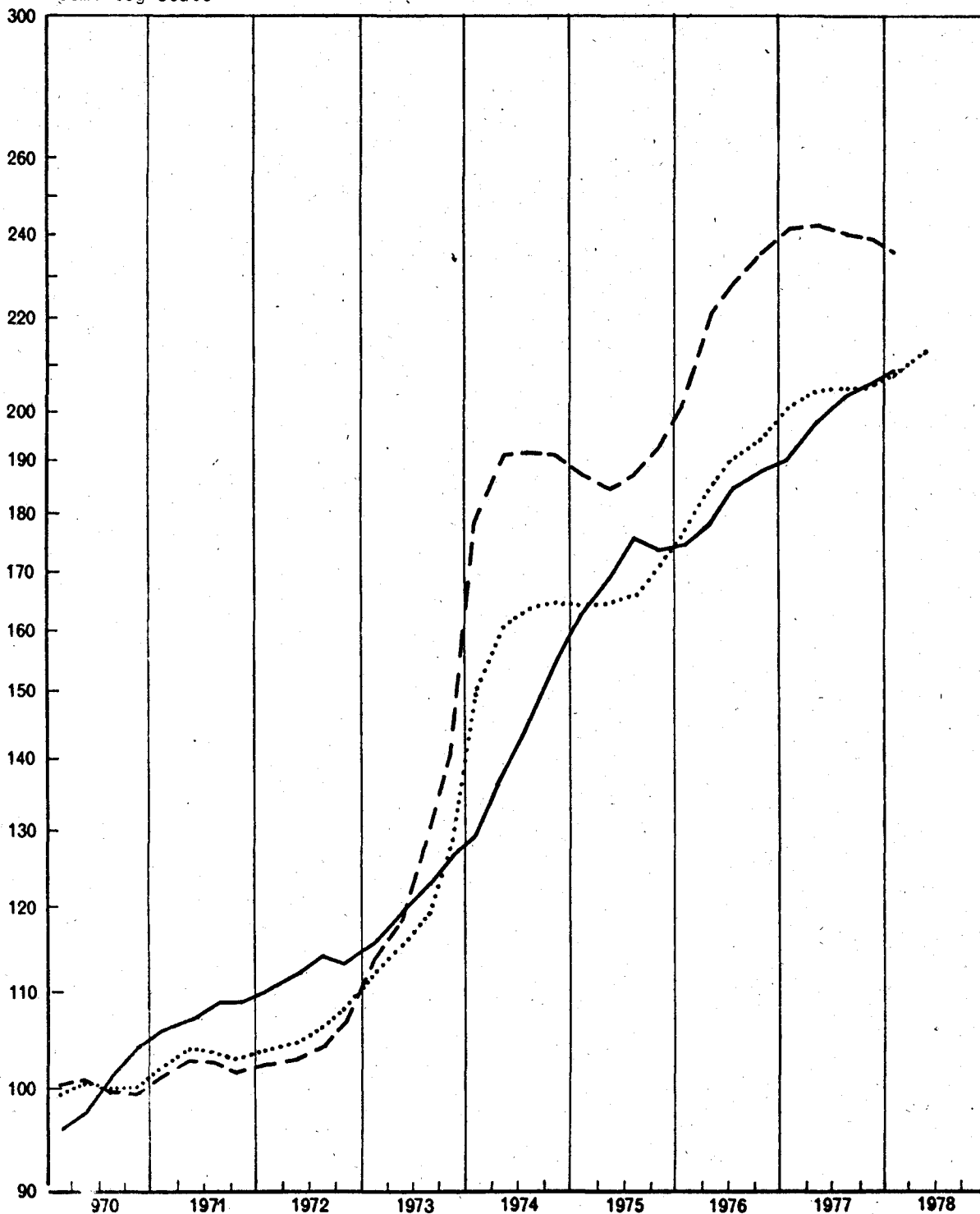


TABLE 4.3

Increase in wages and salaries per head (1)

(percentage)

	1960-1970	1971-1972	1973	1974	1975	1976	1977	1978
DK	10,3	10,8	14,0	18,8	16,8	12,1	9,2	8,5
D	8,6	11,0	12,9	12,1	7,8	7,6	7,0	5,6
F	9,4	10,8	12,7	17,5	18,4	14,8	13,1	12,2
IRL	9,8	15,2	19,1	17,8	29,6	22,2	17,5	14,0
I	10,9	12,0	19,6	22,4	21,0	20,8	21,1	15,5
NL	10,6	13,2	15,1	15,8	13,4	10,8	7,9	7,1
B	7,8	12,9	13,2	17,9	16,6	15,2	9,4	7,2
L	6,8	9,1	12,5	22,0	14,5	12,7	9,1	5,1
UK	7,0	12,6	12,3	20,5	30,7	15,7	9,5	12,6
EC	8,8	11,2	14,4	16,9	16,7	13,0	10,9	10,0
US	5,0	7,2	7,4	8,0	8,4	8,1	:	:
JAPAN	13,2	14,8	21,9	24,5	17,2	:	:	:

(1) Gross wages and salaries per wage and salary earner.

Source: Eurostat and estimates of the Commission services.

The increase in nominal gross compensation per head in the Community as a whole slowed from 13 % in 1976 to 10.9 % in 1977. The resurgence of consumer price inflation, fuelled largely by commodity price movements, at the beginning of 1977 probably helped keep nominal pay settlements in the first half of that year in double figures. In a number of countries this effect was ensured through the indexation arrangements in operation. Although there was a deceleration in consumer prices for the Community as a whole in the second half of the year its incidence among countries was not such as immediately to produce a symmetrical effect on wage and salary movements. Despite the somewhat slower growth of gross nominal compensation per head in 1977, the increase in unit labour costs (whole economy) in the Community as a whole accelerated from 7.7 % in 1976 to 8.4 % in 1977 as productivity growth fell back, in the face of weakening output growth, from nearly 5 % in 1976 to only 2 % in 1977.

In 1978 it appears that gross compensation per head in the Community as a whole may have grown slightly less than 10 %. The relatively low growth of output in 1978 has probably limited the growth of productivity in the Community as a whole (all industries and services) to around 2 1/2 %, hardly better than the figure recorded in 1977. Nonetheless the slight deceleration in compensation per head and the even slighter acceleration in productivity have been working in the same direction, producing an increase in labour costs per unit of GDP of around 7 % in 1978.

Real pre-tax wages - gross compensation per employee deflated by the implicit price of consumption - grew by 1.8 % in 1977 and probably by about 3 % in 1978 in the Community as a whole (see Table 4.4). Thus while in 1977 the increase in real pre-tax wages fell below that in productivity, in 1978 it may have about equalled it. The picture for 1978 varies from country to country, however, real pre-tax wage increases exceeding productivity growth in Italy, the United Kingdom and Luxembourg, running at about the same rate

as productivity growth in Belgium and the Netherlands, and falling below it in Denmark (where real wages have fallen absolutely in 1977), the Federal Republic of Germany and France.

Pre-tax compensation of employees per unit of output, deflated by the GDP price, (an appropriate concept from the employer's point of view) probably fell by about 1/2 % in 1978 after a fall of 0.2 % in 1977. In 1977 this had fallen sharply in the United Kingdom and had also fallen in the smaller Community countries (except Luxembourg - see Table 4.4), had risen in France and Italy and was little changed in the Federal Republic. In 1978, by contrast, it has probably fallen in all the Community countries except Belgium.

TABLE 4.4

Increase in real compensation of employees and real labour
costs per unit of output

(percentage)

	1960-1970	1971-1972	1973	1974	1975	1976	1977	1978	
DK	a)	4,5	+ 5,0	+ 5,3	+ 3,7	+ 7,8	+ 2,8	- 1,7	- 0,5
	b)	+ 0,7	- 0,4	+ 1,2	+ 6,0	+ 3,2	- 0,7	- 1,7	- 1,0
D	a)	+ 5,5	+ 4,8	+ 4,9	+ 4,7	+ 1,5	+ 3,0	+ 3,1	+ 3,1
	b)	+ 0,3	+ 0,7	+ 1,7	+ 2,4	- 0,2	- 2,2	+ 0,5	- 1,0
F	a)	+ 5,1	+ 4,8	+ 5,6	+ 3,6	+ 6,0	+ 4,4	+ 4,0	+ 3,0
	b)	- 0,1	- 0,6	- 1,5	+ 3,0	+ 3,0	- 0,1	+ 1,1	- 1,2
IRL	a)	+ 5,0	+ 5,5	+ 5,9	+ 2,1	+ 6,3	+ 4,6	+ 3,9	+ 6,1
	b)	- 0,1	- 1,6	- 0,9	+ 9,4	+ 3,0	- 1,3	- 2,3	- 2,5
I	a)	+ 6,6	+ 5,4	+ 6,6	+ 1,1	+ 2,8	+ 2,5	+ 3,1	+ 3,0
	b)	+ 0,1	+ 0,2	+ 0,9	0,7	+ 2,7	- 2,6	+ 0,8	- 0,6
NL	a)	+ 5,8	+ 4,5	+ 5,6	+ 5,6	+ 2,9	+ 1,5	+ 1,2	+ 2,7
	b)	+ 1,2	- 0,2	+ 0,5	+ 2,4	+ 2,6	- 2,5	- 1,8	- 0,2
B	a)	+ 4,5	+ 7,7	+ 7,1	+ 5,0	+ 4,2	+ 7,1	+ 2,8	+ 3,2
	b)	- 0,1	+ 2,6	+ 1,0	+ 1,8	+ 4,6	+ 1,5	+ 1,1	+ 0,7
L	a)	+ 4,2	+ 4,2	+ 6,6	+12,0	+ 3,2	+ 2,9	+ 2,4	+ 2,0
	b)	- 0,6	+ 4,5	-10,0	+ 4,6	+26,3	+ 0,1	+ 2,8	- 2,0
UK	a)	+ 2,9	+ 4,6	+ 3,8	+ 3,4	+ 5,7	+ 0,2	- 4,8	+ 4,0
	b)	+ 0,1	+ 0,3	+ 0,4	+ 6,2	+ 3,3	- 3,1	- 4,9	+ 0,2
EC	a)	+ 4,9	+ 5,1	+ 5,0	+ 3,4	+ 4,3	+ 2,8	+ 1,8	+ 3,1
	b)	+ 0,1	+ 0,5	+ 0,9	+ 3,2	+ 2,6	- 1,8	- 0,2	- 0,6

a) Gross compensation per employee deflated by implicit price of consumption.

b) Gross compensation per employee, per unit of output, deflated by implicit price of GDP.

Source: Eurostat and estimates of the Commission services

(ii) Price policy developments

With the notable exception of the Federal Republic of Germany, price control policies have been a feature of all Community countries over the past few years. In the period immediately following the oil-price shock, price-control policies based on detailed rules for the passing on of industrial costs at the industrial stage and on margin control at the distributive stage were in force in many Community countries; public sector charges and other administratively-controlled prices were held back; and temporary price freezes of varying coverage and duration were employed in some countries. The controls were generally aimed at reducing or delaying the pass-through of sharply increased import prices and were often presented as a quid pro quo for pay controls or restraint.

More recently, both the form and apparent emphasis of price policies has been changing in a number of countries. Most notably, controls on the prices of industrial products in France have, with the exception of a small number of products, been freed. The new stance of policy in France aims at modifying the structure of relative prices so that prices bear as close a relation as possible to real costs of production. In the pursuit of this aim, and to reduce or at least stabilize the operating deficits of public enterprises, public sector charges have also recently been increased, by 10 to 20 % in some cases. Control of distributive margins for the majority of goods, notably food (except for bread) and for many services remains in force. The freeing of industrial prices and the increases in public charges must initially add to the rate of price increases, but the French authorities hope that the effect will be limited by the pressure of foreign competition on manufactured products, while at the same time the relative price structure and the attitudes of businessmen to pricing and competition can be improved.

The main development in policy in Italy over the last two or three years has been the attempt to develop more objective rules for the fixing of Government administered prices (and also for rents, for which a new system was introduced in July 1978). The aim, as in France, is that prices should reflect costs somewhat more accurately than hitherto, and new rules for the better determination of costs were introduced in 1977. The Government has, in particular, succeeded in having accepted the principle that public sector tariffs should as far as possible cover costs. The most recent manifestations of this principle have been sharp increases in the price of electricity (16%) and rail travel (20%) in the summer of 1978.

The Belgian Government has been much less active in direct intervention (through the imposition of delays in price increases or ultimately the fixing of maximum prices of certain products and key sectors) in prices during the last two years of decelerating inflation. However, the general prohibition of indexation of industrial and commercial prices remains in force. Price increases can be justified only on the grounds of an increase in the costs of the enterprise in question. For 1977 only those salary increases limited to a percentage equal to the percentage increase in the cost of living were allowable.

In Denmark prices in some periods were set in conformity with specific rules about imputed costs (the concept of allowable costs has varied at different times). Price controls have been regarded as a countervailing element to incomes policies and are intended to contain profits within normative limits. For the period from March 1977 to the end of August 1978 most of the previous restrictions were abandoned. No explicit limit for profits was set but the Price Committee was empowered to assure that profits in specific sectors e.g. liberal professions developed in accordance with the incomes policy norms.

A temporary price and profits freeze was announced at the end of August 1978.

Detailed cost-rules for industry and margin controls in the services sector are also in force in the Netherlands. For 1977, there was initially no allowance for wage increases since it was thought that such increases would not exceed the growth of productivity. However, productivity increases fell short of expectations and profit margins were compressed. Towards the end of the year industrial companies were therefore allowed to pass on the effects on their total costs of a 2 % increase in wage costs. For 1978 the pass-through of wage costs has again been limited to 2 % times the share of wage costs in total costs. The liberal professions were allowed to increase charges by 2 1/2 % on 1 February 1978 and by a further 2 % on 1 August 1978. The food and entertainment industries have been brought within the scope of controls, as have small enterprises in the hotel and restaurant sectors (in general, the controls apply only to large and medium-sized companies).

Since the beginning of August 1977 the Price Code in the United Kingdom, which embodied detailed allowable cost rules, margin controls and reliefs of some complexity, has been replaced by a more flexible system. At present, a Price Commission is empowered to investigate a price increase announced or proposed by a company and, after taking account of certain statutory criteria such as the need to earn an adequate profit sufficient to encourage future investment and employment, can, if it feels the price increase unjustified, recommend to the Government a price freeze of up to twelve months on the goods or services in question or to allow a more modest

increase in prices. In general terms the Price Commission sees its role as strengthening competitive forces within the economy and helping to pinpoint inefficiencies in production and management.

(iii) Incomes policy or major wage-bargaining developments

1978 has been characterized by widespread attempts by Governments to influence wage settlements by centralized guidance. This has often meant that policies have sought to restrain the growth of real incomes, virtually to zero in one or two countries, given that productivity growth remains relatively low and that only a small improvement in the terms of trade has been taking place. In a number of countries, Governments have implemented or proposed reductions in the burden of income tax and/or employers' social security contributions, rather than increase social spending, in an effort to ease the path to wage moderation and to restrain the growth of total labour costs. The representatives of employees in some countries continue to press for increased public spending as part of wage-deal packages. Not surprisingly in view of the harsh economic climate, consensus in negotiations has been difficult to achieve.

In the Federal Republic of Germany it appears that the collective agreements concluded during the first four months of 1978 will result in a slightly lower rate of gross nominal wage increase this year than last - around 5 1/2 % this year as against 7% in 1977. However, the operation of the wage-determination system in recent years has not proved completely acceptable to either side of industry. The share of non-wage and salary incomes has generally been less than was expected when the relevant collective agreement were signed. This is

probably mainly due to the fact that the general macro-economic expectations on which the collective agreements are based have often proved wide of the mark: at various times either the growth of output or the rate of inflation or both have been overestimated. In every year except one (1976) during the period 1970-1977 the non-wage and salary share in national income declined. The provisional union withdrawal from the tripartite "concerted action" are symptomatic of a change in the climate of industrial relations, although this arose for reasons not related directly to the wage bargaining process.

In the United Kingdom the incomes policy in operation from mid-1976 to mid-1977 was remarkably successful in restraining nominal wages in the face of accelerating inflation as the falls in the value of sterling in 1976 worked through into consumer prices. In the year from mid-1977 there was no formal agreement on incomes policy between the Government and the TUC, although the TUC recommended that settlements should take place only at twelve-month intervals and that negotiators should not attempt to recoup past losses in real wages. The Government set a "guideline" of 10 % plus the effects of "self-financing" productivity schemes, for settlements. The Government expectation for the extent of the deceleration in consumer prices consequent on successful implementation of the "guideline" during the year to mid-1978 has in fact been realized. However, earnings appear to have grown by about 14 - 15 %, faster than the "guideline" and much faster than in the previous twelve months. This accelerated growth, combined with that recovery of sterling in the second half of 1977 which helped make possible the deceleration in prices, has reversed the improving trend in profitability evident during 1977. For the year from mid-1978 the Government guideline is reduced from 10 % to 5 % (including the effect of reductions in the working week), again with the possibility of "self-financing" productivity schemes allowed.

In France, the stabilization measures of September 1976 had proposed that nominal wage increases should not, on average, exceed the increase in prices in 1977. The Government has had a similar aim in 1978. In the event, wages rose slightly faster than consumer prices in 1977 (11.6 % against 9.1 %) and probably were so again in 1978 (about 11 % against about 9 %). The current policy contrasts with the guaranteed annual increase in purchasing power in public sector wage contracts, emulated in some private sector contracts, during the period from 1969 to 1976. Such contracts rendered adjustment to the deterioration of the terms of trade in 1973/1974 very difficult. It remains Government policy in France to increase the salaries of lower-paid workers relative to those of the higher paid. To this end the purchasing power of the minimum wage has been raised by nearly 6 % this year, but the Prime Minister has warned that the priority being given to improving the incomes of the lower-paid will be compatible with the constraints on the economy only if the progression of higher income groups is slowed, and that wage restraint, enforced if necessary by credit and public contract sanctions, is an essential condition for reducing unemployment. The September 1978 Budget moreover rejected the implementation of a shorter working week or earlier retirement.

In Italy, the containment of labour costs is, along with control of public borrowing, a central feature of the Government's economic programme. As in France, the announced aim is that there should be an approximate standstill in real wages. In addition, the temporary "budgetization" of employers' social security contributions is being made permanent. For the present, the system

of quarterly index-linked increases in wages is to be retained, but the Government will review the position in tripartite discussions at the beginning of 1979. The implication of the retention of the system is that the Government would like to see a virtual standstill in the collective wage agreements being negotiated from the autumn of 1978. The three major trade union organizations seem to be in favour of moderation in wage demands.

In the Netherlands, as was the case in 1977, no centralized wage agreement has been arrived at. The employers wish to introduce more flexibility into wage-bargaining than has previously been the case, while the unions continue to press "non-materialistic" demands concerned with, for instance, disclosure of company information. They also wish to see an increase in public spending as part of any centralized deal. For its part, the Government has been attempting to hold back the growth of labour costs by reducing employer's social security contributions somewhat and by introducing various wage-cost subsidies. Individual contracts have now been concluded for 1978. Apart from price compensation the rise in agreed wages will be about 0.9 %. Total compensation in real terms has increased in 1978 more or less in line with productivity. The outline of Government medium-term economic policies published in mid-1978 foresaw a need to strengthen business profitability and restrict the share of public expenditure in national income.

In Denmark the two-year wage agreement covering the period from March 1977 to March 1979 had to be imposed by law. The guideline for nominal wage increases was 6 % annually, (or 2 % annually in real terms). In the event, nominal wage increases in the private sector have exceeded the guidelines, largely because of wage drift aimed at maintaining differentials in the face of the rise in the minimum pay. Real wages nevertheless fell absolutely in 1977, mainly because indirect taxes were raised sharply in the autumn.

But the Government in effect introduced a temporary wage-cost subsidy by taking over additional indexation payments into supplementary pension funds. At the end of August 1978, still faced with a need to improve the balance of payments and the competitiveness of Danish industry, the new Government coupled an increase in VAT rates with a six-month freeze on rises of incomes and prices during which the next national pay agreement is to be negotiated.

The rate of growth of salaries having moderated significantly in 1977, the Belgian Government has intervened less actively in income-determination in 1978 after the strong measures taken in 1976 and the still-considerable restrictions imposed in 1977. The question of the inclusion of a shorter working week has proved a stumbling-block in negotiations between the two sides of industry on the "accord inter-professionnel" which usually serves a general framework for sectoral negotiations. In fact, settlements in a number of sectors, and a settlement for public servants, have contained provisions for reductions in the working week. Settlements have in general been moderate, largely reflecting weak labour-market conditions and decelerating prices.

National Pay Agreements between unions and employers have been in force in Ireland in both 1977 and 1978. In both years the Government made tax concessions conditional on the conclusion of an acceptable agreement. In both years the Government found the agreements acceptable, even though the 1978 agreement provided for an increase, at national level, of 8 % in basic pay as against the 5 % increase initially deemed the maximum desirable by the Government. It appears that the increase in gross compensation per employee will again be in double figures in 1978

and perhaps not very much lower than in 1977. Real wages have risen very sharply in 1978, helped by improving terms of trade and by Government concessions including the abolition of some local taxes. Negotiations for the 1979 National Agreement may be more difficult, given the large public sector and the delicate balance of payments position.

5. Convergence and divergence in the Community economy

It is generally felt that both economic policies and economic developments must converge more closely if the Community is to make progress towards economic and monetary integration, and in particular to introduce a successful European monetary system in the near future. However, the criteria by which convergence is evaluated are often ill-defined, both as regards their importance in the integration process and as regards their statistical measurement. This chapter is a brief contribution to this important discussion; it examines the most frequently mentioned criteria and supplies certain basic data.

If the process of economic and monetary integration is to continue, then it is essential to reduce both the average rates of monetary depreciation in the Community and deviations from this average. The basic condition for durable smooth functioning of the new European monetary system is the convergence of inflation rates at as low a level as possible.

There is no single and simple indicator of the degree of convergence of inflation rates; useful benchmarks for assessing this convergence over the past twenty years are the Community average and the rate in the most stable Member State. An assessment based on the definitions adopted for Table 5.1 and Graph 5.1 emphasises how wide are the divergences the Community is overcoming at present. No Community country had an average inflation rate for 1958 to 1967 that was substantially different (more than 2 1/2 percentage points) from the Community average.

TABLE 5.1

Convergence and divergence of inflation rates (consumer prices) in relation to the Community average (A) and the most stable Member State (B)

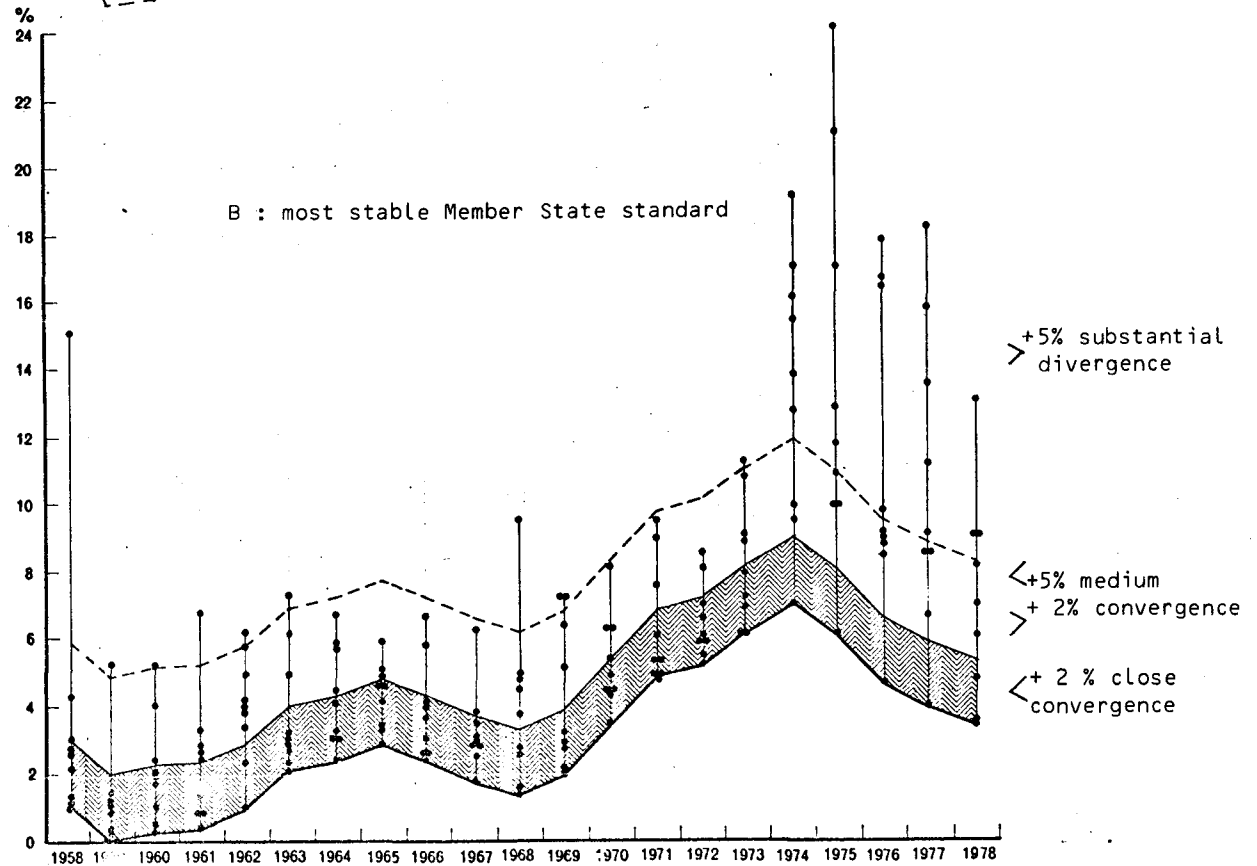
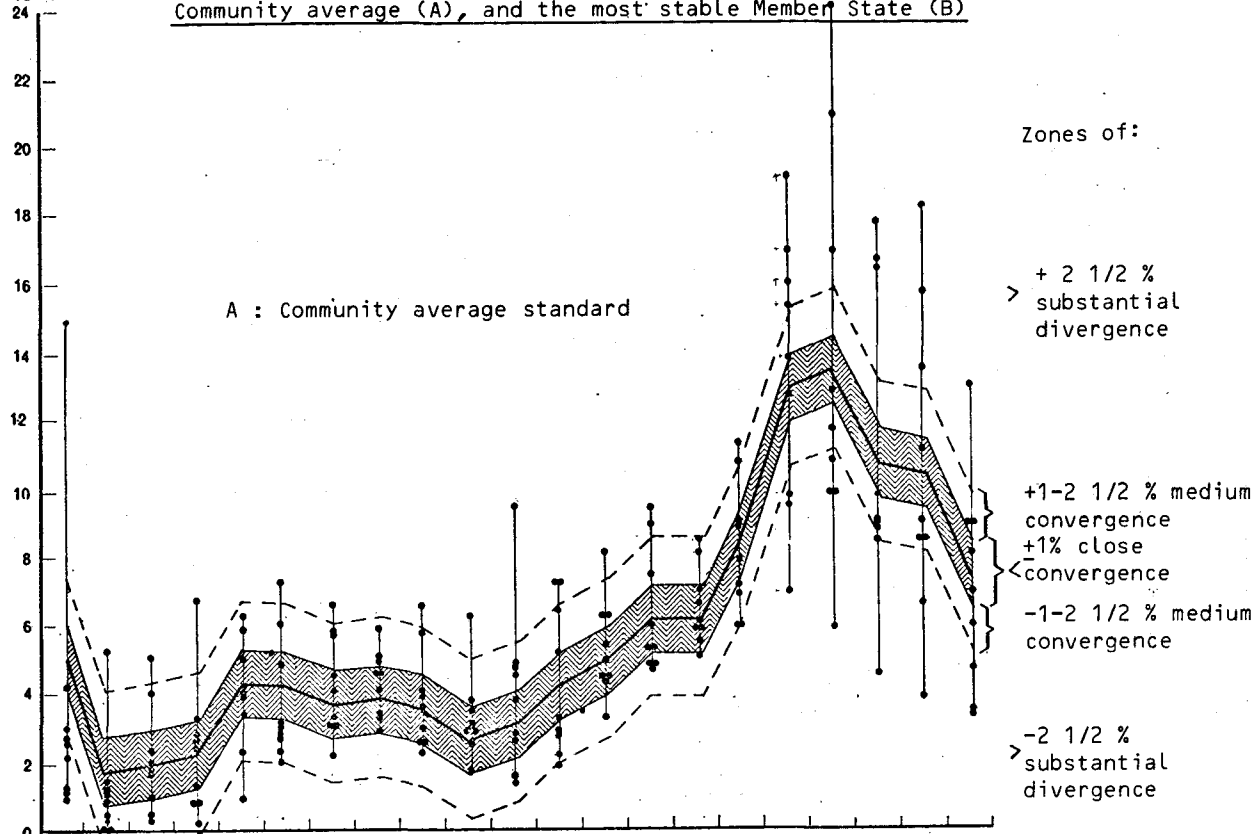
	1958-67	1968-73	1974	1975	1976	1977	1978	
Standard (A): Community average	3.3	5.5	(percentage increases)					
			13.0	13.5	10.8	10.5	7.5	
Close convergence: (A) \pm 1 % standard	D - I + Irl - NL - B - UK -	F + I - NL + B -	F + B -	B -	L -	DK +	Irl + UK +	
Medium convergence: (A) \pm 1-2 1/2 % standard	DK + F + L -	DK + D - L - UK +	DK +	F -	DK - F - NL - B -	F -	DK + F + B -	
Substantial divergence: (A) $>$ \pm 2 1/2 % standard		Irl +	D - Irl + I + NL - L - UK +	DK - D - Irl + I + NL - L - UK +	D - Irl + I + UK +	D - Irl + I + NL - B - L - UK +	D - I + NL - L -	
Standard (B): Most stable Member State	2.2 _L	3.8 _D	(percentage increases)					
			7.0 _D	6.0 _D	4.6 _D	3.9 _D	3.3 _D	
Close convergence: (B) $<$ + 2 % standard	D I Irl NL B UK	I B L					NL B L	
Medium convergence: (B) $>$ + 2 % standard $<$ + 5 % standard	DK F	DK F Irl NL UK	NL L	DK NL L	DK F NL B	F NL B L	Irl UK	
Substantial divergence: (B) $>$ + 5 % standard			DK F Irl I B UK	F Irl I B UK	Irl I L UK	DK Irl I UK	DK F I	

Note: Figures based on consumer price indices (not consumption price deflator).

Source: Commission services

GRAPH 5.1

Convergence and divergence of inflation rates (consumer prices) in relation to the Community average (A), and the most stable Member State (B)



Note : See also Table 5.1; for figures on Member States see Annex Table 7.

Only one country had a substantially different inflation rate on average between 1968 and 1973. In 1974, there were six countries; no less than seven in 1975 and 1977, and there were still four in 1978.

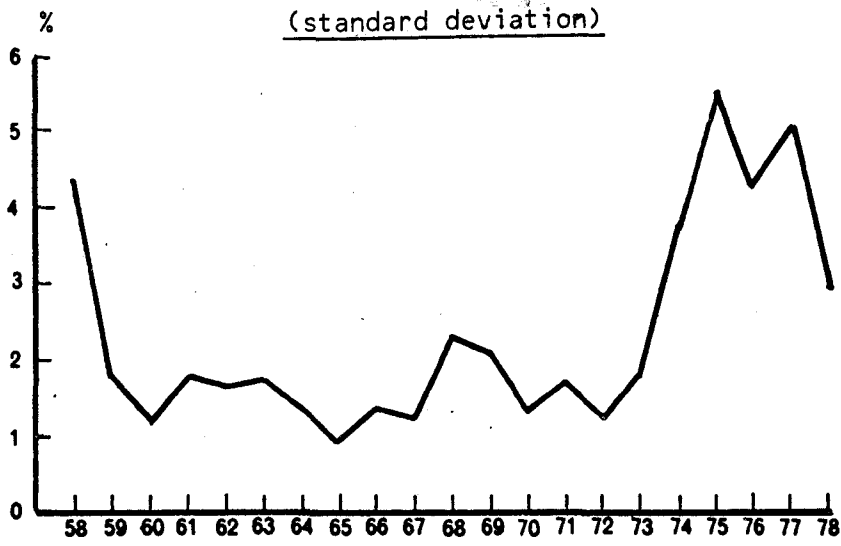
Average rates for 1958 to 1967 and for 1968 to 1973 were nowhere substantially divergent from the average rate of the country where prices were most stable; in 1974, however, six countries had inflation rates substantially divergent from that of the most stable Member State, but by 1978 the number had fallen to three. During 1978, moreover, inflation rates in the Benelux countries were sufficiently close to the German rate (which has been the benchmark for many years now) to be considered closely convergent.

Graph 5.1 adopts the same classification of inflation rates into zones of convergence; it also shows the rates of inflation for each country in the years from 1958 to 1978. It shows clearly that the degree of convergence has been closely correlated with the average rates of inflation in the Community and in the most stable Member State, which in turn were strongly affected, in the wake of the oil crisis, by the collapse of exchange-rate stability.

The above results for price trends in the Community are accentuated if the degree of convergence is assessed on the basis of an indicator of dispersion, such as the standard deviation: relatively little dispersion until 1972 (except in 1958 when prices rose exceptionally sharply in France), markedly greater dispersion in the period 1974 to 1977, strong converging trend in 1978 (see Graph 5.2). The standard deviation from the average increase in prices

GRAPH 5.2

Dispersion of inflation rates between Member States



Source : Commission services

for the Community was about 1 or 2 % during the sixties; it rose to over 5 1/2 % in 1975. In spite of the improvement observed since then, the disparity between inflation rates in 1978, with a probable standard deviation of almost 3 %, will still be much higher than before 1973/1974.

Differences in levels of per capita income are generally recognised as another important criterion of "convergence", although their significance for economic and monetary integration is not precisely the same as for inflation differentials. It is generally agreed that all the Member States should share in the advantages of integration, and that the reduction of disparities in living standards from region to region and from country to country is one of the Community's fundamental aims. Indeed, it is obvious that progress towards integrationⁿ would be greatly facilitated by the narrowing of economic and social differences. The Community's regional policy is based on these assumptions. The achievement of more nearly comparable per capita incomes is an important long-term aim of general integration policy. However, its pursuit has to go together with the reduction of differences in productivity.

Gross per capita product might be used as an indicator of living standards, but it would require data expressed in national currency to be reduced to some common denominator if different countries were to be compared. Conclusions about the degree of convergence are largely dependent on the denominator chosen.

There are two main reasons for exercising caution when exchange rates are adopted as the basis for conversion. First, comparison on this basis tends to overestimate differences in living standards. For example, services that are not internationally traded are in general relatively expensive in the richer countries, but their price is insufficiently reflected in exchange rates. Secondly, other factors such as short-term capital movements affect exchange rates and distort the comparison at certain times.

The divergence in per capita domestic product assessed on the basis of exchange rates widened between 1960 and 1976 (see the left-hand side of Graph 5.3). During the same period the relative positions of the Member States changed considerably. The ratio of the highest per capita gross product in the Community to the lowest was about 2.2 in 1960 and 3 in 1976.

These disparities are much smaller if calculations are based on purchasing power parities instead of exchange rates. The purchasing power parities worked out by the Statistical Office of the European Communities are still provisional, but as a basis for calculation they do avoid the overestimation of divergences that could result from using market exchange rates. This measure is also more stable. Evaluating per capita gross product on the basis of purchasing power parities results in smaller disparities between the Member States than does evaluating it on the basis of exchange rates, both for 1960 and for 1976 (see the right-hand side of Graph 5.3). On this basis, the divergence of gross per capita products decreased, although only slightly, instead of increasing, between the two years: the ratio of richest to poorest country fell from 2.0 in 1960 to 1.9 in 1976. Moreover, the relative positions of the Member States changed less than on the basis of market exchange rates.

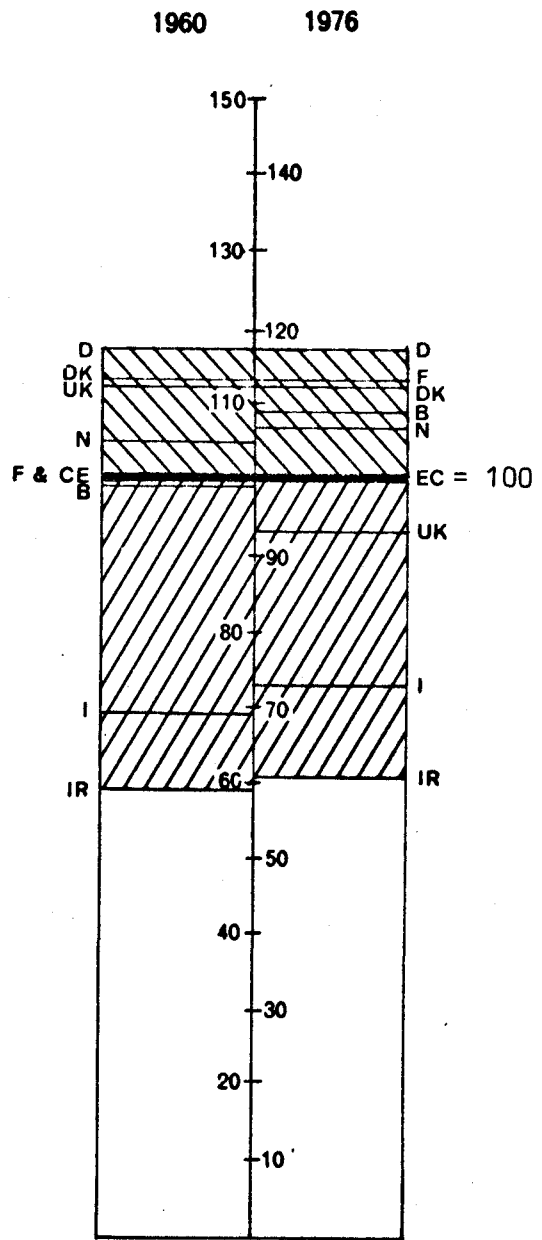
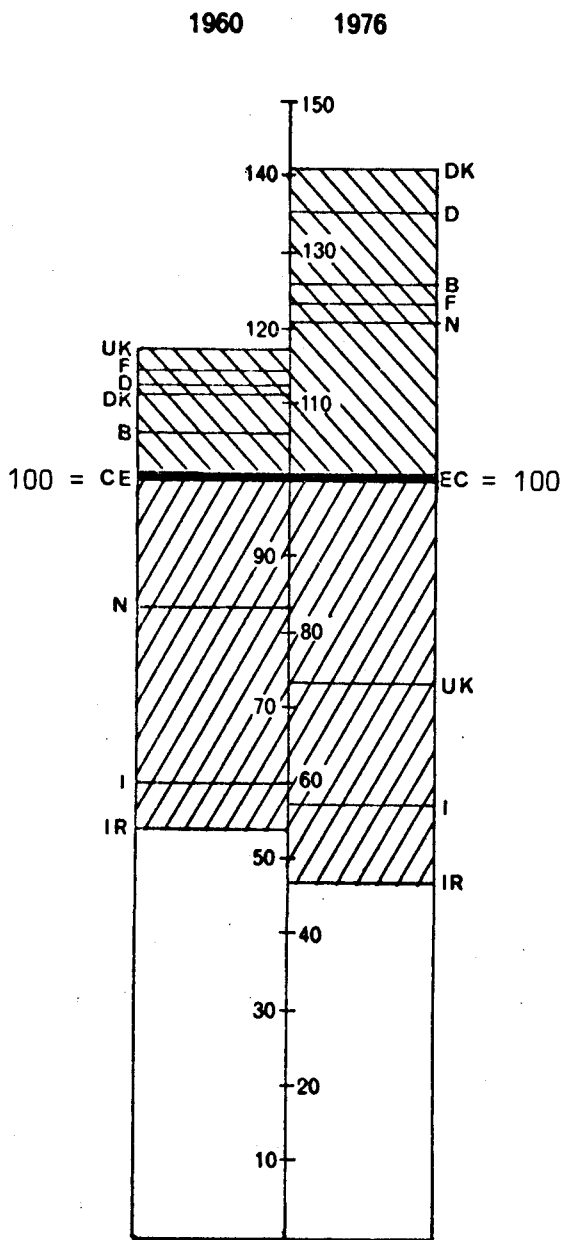
Turning to the convergence of living standards in the different regions of each Member State, we find that inequalities in gross per capita product have tended to shrink slightly in most Member States during the most recent years for which data are available (see Table 5.2).

GRAPH 5.3

Dispersion of gross domestic product per head 1960 and 1976

Current market exchange rates

Current purchasing power parities



Source : Eurostat (data is at current prices)

TABLE 5.2

Regional inequalities in gross domestic product per head

Country	Year	Poorest region	Average level = 100	Richest region	Average level = 100	Ratio min/max	Degree of inequality expressed by THEIL index (1)
D	1970	Schleswig/Holstein	81	Hamburg	165	2,0	0,0044
	1975	Schleswig/Holstein	84	Hamburg	178	2,1	0,0036
F	1970	Ouest	77	Ile de France	151	2,0	0,0130
	1973	Ouest	80	Ile de France	155	1,9	0,0123
I	1970	Sud	51	Lombardia	137	2,2	0,0174
	1974	Sud	65	Lombardia	135	2,1	0,0160
NL	1970	Noord/Nederland	88	West/Nederland	112	1,3	0,0021
	1974	Oost/Nederland	85	Zuidwest/Nederland	115	1,4	0,0023
B	1970	Région wallonne	87	Région bruxelloise	154	1,8	0,0076
	1974	Région wallonne	86	Région bruxelloise	153	1,8	0,0072
UK	1970	North	80	South East	115	1,4	0,0027
	1975	Northern Ireland	82	South East	113	1,4	0,0019

(1) The Theil index measures the "inequality" of the series and is defined as the logarithm of a weighted geometric mean of the per capita product in each region compared to the per capita product of all the regions together. The index varies with the degree of dispersion of per capita product (a value of zero corresponding with a zero degree of inequality).

Source : Eurostat and Commission services.

This is less obvious when we compare the gap between the richest and the poorest region in a given country than when we analyse inequality by considering the relative positions of all the regions. The index of the degree of inequality fell in five out of the six member countries for which data are given in Table 5.2; suitable regional data for this kind of analysis are not available for the three countries that are not included.

The Statistical Office of the European Communities regularly draws up harmonized statistics, based on national data, for the trend of remuneration in industry in the various Member States. The results are summarized in Table 5.3, which shows that the divergence from country to country of gross hourly remuneration in industry as a whole is similar to that of per capita gross domestic product. Comparing the divergence of gross hourly remuneration with that of per capita gross domestic product in European units of account, on the basis of the coefficient of variation, we find a fairly similar development between 1972 and 1976 (the coefficient for hourly remuneration increases from 21% to 33%, while that for per capita gross product increases from 25% to 38%). Like per capita gross domestic product, gross hourly remuneration diverges much less if purchasing power parities (as shown in Graph 5.3), instead of current exchange rates, were used to convert data in national currencies.

The pursuit of low inflation and substantial real growth are, of course, permanent and simultaneous objectives of policy in all Member States. It is also of crucial importance to the Community that the arbitrage between these two objectives is pursued with the highest degree possible of compatibility between Member States, since the two factors together largely determine balance of payments and exchange rate developments, and the constraints that the Community economy imposes on each Member State's policy.

TABLE 5.3

Average gross hourly earnings in industry

EUA

	1964	1970	1972	1975	1976	1977 *
DK	n.d.	n.d.	2,40	4,39	5,28	5,37
D	0,93	1,70	2,12	3,26	3,95	4,16
F	0,67	1,04	1,34	2,30	2,52	2,66
I	0,58	1,00	1,27	1,94	1,73*	n.d.
IRL	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.
NL	0,74	1,35	1,86	3,27	3,93	4,18
B	0,79	1,34	1,81	3,19	3,95	4,25
LUX	1,07	1,69	2,08	3,46	4,45	4,82
U.K.	n.d.	n.d.	1,56	2,20	2,10	n.d.
Arithmetic mean	0,74	1,29	1,77	2,94	3,49	-
Ratio max/min	1,6	1,7	1,9	2,3	3,0	-
Standard deviation	0,16	0,28	0,37	0,76	1,16	-
Coefficient of variation (1)	22%	22%	21%	26%	33%	-

Note: All data refer to October of the year in question, except those marked with an asterisk, which refer to April.

(1) Standard deviation as percent of arithmetic mean.

Source : Eurostat and Commission services

A fuller picture of convergence and divergence in the Community can be obtained from study of how the two objectives have in fact been combined. A comparison of growth rates and inflation rates shows that the combination has improved in most Member States over the past few years, and that previous years were in general marked by stagflation. The arrows on Graph 5.4 represent the development of the two variables between 1969 and 1978. From any one year to the next, the most favourable direction is downwards and to the right (higher growth and less inflation). A deterioration on both fronts is shown by an arrow pointing upwards and to the left. The other two directions show an improvement on one front with a deterioration on the other.

In any given year we find that a good number of countries (never less than half) have arrows pointing in the same direction.

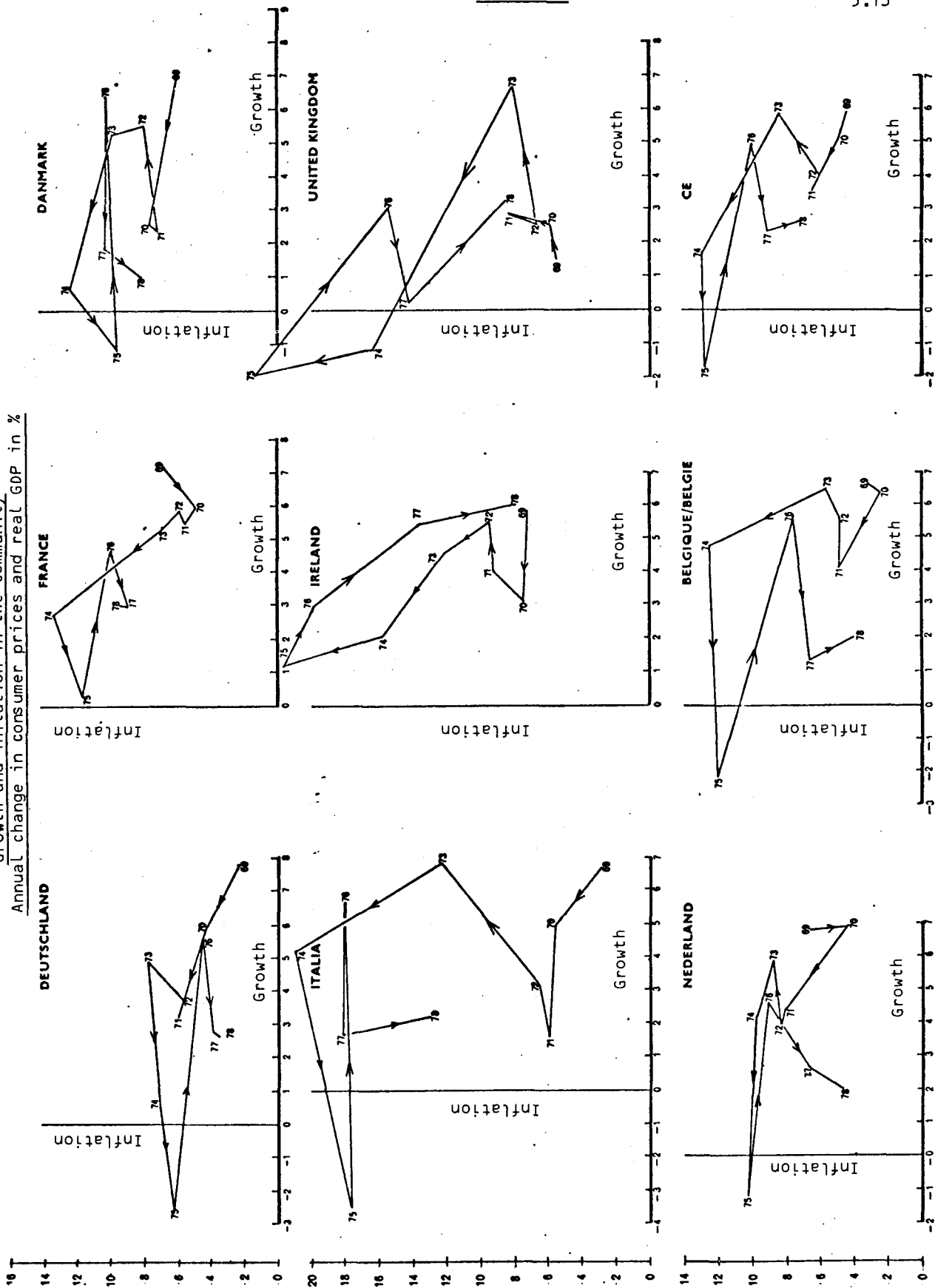
The prevailing trends in the results obtained by the countries have varied from year to year. 1970 and 1971 saw a deterioration on both fronts for most member countries, while the recovery of 1972 and 1973 was dominated by more rapid growth combined with a worsening on the prices front in five countries. At the beginning of the crisis, in 1974, growth was losing momentum everywhere, and inflation was rising except in Germany. In 1975, a year of crisis for growth, the inflation rate fell in five countries. The 1976 recovery meant a higher growth rate than in 1975 in all countries, and an improvement in price trends in all but two countries. In 1977, slower economic growth combined with lower rates of inflation was prevalent, and in 1978 all member countries except France, will probably have still lower inflation, but there will be two different trends in growth: five countries will have higher growth in 1977, the other three will have lower growth.

The total picture emerging from this two-fold standard of convergence shows a Community economy deteriorating rapidly between 1969 and 1975, and recovering to an appreciable extent since then; a recovery, however, which needs to be extended and consolidated in the future.

GRAPH 5.4

5.13

Growth and inflation in the Community
Annual change in consumer prices and real GDP in %



6. Budgetary trends and policies

(i) Budgetary policies from 1975 to 1978

Efficient regulation of the economy by means of budgetary policy has been found very difficult over the past few years; this is mainly because economic circumstances have been unsure since the recession that followed the oil crisis in 1973. On the whole, policies have been designed to compensate for deficient demand; average deficits have been considerably higher than their full-employment levels of the years before the crisis. But the degree of support given to demand has been adjusted at different times to presumed variations in the economic situation. Policies have thus been tightened and loosened by turns, but it has not always been possible to achieve the specific effects required for efficient control of the economic and financial imbalances they were intended to remedy.

The use of budgetary policy to adjust economic magnitudes has met an additional difficulty in that a large part of current expenditure is becoming increasingly dependent on automatic mechanisms, and is therefore both dynamic and incompressible. In particular, the burden of interest payments has increased, and expenditure on social security has grown rapidly because of improved protection and, often, because of a large increase in the number of recipients. These commitments leave only a narrow margin of resources for more powerfully stimulating expenditure, such as direct or indirect investment. They have also restricted the authorities' scope for using tax reductions to stimulate private demand. The monetary risks inherent in large deficits have thus led the authorities to be fairly cautious, which has sometimes meant that direct actions and incentives to stimulate investment and employment could not be used to the extent required.

However, within the limits set by general constraints, growing efforts at stimulation have been made, both through capital expenditure, which began to increase once more in real terms in 1978 after stagnating or even diminishing for a fairly long period, and through measures specifically intended to create or maintain jobs.

Many important aspects of budgetary policy in the Member States have been similar over the past few years, especially timing. Policies of powerful stimulation in 1975, when deficits reached unprecedented levels, gave way more or less rapidly to contrary policies after the recovery. Management in 1976, and even in 1977 in most countries, tended to be restrictive in spite of automatic adjustments when economic circumstances again became less favourable. In 1978, however the prevailing trend is towards less restriction; for it has once more become urgent to stimulate activity.

But beyond these similarities, there have been important differences between budgetary policies, due not only to the wide variety of the imbalances requiring adjustment in the different countries, but also to differences in the role assigned to public finance, for structural or practical reasons, in regulation strategies. Budgetary policies were most effective and varied in countries where the imbalances were greatest and where budgetary instruments were most widely used to achieve the desired results.

Table 6.1

Net borrowing requirement of central government (1)
and of general government (2)

as a percentage of gross domestic product (1974-1978)

	Net central government borrowing requirement					General government financial balance				
	1974	1975	1976	1977	1978	1974	1975	1976	1977	1978
DK	+0,6	-4,1	-3,3	-2,8	-3,3	+4,6	-1,7	-0,7	-0,4	-0,7
D	-1,9	-5,3	-3,9	-2,5	-3,4	-1,3	-5,9	-3,6	-2,6	-3,1
F	+0,4	-2,6	-1,0	-1,0	-1,4	+0,6	-2,3	-0,4	-1,3	-1,8
IRL	-12,2	-16,6	-11,5	-9,9	-12,7	-8,5	-13,0	-9,6	-8,8	-11,8
I	-8,6	-12,4	-9,8	-9,4	-13,4	-5,9	-12,3	-9,7	-9,1	-11,0
NL	-1,4	-3,3	-3,2	-2,1	-4,0	+0,9	-2,9	-2,2	-1,6	-3,0
B	-3,6	-5,2	-6,0	-6,3	-7,1	-1,9	-3,8	-5,0	-5,1	-5,1
L	+3,5	+1,1	-0,2	+1,4	-0,2	+4,5	+0,2	0	+0,6	0
UK (3)	-6,2	-8,5	-4,9	-3,2	-3,9	-4,7	-5,3	-4,6	-3,7	-4,2
EC	-3,2	-5,8	-4,1	-3,3	-4,6	-1,7	-5,2	-3,7	-3,3	-4,0

(1) Borrowing requirements resulting from the implementation of central government budgets, including financial transactions (loans, advances and equities).

(2) General government financial balance on the basis of harmonized national accounts, not including financial transactions (loans, advances and equities).

(3) For the United Kingdom the reference period is the financial year (1 April to 31 March).

Source : Services of the Commission

Balances of central governments : cash outturns provided by national services for 1974-1977 and estimates for 1978.

Balance of general governments : Economic budgets.

Budgetary policy has been most varied and has influenced short-term economic evolution most, to judge from the large, widely fluctuating deficits, in Italy on the one hand and in the United Kingdom and Ireland on the other. Powerful stimulation in all three countries was followed, in 1976 and 1977, by especially energetic restrictions to deal with rapidly worsening internal and external imbalances that were in fact largely due to the excessively stimulating effect of earlier policies. The means employed, however, were rather different in the different countries. In Italy, where current expenditure was subject to powerful constraints, restriction mainly consisted in a massive strengthening of the burden of direct and indirect taxation - increased by about 1 1/2 % of gross domestic product in 1976 and again in 1977. This action was supplemented by a deliberate cut-back in capital expenditure. In Ireland too, the deficit was reduced mainly through the rapid growth of tax revenue, which increased twice as fast as expenditure between 1975 and 1977. In the United Kingdom, on the other hand, restrictive action mainly consisted in severely limiting the "planning" total of expenditure, which fell by about 9 % in volume terms from 1975/76 to 1977/78, partly as a by-product of applying a new system of "cash limits" to the greater part of public expenditure. Official estimates incorporate a further shortfall below the "planning" total of 2 1/2 % in the actual volume of non-financial expenditure for 1978/79. At the same time a more generous tax policy was applied in support of the policy to contain nominal increases in income. The imbalances in all three countries had been sufficiently corrected by these actions by the end of 1977 for budgetary policies to move once more towards stimulation in 1978. The change was marked in Ireland, where substantial tax reductions combined with a massive increase in capital expenditure will probably entail an increase in the deficit of about 3 % of gross domestic product. It was also marked in Italy, where most of the planned measures to restrict current expenditure and to increase revenue have been postponed, while capital expenditure has been considerably increased. The stimulus afforded by tax reductions and capital expenditure was not so great in the United Kingdom.

In France and Denmark, where serious adjustment problems also arose, budgetary policy also underwent similar changes, but only the initial relaxation phase was really marked. Indeed, as a consequence of the recession and of the measures taken to combat it, both countries - especially Denmark - experienced a sharp deterioration of their budgetary position in 1975, although the well-balanced starting position of both countries in this respect resulted in deficits much lower than the Community average. Consequently, the efforts required to bring them down to levels consistent with gradually reducing internal and external disequilibrium were also relatively less. The results obtained on both fronts were, however, insufficient to allow for a substantial relaxation of the budgetary stance in the two countries in 1978.

In Germany and the Benelux countries, inflationary pressures have been weaker and have never endangered external equilibrium; there was a wider margin of manoeuvre in these countries for budgetary policies to support activity. However, it could not always be fully exploited, because it was feared that excessively high deficits might rekindle inflation or absorb too great a proportion of savings. Belgium was an exception to the general rule in that the deficit expressed as a percentage of gross national product grew steadily throughout the period, so that the need for a medium-term revision of expenditure policy became pressing in 1978. The other countries, free of payments difficulties, began as early as 1976 to correct the budget imbalances caused by the recession. The persistent lack of economic dynamism, however, led them to abandon their restrictive line and to return gradually to more flexible policies. By 1977 the German authorities were already taking measures to support activity, with extra expenditure and tax reductions totalling more than 1 % of gross domestic product. The measures included a new pluriannual programme of investment, an increase in family allowances and reductions in income tax, wealth tax and tax on enterprises, partly offset by an increase in VAT rates; they resulted in a considerably higher budget deficit in 1978. The deficit in the Netherlands will also be quite a lot higher in 1978 than in 1977, owing in particular to the effects of support measures agreed in the spring which involve a sum equal to over 1 % of gross domestic product, and to increased assistance to private investment agreed when the investment account was introduced at the end of May 1978.

(ii) Prospects for Budgetary policies in 1979

Faced with the prospect that economic growth will remain insufficient over a long period to prevent a further deterioration in the Community's employment situation, the Member States agreed at the European Council meeting in Bremen on 6 and 7 July 1978 on the principle of joint action to stimulate demand. At the meeting of 24 July 1978, the Council adopted detailed arrangements for such action as proposed in a Commission communication on the adaptation of public budgets in 1978 and the preparation of public budgets in 1979 in the context of Community concerted action. The Member States are counting mainly on the increased flexibility of budgetary policy, and on its spill-over effects, to obtain the desired result.

The Council decision of 24 July 1978 thus committed all the Member States to increase budgetary support; this will mean higher deficits in 1979 than was originally planned, in spite of the stabilizing effects expected from the acceleration of growth. The general trend is adapted in widely varying ways in the different countries, in view of the margin of manoeuvre left to each by its external trade and price prospects, the specific features of its short-term economic situation and the constraints on its budgetary and tax systems. It has therefore been provided that the stimulation measures considered necessary may be partially offset by restrictions, particularly where budgetary management is tight. On the whole, the characteristic feature of the Member States' budgetary policies in 1979 will be their selectivity with a view to achieving the highest possible degree of efficiency rather than the extent of the effort they will require. The Council considers, in its decision of 24 July, that in countries where the balance of payments situation and the behaviour of prices are still uncertain, arrangements for 1979 should not reinforce the support which increased deficits - sometimes considerably increased - afforded to activity in 1978.

The policy sketched for Italy and Ireland, indeed, is slightly restrictive; for the aim is to reduce the net deficits in 1979, as a proportion of gross domestic product to below their 1978 levels. In both countries this will require a reduction in some items of current expenditure and some increases in taxes and levies especially as it now appears necessary to increase budget aid to investment. The guidelines are less strict for the other countries where the restoration of equilibrium is still causing problems. Some reduction in direct taxes is even considered possible in Denmark if it is justified by the results of the policy to moderate wages. The Danish budget measures adopted in September include an increase in the personal income tax allowance; however, to control the spontaneous increase in the budget deficit and reduce the external deficit, restrictive provisions have also been adopted including raising the VAT rate from 18 % to 20 1/4 % in October, reinforcing direct taxation by changing the system of index-linking the income tax schedule, and introducing expenditure savings, particularly through postponement of certain public infrastructures. The decision of 24 July recommends for France that the measures planned to bring the deficit below its 1978 level should be postponed. The draft budget for 1979 respects this recommendation, in spite of the moderating influence on the rate of increase in expenditure of earlier decisions (mainly concerning public service charges and support to employment). The decision allowed that the present expansionist trend of budgetary policy in the United Kingdom might be accentuated slightly. For Germany and the Benelux countries, the guidelines in the decision are more resolutely geared to stimulation. However, it was conceded that the margin of manoeuvre necessary for the essential revival measures could not be created in Belgium unless action were taken at the same time to reduce some of the current expenditure items of the 1978 budget.

The draft budget for 1979 therefore confirms the measures taken in the law on economic and budgetary reform by limiting the rate of increase in this expenditure to below that of gross domestic product and providing for a particularly vigorous effort in favour of investment. In Germany, after the Council's Decision of 24 July provided for budgetary stimulation with tax reductions and with supplementary expenditure of about 1 % of gross domestic product in 1979, the Federal government adopted an appropriate programme on 28 July with a series of measures to be introduced between the beginning of 1979 and the beginning of 1980.

The measures for 1979 mainly concern income tax and increases in certain items of transfer expenditure. On the other hand, there will be an increase in VAT rates on 1 July 1979. The Netherlands, too, have complied with Community guidelines, in their draft budget for 1979, supplementing the provisions adopted in the first half of 1978 with incentive measures. The central government budget deficits as a percentage of gross domestic product should thus be considerably higher in 1979 than in 1978 in Germany and the Netherlands, and remain about the same in Belgium, while the slight surplus expected for 1978 in Luxembourg should give way to a slight deficit.

(iii) Long-term trends in public finance

Over the past few years the share of government expenditure in the Community as a whole has been fairly stable. After increasing more or less regularly between 1958 and 1973, it accelerated sharply in 1974 and 1975 under the influence of the mechanical effects of the crisis and the short-term policies adopted. During these two years, general government expenditure as a percentage of GDP increased by nearly 6 %, or almost as much as it had over the preceding fifteen years (7.7 %). Public expenditure as a share of GDP reached 46.4 % in 1975 compared with 40.6 % in 1973 and 32.9 % in 1958.

These general trends cover considerably different developments at national level; the extent of the deceleration in the growth of public expenditure since 1975 has varied according to each country's specific budgetary constraints and ability to control the spontaneous evolution of public finance. General government expenditure increased most sharply in 1974-75 in Ireland, Denmark and the Benelux countries. These were also the countries where the rates of growth of public expenditure were highest between 1958 and 1973. Except in Ireland, public expenditure continued to grow after 1975, although more slowly. In Germany, public expenditure in relative terms, which had been rising since 1971, and especially in 1974-75, has remained stable over the past few years. The effects of the 1974-75 crisis on public finance were less marked in France and Italy, where public expenditure continued to expand at a moderate rate after 1975. Public expenditure as a percentage of GDP is considerably lower in 1978 than in 1975 in the United Kingdom.

The general effort to control the growth of public expenditure in a slack economic situation concentrated mainly, as table 6.2 shows, on consumption and capital expenditure of government departments, while current transfers and interest payments continued to progress.

Between 1958 and 1973, revenue as a percentage of GDP grew parallel to expenditure, rising from 33 % to almost 40 % over the Community as a whole. In 1974-1975, the trend of government receipts did not allow the rapid rise in the level of government expenditure to be covered, even though it rose as a proportion of GDP in all member countries except Germany, Ireland and Denmark. After 1975, the temporary recovery of economic activity in 1976 made it easier to increase taxes and levies in an attempt to reduce budget deficits; the effort continued in 1977, but it was relaxed in 1978. The increase was highest and widest-ranging (covering all categories of compulsory contribution) in Italy and Ireland, the countries where the burden of taxation and social security contributions was considerably lighter than the Community averages and where budget deficits were greatest.

TABLE 6.2

Development of main categories of general government expenditure
(as a percentage of GDP)

	Consumption					Other current expenditure (1)					Capital expenditure (2)				
	1958	1973	1975	1977	1978	1958	1973	1975	1977	1978	1958	1973	1975	1977	1978
DK	13.1	21.9	24.9	23.0	22.8	9.6	14.4	16.9	16.7	17.7	3.3	4.6	5.5	5.9	6.0
D (3)	13.2	18.2	21.0	20.0	19.9	16.7	16.9	20.8	21.3	21.4	4.3	5.2	5.7	5.3	5.3
F	14.1	12.6	14.6	14.9	14.9	17.0	21.2	24.9	26.0	26.4	4.0	4.3	4.3	3.6	3.6
IRL	12.4	15.2	19.1	18.7	18.4	12.0	19.5	21.9	22.2	22.2	3.7	5.9	7.1	6.2	6.7
I	12.0	14.7	13.9	13.7	14.2	13.7	22.9	27.2	28.8	30.4	3.9	4.0	4.9	4.2	5.0
NL	14.3	16.3	18.4	18.3	18.4	15.2	26.5	31.0	32.6	34.2	5.1	5.0	5.5	4.5	5.3
B	12.1	15.0	16.9	17.3	17.9	14.0	21.1	26.0	27.8	29.0	1.8	3.5	3.7	3.6	3.7
L	12.6	11.4	15.0	15.7	15.9	15.1	25.4	27.1	30.4	30.7	6.7	7.5	9.5	9.0	9.3
UK	16.6	18.7	22.0	20.9	20.1	12.1	16.6	18.0	18.6	19.1	3.0	6.6	5.3	3.9	3.8
EC	14.2	16.3	18.4	18.0	17.5	14.8	19.4	23.0	24.0	24.5	3.7	5.0	5.1	4.5	4.6

Sources : 1958-1973 : OECD; National accounts

1975-1978 : Economic budgets of the services of the Commission

(1) Current transfers and miscellaneous current expenditure (mainly interest on national debt)

(2) Gross fixed investment and capital transfers (net of capital transfers received)

(3) Differs from Table 8 of the Statistical Annex. Expenditure on health services in kind are included in public consumption and not in current transfers in conformity with German national accounts definitions.

The increase in revenue in Germany, France and Belgium is mainly due to direct taxes and social security contributions; in the Netherlands and Denmark, it comes from indirect taxes. The percentage of total taxes and social security contributions in GDP has fallen in the United Kingdom, where the increase in indirect taxation did not compensate for the large reduction in the burden of direct taxes.

Recent developments continue the long-term trend towards an increase in social security contributions as a proportion of the current receipts (see table 6.3); this trend should be related to the increase in current transfers from social security schemes, which are financed by these contributions. Over the Community as a whole, the share of social security contributions in GDP rose from 7.8 % to 14.4 % between 1958 and 1977, while the burden of direct and indirect taxation rose from 22.7 % to 25.8 % during the same period. At the moment, social security contributions represent a higher proportion of GDP than either direct or indirect taxation in most of the Community's founder member countries. They are not so high in the United Kingdom, Denmark and Ireland, because a higher proportion of social transfers is financed out of tax revenue.

The trend towards an increase in the share of direct taxes in GDP observed between 1958 and 1975, however, has become less general in the past few years. The countries with the largest increase in the burden of direct taxes from 1958 to 1975, Benelux, Ireland and Denmark, are also those where the share of indirect taxes in GDP increased or remained steady. The increase in compulsory contributions in these countries affected all categories of revenue, so as to cover the very rapid expansion of expenditure. In France, Italy and Germany, the increased burden of direct taxation was partly offset by a reduction in the importance of indirect taxation; combined with higher social security contributions, it did make it possible to finance more expenditure, although the rate of increase in expenditure was less rapid. After 1975, the share of direct taxation in revenue continued to increase in the countries where it was originally the lowest (France, Italy and Ireland) as well as in Belgium and Luxembourg. It fell in all the other Community countries.

TABLE 6.3

Trends in the composition of tax and social security revenue
(as a percentage of GDP)

	Indirect taxes				Direct taxes				Social security contributions						
	1958	1973	1975	1977	1978	1958	1973	1975	1977	1978	1958	1973	1975	1977	1978
DK	11.7	15.1	13.9	15.5	16.7	11.9	27.9	27.9	26.0	26.1	1.5	1.1	0.7	0.6	0.6
D	14.2	13.4	12.3	12.4	12.7	8.8	12.3	12.0	13.7	13.0	9.8	13.2	14.9	15.5	15.4
F	16.7	15.4	14.1	13.8	13.8	6.4	6.4	7.3	8.4	8.4	11.1	15.2	17.2	18.4	18.3
IRL	17.2	19.3	17.4	17.5	15.9	4.9	9.2	9.8	11.1	11.1	1.0	3.0	4.5	4.8	4.6
I	12.2	11.0	9.6	11.1	11.1	5.4	6.8	7.3	9.2	10.2	7.9	11.9	15.3	14.8	14.9
NL	9.8	11.8	11.3	12.4	12.7	12.0	15.4	16.4	16.5	17.2	8.1	16.9	18.4	18.0	18.2
B	10.7	11.6	11.7	11.8	12.1	7.4	13.5	16.4	17.0	18.6	6.4	11.3	12.6	12.7	12.8
L	9.7	11.7	13.4	13.2	13.2	11.5	14.8	18.2	20.7	20.4	8.5	11.8	15.6	17.2	17.2
UK	13.4	13.8	13.7	14.6	14.2	11.7	13.9	16.0	14.5	14.2	3.8	6.6	6.6	6.8	6.5
EC	14.0	13.6	12.6	13.0	13.1	8.7	11.0	11.8	12.7	12.6	7.8	12.1	13.8	14.4	12.6

Sources : 1958 - 1973 : OECD; National accounts

1975 - 1978 : Economic budgets of the services of the Commission

7. Monetary trends and policies

(i) Developments in intermediate objectives and monetary policy

The rôle assigned to monetary policy in the different member countries may be assessed with reference to the intermediate objective adopted (money, credit) and to the operational value attributed to this objective. By comparing the objective with the results obtained, we can assess the problems faced by the authorities during the period concerned.

In the Federal Republic of Germany, the Bundesbank uses a money supply growth objective (money supply defined, according to the Bundesbank's special criteria, as "central bank money") (1). Since 1975 the rate of growth aimed at has always been 8 % (in 1975 this was defined as the December-on-December rate; since 1976 it has been defined as an annual average). Over the years the criteria for setting the target rate have changed a little, but the basic aims have been to gradually reduce the rate of price increases while also assuring the means of financing the real growth of the economy. In 1977 central bank money increased by an annual average of 9 % over 1976. The excess was due more to the public's increased preference for liquid as opposed to longer terms assets than to a great increase in bank credit. To contain the rate of expansion within the 8 % limit, the monetary authorities would have had to raise short-term interest rates; this could well have further hampered growth, which was already only moderate, as well as creating further upward pressures on the Mark. These same risks explain why the Bundesbank did not take restrictive measures in 1978 in spite of the strong acceleration of monetary expansion, due mainly to the rapid expansion of credit to private sector residents. Even if the supply of central bank money were to settle at its mid-August level, the annual average increase would still be over 10 %; however, with the moderate level

(1) Paper money plus compulsory reserves on resident's deposits calculated at constant rates.

Table 7.1

Monetary policy's official intermediate objectives and realisations

	D		F		I		NL		U.K.	
	Central Bank money	M ₂	total domestic credit	Monetary base	M ₂ /net national income	Sterling M ₃	DCE mrds £			
1975										
Norm	+ 8 % (2)	-	+ 24700 (4)	-	-	-	-	-	-	-
Realisation	+ 10.0 % (2)	-	+ 33710 (4)	-	-	-	-	-	-	-
1976										
Norm	+ 8 % (1)	-	+ 29500	+ 5700 (5)	-	+ 9-13 % (8)(9)	+ 9 (8)			
Realisation	+ 9.2 % (1)	-	+ 33530	+ 8981 (5)	39.6 % (7)	+ 7.8 % (8)	+ 4.1 (8)			
1977										
Norm	+ 8 % (1)	+ 12.5 % (2)	+ 30600	+ 4000 (5)	-1% by refer. to 76 level	+ 9-13 % (8)	+ 7.7 (8)			
Realisation	+ 9.0 % (1)	+ 13.9 % (2) + 12.2 % (1)	+ 35702	- 4296 (5)	39.3 % (7)	+ 16.0 % (8)	+ 4.4 (8)			
1978										
Norm	+ 8 % (1)	+ 12 % (2)	+ 46000	+ 7500 (6)	-1% by refer. to 77 level	+ 8-12 % (8)	+ 6 (8)			
Realisation	:	:	:	:	:	:	:			

(1) annual average

(2) December/December

(3) targets appearing in the EEC directives fixing the conditions of Italian economic policy

(4) period 1 April 1975 to 31 March 1976

(5) monetary base created by the Treasury

(6) total monetary base

(7) source : 1977 Annual Report of the Nederlandsche Bank

(8) year lasting from mid-April of year indicated to mid-April of following year

(9) target succeeded a target of + 12 % for M₃

of present growth rates there is little risk that price stability will suffer from the extra expansion of money supply. Interest rates on money and capital markets, which had been falling since early in 1977, levelled off in the spring of 1978, and long-term rates even showed a slight upward tendency. However, they are still the lowest in the Community (3.7 % on short-term rates and 6.8 % on long-term in August); this is mainly because of differences in inflation rates between Germany and other Member States.

In France the first target for the growth of money supply (M_2) was fixed for 1977. At 12.5 % (therefore slightly lower than the estimated growth in the value of GDP (13.2 %)) it was part of a medium-term strategy to stabilize the economy's liquidity ratio, which had been increasing rapidly up to 1975, thus contributing to the elimination of inflationary pressure. The manipulation of interest rates plays a smaller part in the regulation of the money supply in France than in the Federal Republic of Germany; regulation in France is based on the strict control of the component parts of the money supply, particularly private sector bank credit. The average annual money supply increased by 12.2 %; the liquidity ratio remained about the same as in 1976. The December-on-December increase was 13.9 %, but statistical uncertainties mean that this figure is (by about 1 percentage point) too high.

The authorities set a target of 12 % for money supply growth in 1978, about the same as the expected nominal GDP growths, and thus consistent with the medium-term aim of stabilizing the liquidity ratio. The ceiling on bank credit has been adjusted to make it easier to manage monetary growth; if the 12 % target is to be met, close control of Treasury money creation is required, since the policy of external borrowing contributes to the increase in liquidity.

In the United Kingdom, the monetary authorities first set intermediate objectives in the 1976/77 financial year; these objectives covered both money supply and, pursuant to the agreement with the IMF, domestic credit expansion (DCE) (1). The DCE objective was predominant while balance of payments problems were being faced, since a payments deficit results in destruction of liquid assets. After the improvement in the balance of payments situation, the authorities concentrated more on the money supply objective.

Experience over the past few years has led the authorities to adjust the monetary norms applied to defining the aggregate (at present : Sterling M_3) and the method for setting the target; for the 1978/79 financial year, the target was again expressed as a margin (8 - 12 %) subject to review and adaptation after six months.

There is a close link between monetary and budgetary policies because the public sector deficit contributes to a large extent to monetary expansion. The extent of this depends largely on the difference between the public sector borrowing requirement (PSBR) and the volume of national debt securities that can be placed with the non-banking private sector.

The norms laid down for the fiscal year ending in mid-April 1977 were largely respected, mainly owing to control of the PSBR. Against a norm set at pound sterling 9000 million, DCE registered a total of pound sterling 4100 million. The prescription for monetary expansion was within a 9 - 13 % bracket; and the actual figure a mere 7.8 %. In the year ending in mid-April 1978, DCE was once more, at pound sterling 4400 million, well below the norm of pound sterling 7700 million; however, monetary expansion was almost 3 percentage points higher than the upper limit of the 9 - 13 % prescribed target, because of rapid acceleration towards the end of the financial

(1) DCE is mainly composed of bank credit to the public and private sectors (domestic components of the money supply)

year. The balance of payments surplus, and in particular the inflow of capital, was one of the main factors in the growth of the money supply; the prevention of an excessive appreciation in the value of the pound was given priority over controlling the money supply.

Interest rate policy is very actively exercised to control the development of the money supply and bank credit as well as to influence capital movements. The minimum lending rate (MLR), which is frequently varied, fell from 14 1/4 % in December 1976 to 5 % in October 1977. However, the trend has been reversed since the end of 1977 : the monetary authorities raised the MLR to 6 1/2 % in January 1978 and to 10 % in September, with a view to containing monetary expansion. Over the same period, the rate on ten-year Government bonds rose from 10.3 % to 12.4 %. In June, the supplementary special deposits scheme ("corset") which penalizes excessive growth of interest bearing bank deposits was reintroduced; since then, monetary expansion has been much slower.

The intermediate objectives, established in agreements between Italy and the EEC when loans were granted to Italy, cover total credit of domestic origin (1) and the monetary base. Total credit is both a conjunctural and a structural indicator. Compared with most of the other member countries the ratio of total credit to GDP is especially high in Italy (25 % between 1973 and 1976). This reflects the size of the borrowing requirements of the public and enterprises sectors. In the medium term, there are reasons to expect a stabilisation or even a reduction in the global credit/GDP ratio as well as a redistribution of credit in favour of the private sector. However, such developments would require a radical change in structures and behaviour.

(1) The concept of total credit used in Italy includes, not only public and private sector bank credit, but also funds obtained by these sectors through other financial intermediaries and the capital market.

From the short-term point of view, the objectives set for total credit must be consistent with restoring balance of payments equilibrium and slowing down the rate of inflation. In 1977 the target was exceeded by about Lit 5.000.000 million (approximately 2,5 %) ⁽¹⁾; the excess, most of which arose at the end of the year, was mainly due to the deterioration of public finances as a result of the slowdown of economic activity. This year, total credit has developed within the limits set (Lit 46.000.000 million, or about 23 % of GDP).

The monetary conditions set in the agreements with the Community include limits on the creation of monetary base, to which monetary expansion is linked by a multiplier. In the medium term, the Treasury is by far the most important creator of monetary base in Italy; however, experience in 1976 and 1977 has shown that, in the short term, other sources can be very important. Consequently, the target for 1978 refers to total monetary base. Over the two years concerned, short-term rates moved steadily downwards, while rates on the capital market dropped only slightly.

In the Netherlands the monetary authorities took control measures in May 1977 with the purpose of halting the rapid expansion in liquidity that had raised the liquidity ration (M_2 as a percentage of GDP) to the unprecedented level of 39.6 % at the end of 1976. The medium-term aim was to reduce this ratio gradually (by about one percentage point a year). The specific features of control, which applied only to credits granted from short-term resources, enabled the rate of money supply growth to be cut back from 20.5 % in 1976 to about 7 % in 1977 with minimal effects being felt on interest rates or the distribution of credit.

(1) Increase of global credit of 17,7 % instead of 15,2 %.

The renewal of the control system, decided upon in March, limiting the increase in bank credit from monetary resources to 8% over the period from the second quarter of 1978 to the second quarter of 1979 will allow the money supply to increase more or less parallel with the value of GDP, without creating pressures on the markets; long and short-term interest rates showed a downward trend until Autumn 1976 after the temporary rise in December 1977.

The policy of the Belgian monetary authorities is geared to credit granted to the private sector (firms and households) by the financial intermediaries; however, no target figure is set in advance, and the monetary authorities consider this concept important only in periods of restriction. Private sector credit is regulated on the basis, among other things, of the public sector borrowing requirement. Total domestic credit in 1977 was about the same, in absolute terms, as in 1976, but with the public sector increasing its share of this amount to about one half. The drop in the proportion of total credit granted to firms and households is not due to restrictive monetary policy, but to the weakness of demand that has resulted from the loss of momentum of economic activity, interest rates, particularly short-term rates, moved downwards during the year (except during the short periods when exchange markets were under pressure); the downward movement has continued until autumn 1978. It is expected that, even this year, domestic credit will expand only moderately and that the proportion granted to the public sector will increase again.

Denmark's open economy and persistently high balance of payments deficits have led the authorities to control the development of the domestic components of the money supply (domestic credit expansion: DCE), so as to attract foreign capital. Quantitative limits are therefore set in terms of the expansion of bank lending commitments, and interest rates are kept at a considerably higher level than in other countries. Since high budget defi-

cits appeared in the financial year 1974/75, the means of covering the deficit has become a vitally important factor in regulating DCE. For this year, the authorities consider that an increase in DCE approximately equal to that recorded in 1977 consistent with the aim of stimulating the inflow of capital. The slowdown in monetary expansion during the early part of the year was due to adjustments limiting the remuneration of short-term bank deposits; these adjustments caused a considerable volume of private funds to be transferred into less liquid assets, mainly short and medium-term government securities.

In Ireland, too, monetary policy is mainly geared to influencing capital movements. In 1977, DCE was broadly in line with expectations and objectives, but one component, bank credit to the private sector, increased by 22 %, compared with an expected 18 %, whilst the creation of money by the Treasury was moderate, mainly as a result of placing government securities with the private non-banking sector. The securities were easier to place because interest rates were tending downwards and because the structure of rates was favourable to capital market securities. The combined effects of the increase in DCE and the balance of payments on liquidity led to a growth in money supply (M_3) of 16 %, consistent with aims and expectations.

A 20 % increase in bank credit to the private sector and the creation of about pound 560 million by the State were regarded as consistent, for 1978, with the government's plan for real and nominal GDP growth and with monetary expansion of about 16 or 18 %. It was recognised that this fairly expansionist monetary policy will lead to some loss of reserves, the amounts of which the authorities considered tolerable. However, in the first part of the year the increase in bank credit to the private sector was far in excess of the targets. This led the authorities, in October, to place restrictions on the banks so as to limit credit extended to the private sector, especially personal lending.

(ii) The use of intermediate objectives for a better coordination of monetary policy

All the countries of the Community set intermediate objectives in terms of money and/or credit, but they do so in different ways. One of the main differences concerns the rôle of the objectives and the amount of publicity they are given. Germany, France and the United Kingdom publish the target figures in order to influence expectations. The monetary targets for Italy are published in the Community's Council Directives on economic policy conditions. The Netherlands' objective of gradually reducing the liquidity ratio is theoretically a medium-term aim, and immediate considerations may temporarily override it. In Ireland and Denmark, DCE and money supply projections are both aims and predictions which must be realised account taken of general objectives and constraints on general economic policy. Belgium is the only Member State that does not officially formulate any projection or objective for monetary aggregates.

There are also differences in the type of intermediate objective adopted (money supply or credit), and the way the objectives are defined. A preference for money or for credit may be partly due to theoretical considerations, but it is much more closely dependent on the balance of payments situation. An objective in credit terms, adopted by a country experiencing balance of payments difficulties would imply that the monetary authorities were refraining from compensating for the destruction of liquidity resulting from a balance of payments deficit, accordingly an automatic stabilisation factor is introduced into the system. On the other hand, a country with a balance of payments surplus would be more likely to adopt an objective in terms of money supply; the realisation of such an objective would imply that, in a floating exchange-rate system, the authorities were not seeking to avoid an appreciation of their currency through intervention by the central bank; however, were this appreciation to become excessive, the authorities could intervene on the market and attempt simultaneously to compensate for the creation of liquidity resulting from such interventions by tightening up credit. Such an action has limits however, because of the fact that credit restriction is liable to provoke further capital inflows.

The differences arising from the definition of the monetary aggregate chosen are due to institutional and structural differences between the member countries. On the other hand the quite frequent changes in definition of the chosen aggregates made with a view to finding increasingly significant monetary variables, demonstrate the growing importance attached to intermediate objectives in the implementation of monetary policy. The same applies to changes in the way the objectives are expressed (annual averages, margin and so on).

Some progress is being made towards harmonization, but it is necessarily slow since it requires structural changes. Moreover, a difference in intermediate objectives may reflect a difference in the degree of priority assigned to the various final objectives of economic policy.

Nevertheless, present differences are not a great obstacle to the use of intermediate objectives on a Community level. The main condition for such use is that each country should understand the intermediate objectives of the others : such is the principal aim of the Working Party on the Harmonization of Monetary Policy Instruments (1). Money supply and credit, the two intermediate objectives, are connected both functionally and in an accounting sense and these connections could be shown on the basis of a common pattern that would allow each Member State to appreciate the intermediate objective of another country in that latter's own financial context and also to compare it with its own objectives.

(1) This Working Party is dependent on the Community's Monetary Committee and Committee of Governors of the Central Banks.

Briefly, total credit in its widest definition, is made up of all the funds obtained by public and private sectors from the financial intermediaries, the capital market and abroad; other definitions of credit represent only the sum of certain components of this global sum. The counterpart of total credit is represented by the formation of financial assets (money, long and short-term securities), and the difference between the two totals is the balance of payments on current account position.

Despite certain differences in the method of determination certain basic elements such as the real rate of growth and a normative rate of price rise are always taken into account in the setting of intermediate objectives; moreover, in most countries, the public sector borrowing requirement and its financing play an essential rôle in the quantification of these objectives. Consequently, the intermediate objectives are established within a general framework which allows, during the prescribed period, a link up between the orientation of monetary policy, fundamental objectives and other compartments of economic policy.

Intermediate objectives have often been advertised at national level to influence the behaviour of economic agents. However, there is no need to publicize intermediate objectives at Community level for the moment. The coordination bodies might, however, find it useful to use them, in order to bring out any inconsistencies between monetary policies. Comparing intermediate objectives could therefore facilitate more real and more effective coordination of monetary policies.

8. Balance of Payments(i) World balance of payments summary

The balance of payments of the Community on current account has improved considerably over the last two years, showing a turn-round from a deficit of 6 1/2 bn US \$ in 1976 to a surplus of some 9 bn US \$ in 1978. These figures imply a shift of about one per cent of Community GDP to the external sector over that period.

TABLE 8.1
World current account balances 1973-78

(billion US \$)

	1973	1974	1975	1976	1977	1978(1)
EC	1 1/2	-11 1/4	1 1/2	- 6 1/2	1 1/4	10
US	7	1 3/4	18 1/2	4 1/4	-15 1/4	-18
JAPAN	0	- 4 3/4	- 3/4	3 3/4	11	18
OECD total	3	-32 3/4	- 6 1/4	-24 1/2	-32	0
OPEC	9	61 1/4	28 3/4	39 1/4	34	28
Other developing countries	- 8	-24	-39 1/2	-26 1/2	-26 1/2	-31
USSR and eastern Europe	- 6	- 7	-15	-11	-10	- 9
p.m. 1 EUA (2) =	1.23 \$	1.19 \$	1.24 \$	1.12 \$	1.14 \$	1.30 \$

(1) Forecast (2) at current exchange rates

Source: OECD Economic Outlook, except first line which is from Eurostat and Commission services.

The establishment of figures for world payments flows is difficult, but such data as are available suggest that the overall current account deficit of the OECD countries as a whole, which in 1977 still seemed to be in durable deficit as a result of the 4-fold increase in the price of oil at the end of 1973, has in fact greatly improved in 1978, largely as a result of increases in the prices of OECD merchandise exports. There has at the same time been a reduction in the surplus of the oil exporting countries.

However, the admittedly imperfect figures suggest that the improvement in the OECD position has also resulted from a deterioration in the current account balance of the non-oil-producing developing countries. The present equilibrium of the world economy depends to a considerable degree on a continuing flow of private lending to the non-oil-producing developing countries (and to the Soviet Union and eastern Europe) on a scale unheard of before 1974 and would be called in question by any impediment to that flow. This flow of lending is also of interest in the Community context because a significant proportion of the loans have been made by banks resident in the EEC.

Within the OECD area, the improvement in the Community's current account position has been over-shadowed by more dramatic developments in the accounts of the US and Japan. The US, whose current account surplus was not completely eliminated by the oil crisis and was in fact substantial in 1975 has since moved into a position of substantial deficit, which represented about 1 % of GDP in 1978. The deterioration in the US current balance was more than accounted for by a deterioration in that country's merchandise trade account; and of the adverse turn-round of some 40 bn. US \$ between 1975 and 1978 in US merchandise trade, about two fifths represented a worsening in the US oil bill.

The rapid decline in the US surplus in non-oil trade should also be noted, particularly as this appears to have been the major element in the further deterioration in the US current account between 1977 and 1978. One aspect of this problem has of course been the higher dollar prices paid for US imports as a result of the fall of the US currency on the exchanges, an effect which should be outweighed, in due course, by an increase in the volume of net exports as a result of improved competitiveness.

Even more striking has been the very rapid build-up of Japan's current account surplus to almost 2 % of GNP, a development virtually completely accounted for by the growth in that country's favorable

balance of merchandise trade. To some extent this phenomenon can be explained by the improvement in Japan's terms of trade resulting from the up-valuation of the yen, but the imbalance within the OECD cannot be explained by price factors alone and depends also in part on the relative cyclical position of the main countries.

TABLE 8.2

Alternative indicators of cyclical position

	A. Ratio of real GDP growth rate to pre-1974 average (1967-1973 average = 100)			B. Ratio of Unemployment to long-term trend, inverted (1963-1978 trend = 100)		
	EC	US	JAPAN	EC	US	JAPAN
1976	101	102	96	85	91	88
1977	98	101	95	85	106	92
1978	98	100	95	89	128	87

The quantification of the cyclical position of an economy involves many problems of interpretation, and the above table therefore presents two alternative measures. In the first the rate of economic growth in 1976 to 1978 is compared to the average rate achieved by each economy in the seven years immediately preceding the oil crisis, while the second shows whether unemployment has been above or below its long-term trend. In order to make the second measure comparable with the first, the former has been inverted, i.e. unemployment greater than its trend value, which corresponds to a low cyclical point, is represented by a value below 100. Of the two indicators, the one related to unemployment is the more volatile, but they agree in indicating that for three years now the USA has been running its economy much closer to full capacity than either the EEC or Japan; the first indicator also implies that Japan has gone deeper into recession than the Community. The cyclical position of an economy has a considerable influence on its current account balance, a high cyclical point being associated with a high propensity to import and a weaker performance in export markets by domestic producers.

(ii) The structure of the Community's balance of payments

The most constant feature of the Community's balance of payments is the substantial outflow of unrequited transfers, representing both remittances outside the Community by migrant workers and official transfers, made principally by member governments, which represent, broadly speaking the Community's grant-aid contribution to world development. Prior to the oil crisis the Community could expect to earn a sufficiently large surplus on trade in goods and services to finance the unrequited transfers and ensure a modest surplus on current account, but since 1973 the situation has been much less stable. In 1975 the re-emergence of a merchandise trade surplus was short-lived, fast economic growth in 1976 leading quickly to a renewed deterioration in that account. 1977 and 1978 have however seen the emergence of a more satisfactory position.

The balance on services has remained positive, in spite of the growing interest charges incurred by some member countries on the various forms of borrowing needed to finance their post-1973 current account deficits. This satisfactory overall performance has been due to rising net receipts from tourism and to the operations of Community financial centres, and in particular the City of London, which have acted as intermediaries for the substantial funds which OPEC countries in particular wish to keep in liquid form.

The Community is both a receiver and a exporter of direct and portfolio investment on a large scale, but in net terms these operations of the non-bank private sector have had only a secondary role in financing the Community's current account deficits. Net flows of this type have oscillated around $\pm 1-2$ bn. EUA as against gross flows of 7-8 bn. EUA in each direction. The major rôle in financing the 1974 current account deficit was played by drawings on official reserves, but the principal instrument used in 1976 and 1977 was the issue of bonds by the public sector - both central governments and public corporations. Another feature of the capital account in 1977 appears to have been a turn-round in the position of the banking sector (with a certain amount of official encouragement) from being a net lender to being a net external borrower. These net figures for the transactions

TABLE 8.3

Balance of payments of the Community 1973-78

(billion EUA)

	73	74	75	76	77	78
<u>Net balances :</u>						
Merchandise trade (fob/fob)	5,65	- 2,91	8,74	- 0,93	10	17
Services	2,79	2,08	1,54	4,85	2	4
Transfers	- 7,24	- 8,58	- 9,08	- 9,92	- 11	- 13
Current account	1,20	- 9,41	1,20	- 6,00	1	8
Capital account :						
Direct and port- folio investment	0,19	0,82	1,40	1,29	- 1	- 2
Public sector transactions	0,38	- 1,04	- 0,31	3,40	6	- 2
Other non-monetary transactions	6,07	3,20	3,41	0,13	5	6
Commercial banking operations	0,24	- 1,55	- 7,07	- 0,88	5	- 2
Errors and omissions	- 1,04	1,07	1,20	1,02	8	
Official settlements balance	- 9,12	- 6,91	- 0,17	- 1,04	24	8

Source: Eurostat, and estimates of the Commission Services for 1977 and 1978

Balance of payments definitions

of the banking sector conceal very large gross flows. Community financial institutions have been takers of additional external deposits to the extent of about 60 bn. EUA per year recently, an increase of some 30 bn. in terms of annual flows since the desire of the OPEC countries to save opened new opportunities for the financial centres of the Community. The line labelled "other non-monetary transactions" in the above table includes a wide variety of operations of the non-bank private sector, the principal constituents being trade credit, and certain operations of oil companies in the North Sea Zone.

In 1977 the emergence of the US deficit, with OPEC remaining in substantial surplus, resulted in very large international capital flows, a substantial proportion of which came into the EC, giving rise to an unprecedented increase in the Community's international reserves. Such information as is available for 1978 indicates that, as might be inferred from estimates of a much lower OPEC surplus, the rise in EC reserves has been only slightly greater than the EC current account surplus.

(iii) The positions of Member States

Denmark has suffered from a substantial current account deficit for some years now - in spite of the substantial favorable impact on that account of Denmark's inclusion in the Community's agricultural system since 1973 - and this deficit rose in 1976 to the equivalent of some 5% of GDP. The deficit is more than accounted for by merchandise trade, but a fall in the surplus on services account caused by rising debt service charges should be noted. The current account deficit has been lower in 1977 and 1978, but Denmark has nevertheless faced a substantial financing task, in which the major role has been taken by public sector bond issues; these operations were sufficiently successful in 1977 to permit an increase in official reserves.

The current account surplus of the Federal Republic of Germany rose in 1973 and has since remained high, apparently unaffected by the oil crisis : indeed, the beginning of the recession produced a record surplus in 1974. This performance has been dominated by the large surplus on merchandise trade account, which has risen again in 1978; the deficit on services has recently shown a tendency to diminish, but this has been offset by a rise in official transfers. In merchandise trade, there was little net change in the balance in volume terms between 1973 and 1977 : the oil crisis did not require any volume adjustment in the external accounts of the Federal Republic since the terms of trade, while varying strongly in given years, have overall remained virtually unchanged since 1970, in effect, the rise in value of the Deutschemark on the exchanges has enabled the rise in the dollar price of oil to be offset by a rise in the dollar price of German exports generally.

In the years before 1974 there was a strong net inflow of capital into Germany, and the world-wide demand for assets denominated in Deutschemarks was a further factor in the rise in value of the German currency. The associated purchases of reserves by the Bundesbank caused, as is well known, problems of domestic monetary management and were one of the factors leading the Federal authorities to opt for a float of the Deutschemark in 1973. The result of

TABLE 8.4

Summary balance of payments of member states 1966-78

(billion ECU)

	1966-70	1971-72	1973	1974	1975	1976	1977	1978
DK : Current account	-0,32	-0,23	-0,38	-0,77	-0,41	-1,71	-1,5	-0,9
Capital movements(1)	0,30	0,37	0,75	0,41	0,39	1,63	2,2	0,9
Official settlements balance	-0,02	0,14	0,37	-0,36	-0,02	-0,08	0,7	0,0
D : Current account	1,61	0,77	3,51	8,23	3,21	3,44	3,2	5,0
Capital movements (1)	-0,51	3,77	4,56	-8,85	-3,94	-0,32	0,7	-3,0
Official settlements balance	1,10	4,54	8,07	-0,62	-0,73	3,12	3,9	2,0
F : Current account	-0,57	0,34	-0,55	-5,01	-0,05	-5,45	-2,9	0,6
Capital movements (1)	0,17	2,07	-0,91	4,75	2,95	2,01	2,7	0,1
Official settlements balance	-0,40	2,41	-1,46	-0,26	2,90	-3,44	-0,2	0,7
IRL: Current account	-0,09	-0,15	-0,19	-0,56	-0,02	-0,24	-0,2	-0,3
Capital movements (1)	0,16	0,31	0,19	0,68	0,34	0,69	0,6	0,2
Official settlements balance	0,07	0,16	0,0	0,12	0,32	0,45	0,4	-0,1
I : Current account	1,81	1,65	-2,06	-6,72	-0,47	-2,52	2,0	4,4
Capital movements (1)	-1,71	1,44	1,89	2,86	-1,75	2,73	3,0	2,1
Official settlements balance	0,10	0,21	-0,17	-3,86	-2,22	0,21	5,0	6,5
BL : Current account	0,18	0,92	0,94	0,77	0,55	-0,29	-0,3	0,0
Capital movements (1)	-0,10	-0,41	-0,18	-0,61	-0,15	-0,24	0,2	0,2
Official settlements balance	0,08	0,51	0,76	0,16	0,40	-0,53	-0,1	0,2
NL : Current account	-0,14	0,50	1,88	1,70	1,27	2,14	0,2	-0,3
Capital movements(1)	0,30	0,04	-1,29	-0,87	-0,98	-1,91	0,1	0,3
Official settlements balance	0,16	0,54	0,59	0,83	0,29	0,23	0,3	0,0
UK : Current account	0,30	1,35	-1,95	-7,04	-2,88	-1,38	0,4	-0,4
Capital movements(1)(2)	-0,51	0,64	2,90	4,12	1,77	-0,61	12,6	-2,6
Official settlements balance	-0,21	1,99	0,95	-2,92	-1,11	-1,99	13,0	-3,0

(1): Including errors and omissions

(2) For the sake of consistency, the UK figures for capital movements include foreign currency borrowing by HM government, and the public sector under the exchange cover scheme.

Source : Eurostat and estimates of the Commission services for 1977 and 1978

that decision was that the Federal Republic became an exporter of capital on a scale corresponding to its current account surplus in 1974 and 1975; conversely, renewed intervention to prevent an excessive appreciation of the Deutschmark in 1976 and 1977 was associated with a reduction in the size of net capital transactions. Behind these modest recent net capital movements, however, lie substantial gross flows. In 1977 exports of 4.9 bn. EUA of long term capital, in which outward direct investment was very important, were offset by a favorable position in respect of trade credit and increases in the external liabilities of German financial institutions.

In 1976 France had the largest current account deficit in the Community, attributable in part to the poor harvest of that year, equal to some 2% of GDP, but since then a substantial turnround has occurred in both the volume and value of merchandise trade, which is expected to show a surplus in 1978. Further support came in 1977 from a remarkable improvement on services account, with marked gains from civil engineering and professional services. These gains are expected to be held in the current year, virtually offsetting France's large net outward transfers. The overall balance of payments benefitted in 1976 from a favorable shift in trade credit; but a major rôle had to be taken in that year by drawing on the official reserves. In 1977 the French banking system made substantial net loans and repayments to non-residents, but this activity was more than offset by external fixed-interest finance raised at long term by French companies and by unidentified capital inflow, so that there was very little use of official reserves. The favorable balance of payments position in 1978 has been used to increase those reserves.

Ireland has a substantial deficit on merchandise trade account, as is appropriate for a country in a stage of rapid economic development, and this will amount to about 10% of GNP in 1978. This deficit is very largely off-set by other current account items, in particular net official transfers from the Community, and by direct investment. Prior to 1977 the Irish government was a

borrower on a large scale through bond issues, but over the last two years a more important role has been played by net borrowing by the commercial banks. Further, net drawings have been made in 1978 on the official reserves, which had reached a very high level at the end of 1977.

Between of 1976 and 1977 Italy achieved a remarkable turn-round in its current account position, representing a nominal shift of some 2% of GDP to the external sector. While Italy's traditional surpluses on both transfer and services accounts contributed to this achievement, and in particular a rapidly growing surplus in respect of tourism, the major contribution came from the merchandise trade account, which has continued to improve and shows a substantial and unprecedented surplus for 1978. This performance is the more remarkable for the fact that Italy's terms of trade have recovered very little from the shock of the oil crisis and that this country has therefore had to achieve a substantial shift in trade volumes : export volume rose 21% from 1975 to 1977 while import volume rose 14%. The result, and particularly the slow growth of import volume, has been achieved because the economy has been in a very low cyclical position, but a situation has now been reached at which imports can be allowed to grow at the same rate as exports.

Italy was a net receiver of direct and portfolio investment on a significant scale in 1977, but this was offset by the repayment of trade credit which was taken in exceptional quantities in 1976. The most important feature of the Italian capital account in 1977 continued to be heavy net borrowing by the commercial banks, while in 1978 there have been significant net receipts of capital by the private non-bank sector. As a result of the favourable position of both current and capital accounts the Italian authorities have made large purchases of foreign currencies, which they have used both to build their reserves to record levels and repay all drawings under IMF standby Agreements, the Community's medium term financial assistance, and loans from the Deutsche Bundesbank. Community loans and borrowings under the IMF oil facility remain outstanding.

The Netherlands surplus on merchandise trade, which benefitted greatly from the effect of the post-1973 rise in energy prices on the value of natural gas exports, deteriorated markedly in 1977 as a result of a rapid increase in imports. Further, the surplus on services seems to be in secular decline, partly as a result of rising expenditure abroad by Dutch tourists. Given the continuing deficit on transfers, it would appear that the current account has moved from its traditional strong surplus into a slight deficit in 1978. Past current account surpluses were used to enable the company sector to build up substantial assets abroad; in 1977 the effect of this flow was largely offset by external bond issues made by Dutch companies. There was also a substantial inflow last year in the form of record net external borrowing by the banking system, and operations of this type in 1978 should suffice to obviate any need to draw on official reserves.

The oil crisis appears to have produced a permanent change in the structure of the balance of payments of the Belgium-Luxembourg Economic Union (B.L.E.U.). The deficit on merchandise trade which appeared in 1975 has not subsequently been eliminated, as has occurred in certain other countries; it has in fact increased each year. It has, however, been partially offset by a rapidly increasing surplus on services account, particularly net receipts of interest, profits and dividends and net receipts resulting from governmental transactions. At the same time the transfers deficit has been rising (and notably the component attributable to the government). There was a small current account deficit in 1976 and 1977 but this appears to have been eliminated in 1978. Until 1976 the B.L.E.U. was regularly in deficit on the capital transactions of the company sector, substantial inward direct investment being offset by an outflow of portfolio and real estate capital; more recently, however, the outflows associated with this sector have moderated, leaving its capital account with the external sector with a slight surplus. The banking sector was a net borrower abroad in 1977 (after three years in which it increased its net external assets) and as a result the Banque Nationale de Belgique saw its net reserves fall only slightly last year.

The United Kingdom's deficit on merchandise trade fell by some 2.9 bn.EUA between 1976 and 1977, about half of the improvement being attributable to North Sea Oil. The trade balance has however deteriorated somewhat since the end of 1977 in spite of a further improvement in the balance of trade in oil - North Sea production is expected to be the equivalent of half of the UK's consumption in 1978. The rise in the volume of imports of manufactured goods has been particularly strong this year. At one stage it was feared that North Sea Oil was leading to a current account surplus which would cause an unrealistically high exchange rate for sterling. In fact this tendency has not persisted, with an increase in the rate of economic growth effectively using North Sea Oil as a cushion to pay for the ensuing extra imports in a time of world recession. The current account has also been affected by a fall in the traditional surplus on invisible trade, prominent features of which have been higher payments of interest, profits and dividends and higher net transfers to the Community. The UK had a small surplus on current account in 1977 and is expected to show a small deficit in 1978.

The United Kingdom benefitted from an unprecedented capital inflow in 1977 associated with government bond sales to non-residents and a rise in external holdings of money-market assets. Transactions involving the U.K non-bank private sector also showed a surplus, mainly due to net receipts resulting from the operations of oil companies. This massive inflow posed problems of monetary management for the authorities and led them to allow sterling to float upwards on the exchanges in the autumn of last year. As was to be expected, some of the "hot money" received in 1977 has moved out again in 1978 while sterling has moved back to a more realistic level. UK borrowings from the IMF (since partly repaid) meant that the rise in UK gross reserves was even larger than the balance of payments for official settlement : at the end of June 1978 UK debt to the IMF was 3.2 bn US \$.

(iv) Exchange rates and competitiveness

The dominant development on the exchange markets over the past year has been the fall in value of the US dollar, whose effective exchange rate* as calculated by Commission staff depreciated 7.1% over the year to the end of

* An effective exchange rate index measures the change in value of a currency against other currencies in general. In the Commission's work the currency of each country is compared to 17 other currencies, the latter being weighted according to the competition which each of them presents to the exports of the first country in each of 24 markets.

TABLE 8.5

Recent development of effective exchange rates, price performance and competitiveness

Indices 1972 Q1 = 100	DK	D	F	IRL	I	BL	NL	UK	CH	US	JAPAN
<u>Effective Exchange Rate (1)</u> (quarterly averages)											
1977 : I	116.3	135.0	99.0	72.1	60.8	112.9	121.0	61.5	149.1	97.7	106.2
II	113.9	136.5	98.9	72.1	60.1	114.1	122.0	61.4	148.8	97.0	110.0
III	112.6	139.3	99.6	72.4	60.0	114.9	121.8	61.7	154.9	96.3	113.4
IV	110.5	142.0	98.2	73.8	58.9	115.0	121.8	63.2	166.3	93.9	120.9
YEAR	113.3	138.2	98.9	72.6	59.9	114.3	121.7	61.9	154.6	96.2	112.5
1978 : I	113.1	147.1	95.4	75.1	57.5	119.3	125.6	65.0	181.6	90.5	122.5
II	114.2	146.2	98.6	72.5	57.1	118.0	125.4	61.3	182.2	89.3	132.3
<u>Price Performance</u>											
1977 : I	102.0	78.1	92.9	122.2	164.9	87.2	86.3	139.0	75.5	98.3	98.7
II	103.4	77.2	93.5	123.2	165.8	85.6	86.5	142.1	74.2	98.7	97.1
III	102.5	76.0	94.4	124.0	166.3	84.9	86.6	145.1	73.2	99.4	94.8
IV	103.0	75.0	95.5	125.1	167.6	84.2	86.0	147.2	72.3	99.8	93.2
YEAR	102.7	76.6	94.1	123.7	166.3	85.4	86.5	143.5	73.8	99.1	95.7
1978 : I	102.5	74.2	95.9	126.4	169.2	83.2	85.5	149.5	71.1	100.4	91.3
II	102.1	73.3	97.3	127.2	170.8	82.0	84.3	150.4	69.8	101.3	90.1
<u>Competitiveness (2)</u>											
1977 : I	118.6	105.5	91.9	88.1	100.2	98.4	104.4	85.5	112.5	96.0	104.8
II	117.7	105.3	92.5	88.8	99.7	97.7	105.5	87.2	110.3	95.7	106.7
III	115.4	105.9	94.0	89.8	99.8	97.6	105.5	89.5	113.4	95.7	107.5
IV	113.8	106.5	93.8	92.3	98.7	96.8	104.7	93.0	120.3	93.7	112.7
YEAR	116.4	105.8	93.1	89.8	99.6	97.6	105.0	88.8	114.1	95.3	107.7
1978 : I	115.9	109.1	91.5	94.9	97.3	99.2	107.4	97.2	129.1	90.9	111.9
II	116.6	107.2	95.9	92.2	97.5	96.8	105.7	92.2	127.1	90.5	119.2

(1) An effective exchange rate greater than 100 indicates an appreciation

(2) A competitiveness index greater than 100 indicates relatively high international prices, therefore a deterioration in position.

Note: Indices of effective exchange rates and price performance (or relative inflation) compare, respectively, each country's own exchange rate and rate of domestic inflation - in this case based on the wholesale prices of manufactures - with the average of the corresponding indices for its main competitors. Further information about these concepts and about their relation to competitiveness appears in the text.

Source: Commission Services

August 1978, as the markets responded to an excess supply of dollars resulting both from the US current account deficit and a more general reluctance to hold that currency. The readiness of the US authorities to intervene to support their currency, and in particular the activation of their swap facilities with the Deutsche Bundesbank at the beginning of 1978, and willingness in principle to use IMF credit, have temporarily moderated, but not ended, the dollar's virtually continuous fall. Conversely the Swiss Franc appreciated very rapidly until the end of February 1978, when the authorities announced new measures limiting monetary flows into Switzerland; thereafter this currency remained reasonably stable until August 1978, when it resumed its rise, showing an appreciation of its effective exchange rate of 26% over twelve months. Over the same period the effective exchange rate of the Japanese Yen which had remained remarkably stable for several years up to the end of 1976, rose by 33% in spite of substantial intervention by the Bank of Japan which moderated its rise at the year end. These phenomena of course related to the very large current account surpluses of both Switzerland and Japan.

Coordinated intervention by the US and Federal German authorities has ensured that the effective exchange rate of the Deutschmark rose only 4.8% over the twelve months to the end of August 1978, but even this modest appreciation has on occasion posed problems for the other countries participating in the European system of limited margin of fluctuation (the "snake"). Towards the end of 1977 the Belgian franc and the Norwegian krone alternated at the lower intervention point, while in the early weeks of 1978 the pressure came exclusively on the latter currency until the Norwegian authorities devalued by 8% on 13 February. The Danish krone remained strong for some months after the realignment of August 1977.

The French franc came under pressure on the exchanges in the weeks preceding the elections for the legislative assembly, intervention by the Banque de France limiting the fall in the effective exchange rate over the 6 months to March 1978 to some 8%; since the elections that rate has returned approximately to its level of August 1977. The effective exchange rate of the pound sterling rose about 5% between the end of August 1977 and the middle of February 1978, responding to the withdrawal of the Bank of England from

the market, but since then revised opinions in the market about the likely UK balance of payments have brought the pound's effective exchange rate close to its level of mid-1977. Constant and massive purchases of foreign currency by the Italian authorities in order to improve their net reserves have prevented the lira from showing more than a moderate rise against the US \$ and the effective exchange rate of the lira has in fact fallen slightly over the twelve months to the end of August 1978.

It is of considerable importance to know to what extent recent developments on the exchange markets correspond to differing rates of inflation in the various countries. In order to do this it is necessary to measure price performance, the ratio of each country's own price index to an average index representing inflation rates among its competitors. The method used employs the same weights as those used in the calculation of effective exchange rates. The choice of price index raises problems; the figures for price performance appearing in this report are based on the wholesale prices of manufactures, in so far as they are available, in order to concentrate attention on the prices of goods entering into international trade. The concept of price performance takes no account of exchange rate changes; in order to arrive at an assessment of what has happened to the competitiveness of a country it is necessary to adjust its index of price performance by its effective exchange rate index and this has been done in the above table. If exchange rate changes completely offset changes in a country's price performance (or relative inflation), that country's index of competitiveness will remain at 100.

It emerges that the countries participating in the "snake" system have undergone little change in competitiveness recently - in all cases not more than a 2 percent change from the beginning of 1977 to the second quarter of 1978. The Federal Republic lost slightly in competitiveness while the B.L.E.U. has gained slightly. Over the whole period since the "Smithsonian" agreement Denmark ⁽¹⁾ has suffered a loss of competitiveness while the Federal Republic and the Netherlands have seen a lesser deterioration in their positions. This has reflected the willingness of the Deutsche Bundesbank to make large purchases of dollars in 1976 and 1977 and by the cooperative measures worked out to support the US dollar this year.

(1) There is some difficulty about interpreting the figures for Denmark because agricultural goods are important in the trade of that country.

Exchange rate and inflationary developments over the last few years have given both the United Kingdom and France a significant competitive advantage which has, however, been somewhat eroded in 1977 and the present year. The interventions of the Italian authorities have contributed to a small gain in competitiveness by their country.

The most striking figures are, however, those relating to the major non-Community countries. US inflation, as measured by the wholesale prices of industrial products, has not been worse than inflation similarly measured among its competitors; no depreciation of the US currency has been called for by US price performance and exchange market developments of the last twelve months have therefore markedly improved the US competitive position. Analogous estimates based on unit labour costs suggest an even greater US advantage. At the same time Switzerland and Japan, in spite of recently showing very low rates of inflation, have suffered very large losses of competitiveness.

The international financial system has thus been characterised for over a year by large exchange rate changes and significant changes in competitiveness which have not yet rectified current account imbalances within the OECD area, or even altered their trend. This may occur in time, but meanwhile differences in relative cyclical positions appear to be the major explanation of intra-OECD imbalances.

9. Structural changes before and since the oil crisis of 1973

(i) Structural change in demand and production between 1960 and 1973

The structural change which the European economies underwent in the period before the 1973 crisis closely reflected the conditions of the period : rapid growth, near-full employment, heavy foreign investment in Europe, low energy and raw materials prices, a virtual monopoly, shared with the United States and Japan, of trade in manufactures, and relative price and exchange rate stability. Market forces, supported by overall demand management policies, generally supplied by themselves to ensure the changes needed.

The countries of the old Community of the Six, given this context, were all able to develop their economies and adapt their structures to the requirements of economic change, without major adjustment difficulties. But growth in the United Kingdom was slower and the slowdown of activity in the industries in which the United Kingdom had traditionally been powerful was not offset by rapid growth of enough replacement industries.

None the less, the main features of the adaptation process are common to all the countries, differing only in scale.

Economic growth was rapid and relatively smooth in these countries and final demand structures changed along corresponding lines : the share of investment increased, the share accounted for by private consumer's expenditure contracted, and public consumption increased in terms of value. The sharp increase in personal incomes brought with it a harmonization, in relative terms, of the structures of household consumption, a smaller share being devoted to food and current consumption goods in general, with more being spent on durable goods and on services.

As the patterns of demand in the various countries tended to come into line, production structures also began to acquire a family resemblance. The establishment of the common market did not lead - at any rate, not at the level of the main sectors of the economy - to specialization, but in fact to relative harmonization, since each country tended to diversify and build up its industrial sector, so that its structure came gradually closer into line with those of Germany and of the United Kingdom.

However, while both these countries possessed very extensive industrial facilities at the beginning of the period, with heavy exports, only Germany pressed forward adaptation, moving away from traditional industries to gain a strong foothold in sophisticated technology industries, with high added value, enabling it to go on earning a heavy surplus on foreign trade even when oil prices had been quadrupled.

Examination of the high-growth industries reveals a number of industries common to all the countries - chemicals and derived products, oil products, energy industries other than coal, electrical and electronic equipment - although their growth rates were different and are more closely related to the overall growth rates of the domestic economy than to the growth rates of the same industries in the other countries (see Tables 9.1 and 9.2).

To this common list of growth industries must be added in each case one or more industries in which the country concerned was lagging behind, in relative terms, at the beginning of the period. Examples are steel in Italy and in the Netherlands, agricultural and industrial machinery in France, motor manufacturing in the Netherlands, equipment industries generally in Belgium, construction of means of transport (other than motor vehicles) in Germany.

The declining industries are much the same in all the countries : agriculture, coal-mining, and textiles-clothing (Italy is a special case, since in this country textiles enjoyed a sound growth rate and remains an important industry).

Another aspect of the convergence of the various economies is the fact that in Germany and in the United Kingdom industries in respect of which the country enjoyed a privileged position at the beginning of the period (agricultural and industrial machinery in Germany, construction of means of transport other than motor vehicles in the United Kingdom) are now among the low-growth industries.

The first conclusion that can be drawn from this tendency for the economies to converge is that the countries of Europe generally tended to follow the same logic of development. They accepted (though some moved faster than others) the replacement of coal by oil and gas, and production processes run on more capitalistic lines, entailing the more rapid development of industries producing capital goods; those industries employing relatively large amounts of capital and with high technology grew rapidly whilst those with a low added value per person employed tended to decline.

Table 9.1

Relative shares of value added by industry and branch 1960-1973 - 1970 prices

(%)

N ^o	BRANCHES	D		F		I		UK (1)		NL		B	
		60	73	60	73	60	73	60	73	60	73	60	73
1	Agricultural products	4.1	3.1	8.9	5.6	12.3	7.8	2.8	2.9	7.5	6.1	7.8	3.7
2	Energy products	5.0	4.9	5.5	6.6	4.6	6.1	5.0	4.6	3.8	6.2	4.5	6.2
21	of which : Solid fuels	2.1	0.9	1.1	0.3	-	-	2.6	1.1	1.3	0.2	2.0	0.4
22	Crude petroleum, refined gas	0.9	1.5	2.9	4.1	-	-	0.2	0.3	1.3	3.3	1.5	2.8
23	Electricity, gas, water	2.0	2.5	1.5	2.2	-	-	2.2	3.2	1.2	2.6	1.5	3.0
3	Intermediate products	7.2	8.8	6.1	7.3	5.2	7.2	5.4	6.3	4.5	6.8	6.5	9.8
31	of which : Metal products	2.5	2.4	2.6	2.3	1.5	2.2	2.4	1.8	1.3	1.5	2.9	4.1
32	Minerals, building material	2.2	2.2	1.5	2.2	2.0	2.1	1.3	1.6	1.6	1.5	1.6	2.3
33	Chemicals products	2.4	4.2	2.0	3.0	1.7	2.9	1.8	2.8	1.7	3.8	1.5	3.3
4	Equipment products	16.4	16.9	9.1	12.9	6.3	8.0	12.9	13.1	9.0	9.6	5.7	9.3
41	of which : Metal products	4.4	3.7	2.2	2.6	5.1	6.0	2.7	2.3	-	-	1.5	2.5
42	Agric. and industr. machinery	5.5	4.6	2.9	4.1			3.5	3.8	-	-	-	-
43	Prec. instr. data proces. equip.	0.4	0.9	0.6	0.9	1.2	2.0	0.5	0.9	-	-	0.1	0.1
44	Electrical equipment	2.9	3.9	1.5	2.4			2.0	2.7	2.4	3.4	1.4	2.4
45	Motor vehicles	2.7	3.3	1.5	2.6	2.0	2.7	1.4	1.7	0.4	0.5	0.7	1.4
46	Other means of transport	0.5	0.5	0.4	0.5			2.7	1.7	-	-	-	-
5	Food, drink, tobacco	5.6	5.5	5.5	4.7	4.3	4.6	3.1	3.2	5.7	5.1	5.8	5.3
6	Current consumption products	9.0	8.6	8.6	8.1	7.7	8.5	8.1	8.0	7.1	6.1	7.6	8.1
61	of which : Text. leather, cloth.	4.3	3.2	4.1	3.3	3.8	4.0	3.5	3.0	3.1	2.0	4.4	3.6
62	Paper, printed material	2.6	2.7	2.2	2.1	1.4	1.5	2.7	2.7	2.1	2.3	1.6	1.7
63	Rubber, plastics	0.7	1.2	0.8	0.9	2.4	3.0	0.6	1.0	0.4	0.6	0.3	0.9
64	Other industrial products	1.4	1.5	1.5	1.9			1.3	1.4	1.5	1.3	1.3	1.3
	Tot. manufacturing industry (2)	38.2	39.8	29.4	33.1	23.4	28.4	29.6	30.6	26.3	27.7	25.7	32.4
7	Building and civil engineering	8.2	8.2	8.4	9.6	10.4	7.5	6.6	6.8	6.9	7.4	8.4	7.6
81	Transport services	4.0	3.6	4.0	3.7	5.7	6.2	7.2	6.9	8.2	8.0	6.2	6.0
82	Communication services	1.4	1.8	1.2	1.6								
83	Trade services	13.0	12.4	11.1	11.6	10.4	12.0	11.1	11.2	12.12	13.7	14.5	12.4
	Other market services	16.6	16.7	18.9	19.1	19.0	21.5	19.8	21.4	22.3	18.0	21.3	19.2
84	of which : Credit, insurance	2.3	3.0	-	-	3.3	4.0	4.3	5.5	4.0	3.4	-	-
85	Hotel, accomm. catering	1.7	1.2	3.3	2.9	1.6	1.7	2.3	1.9	1.4	1.2	-	-
86	Other market services n.e.c.	-	-	-	-	-	-	-	-	-	-	-	-
8	Total market services	35.0	34.6	35.2	36.0	35.0	39.7	39.9	42.0	42.6	39.7	43.3	39.9
9	Non-market services	9.6	9.6	12.7	9.1	14.2	10.5	16.1	13.1	12.9	12.9	9.8	11.1
	TOTAL SERVICES	44.5	44.1	47.9	45.1	49.3	50.2	56.0	55.1	55.5	52.6	53.2	50.1
	TOTAL	100	100	100	100	100	100	100	100	100	100	100	100

Source : report of the Group of Experts on sectoral analyses, "Sectoral change in the European economies from 1960 to the recession", Brussels, January 1978 (available on request).

(1) United Kingdom : value added at factor cost (other countries at market prices)

(2) Industries 3, 4, 5, 6.

Table 9.2

Relative shares of value-added by industry and branch 1960-1973 - at current prices

No	BRANCHES	(%)											
		D		F		I		UK (1)		NL		B	
		60	73	60	73	60	73	60	73	60	73	60	73
1	Agricultural products	5.4	3.0	9.2	5.9	14.1	8.1	4.0	2.9	8.6	5.8	6.9	3.6
2	Energy products	6.0	4.6	7.0	6.2	5.3	5.3	5.5	4.5	5.5	6.1	7.2	5.6
21	of which : Solid fuels	2.3	0.9	1.2	0.4	-	-	2.7	1.2	1.3	0.2	2.7	0.4
22	Crude petroleum, refined gas	1.3	1.2	3.9	3.8	-	-	0.2	0.2	2.1	3.5	2.2	2.5
23	Electricity, gas, water	2.4	2.4	2.9	2.0	-	-	2.5	3.0	2.3	2.5	2.4	2.7
3	Intermediate products	8.6	7.8	7.6	7.3	7.0	6.8	7.4	5.6	5.2	6.5	7.1	8.3
31	of which : Ores, iron and steel	2.8	2.1	3.1	2.5	2.1	2.0	2.7	1.7	1.4	1.4	2.0	3.5
32	Minerals, building material	2.3	2.1	1.7	1.9	2.4	2.0	1.7	1.5	1.5	1.5	2.5	2.1
33	Chemicals products	3.5	3.5	2.8	2.9	2.5	2.8	2.9	2.5	2.3	3.7	1.7	2.7
4	Equipment products	15.8	16.0	11.3	12.4	6.6	8.5	14.4	12.9	10.3	9.2	6.6	7.9
41	of which : Metal products	4.7	3.5	2.5	2.5	-	-	2.9	2.2	-	-	1.7	2.1
42	Agric. and industr. machinery	4.8	4.3	3.4	4.0	-	-	3.6	3.7	-	-	2.1	1.9
43	Prec. instr., data proces. equip.	0.4	0.8	0.6	0.8	4.8	6.3	0.6	0.8	-	-	0.7	0.1
44	Electrical equipment	3.2	3.9	1.9	2.2	-	-	2.6	2.4	3.6	3.2	1.7	2.0
45	Motor vehicles	2.3	3.0	2.1	2.5	-	-	1.7	1.7	0.5	0.5	0.5	1.2
46	Other means of transport	0.4	0.5	0.6	0.5	1.8	2.2	2.8	2.0	-	-	0.9	0.6
5	Food, drink, tobacco	6.7	4.9	5.9	4.7	5.9	4.1	3.5	3.1	7.4	5.2	7.6	4.5
6	Current consumption products	9.2	8.0	9.4	8.5	8.4	8.9	8.5	7.5	9.0	6.0	7.9	7.4
61	of which : Text. leather, cloth.	4.3	2.9	4.7	3.3	4.5	4.4	4.0	2.7	4.1	1.8	4.6	3.3
62	Paper, printed material	2.4	2.7	2.1	2.4	1.4	1.5	2.6	2.7	2.7	2.3	1.5	1.7
63	Rubber, plastics	1.0	1.0	1.0	0.9	-	-	0.6	0.9	0.7	0.5	0.3	0.8
64	Other industrial products	1.5	1.3	1.6	2.0	2.5	3.0	1.3	1.3	1.5	1.4	1.4	1.7
	Total manufacturing industry(2)	40.3	36.7	34.2	32.9	28.0	28.3	33.7	29.0	31.8	27.0	29.2	28.1
7	Building and civil engineering	7.5	8.4	7.8	9.6	7.6	7.8	6.3	7.6	7.0	7.8	6.5	7.4
81	Transport services	4.6	3.6	3.9	3.4	5.1	5.4	7.2	6.9	8.6	7.4	5.6	6.7
82	Communication services	1.5	1.9	1.3	1.6	-	-	1.9	2.5	-	-	1.3	1.4
83	Trade services	13.7	12.6	13.0	11.6	12.1	11.2	13.0	11.3	27.4	31.6	17.2	17.6
	Other market services	13.5	18.2	14.5	19.2	16.4	22.6	17.1	20.9	-	-	21.4	16.3
84	of which : Credit, insurance	2.3	1.9	-	-	3.0	4.7	3.9	5.7	2.9	4.1	-	-
85	Hotels, accomm. catering	1.4	1.3	2.7	2.9	1.6	1.7	1.9	1.9	1.2	1.0	-	-
86	Other market services n.e.c.	-	-	-	-	-	-	-	-	-	-	-	-
8	Total market services	33.3	36.3	32.7	35.7	34.6	39.1	39.2	41.6	36.2	39.3	40.4	43.9
9	Non-market services	7.5	11.0	9.1	9.7	10.5	11.4	11.3	14.4	10.7	14.0	9.8	11.5
	Total services	40.9	47.4	41.8	45.4	45.1	50.5	50.4	56.1	46.9	53.3	50.2	55.3
	TOTAL	100	100	100	100	100	100	100	100	100	100	100	100

Source : cf. Table 9.1

(1) United Kingdom : value added at factor cost (other countries at market prices)

(2) Industries 3, 4, 5, 6.

The pattern of convergence also shows that no country ignored deliberately and completely the development of fundamental industries - for example in the interests of its own industry, domestic consumption or exports - by leaving to apparently better placed countries a monopoly of development of certain activities : Italy and the Netherlands acquired steel industries, Belgium and France built up their equipment industries, and Germany and the United Kingdom developed powerful food production and processing industries.

However, the salient feature of the convergent movement of the patterns of the economies is the build-up of trade, in the first instance trade with other Community countries, and then with all other countries, since the Community gradually reduced its tariffs to reach a point at which it is now probably the world's least protected economic area.

The dismantlement of barriers to trade undoubtedly had a generally favourable impact, since per capita income grew at a spectacular rate throughout the Community and was all the more rapid, the faster the growth of trade. The country whose trade grew least fast - the United Kingdom - was also the country which came last in the growth table and last in the income expansion table.

The opening up of economies to trade exercised on the principal sectors engaged in trade a constraint of competitiveness which limited the growth of costs of production. The rate of inflation progressed less rapidly in industry in general and in those sectors most open to trade in particular. This low rate of inflation was made possible by a constant rationalisation which thus implies a rapid growth in labour productivity. Faced with this constraint, the creation of employment in industry could only be achieved in those sectors in which expansion was sufficiently rapid to ensure at the same time large gains in productivity and a growth in employment. Meanwhile the balance of the creation of employment in industry between 1960 and 1973 was weak and almost zero for some countries, with an overall deterioration since 1970 (except in France and Italy). As shown in Table 9.7 the share of employment in manufacturing industry has remained stable in the majority of countries with the exception of the UK where it registered a net decline.

The other key feature of change in the European economies is the growing share accounted for by services industries, both in respect of numbers employed (cf. Table 9.7) and in terms of added value. As Table 9.2 shows (changes in added value at current prices), by 1973 services accounted for between 45 and 55% of overall added value in the various Member States, compared with 40 to 45% in 1960, although this advance is partly accounted for by faster price increases in the services sector than in the rest of the economy. The vigorous expansion of this sector, a feature of all industrialized countries, is apparently a necessary concomitant of rapid economic expansion : both the growing demand for market and collective services by households and the expansion in the supply of public services were possible because of the steady improvement in individual and collective incomes generated by growth.

At the same time, industrial development was accompanied by increased consumption by firms of services connected with the development of production techniques (R&D, consultant engineering), management techniques (data processing, financial services), and sales techniques (advertising, market research, etc.).

Services grew all the faster because the supply of production factors was ample. Both capital and labour were strongly attracted to these industries. Investment grew in them at a rate higher than that in the economy as a whole and these industries took more than their share of increase in the labour force, especially the increase in the number of women at work.

Lastly, the outstanding feature of developments between 1960 and 1973 in the production facilities of the European countries is the rapid growth of productive capital. Although no accurate measurement, homogeneous from country to country, of capital/labour substitution has yet been carried out, it is reasonable to take the view that at the level of the economy as a whole, capital replaced labour on a large scale (an increase of from 4 to 6% according to country in the capital per person employed). At the level of individual industries, the capitalization process generally involved a decline in employment in declining industries (agriculture, coal-mining, textiles) but set job creation in growth industries like chemicals and certain market services, but also in building and construction. In the rest of the economy, the substitution rate was lower or below average.

(ii) Structural change in demand and production since 1973

The 1973-76 period was one of flagging growth throughout the industrial economies, of declining world trade, of sharp increases in energy costs, of a marked decline in the investment rate, and of persisting inflation in several countries; it was also one during which many industries ran into exceptionally serious difficulties. Those hardest hit included steel, certain branches of textiles, shipbuilding, and paper and printed material, whilst building and construction, which had already been declining in relative terms in several countries even before the crisis, suffered severe setbacks in all the countries.

These are all important industries from the points of view of production and employment, and there is no doubt that the problems they had to contend with helped to aggravate the general crisis besetting the European economies. The combined impact of developments having little or no relation to each other, such as population trends in Europe (helping to reduce the demand for new building), the need to contain public sector deficits in several member countries (which tended to inhibit the expansion of public investment), new competition from countries undergoing rapid industrialization, and the renewed competitive vigour of the Community's main trading partners (United States and particularly Japan) exerted a depressive effect on all the European economies which tended to aggravate the general climate of crisis.

But the accumulation of sectoral difficulties only in part accounts for the recession. This is true in the first place because many of these difficulties were in fact the result of flagging demand and would therefore be tempered or disappear altogether with a recovery; secondly, the decline or actual disappearance of industries is a phenomenon inherent in the growth process.

In the approach adopted in this study (carried out at the level of about 20 branches for the whole economy), no single industry was "spared" by the crisis. Although some industrial sectors made good during the short recovery of 1976, some of the production losses suffered in preceding years, those which were able to keep up to the long-term growth rate recorded between 1960 and 1973 were few in number (see Table 9.3).

Slower growth meant narrower disparities between the growth rates for the various industries. Thus, the process of steady change in the structure of the production facilities resulting from widely differing growth rates during the ten years preceding the crisis slowed down sharply, and the pace at which the industrial structures of the European economies were tending to come into line therefore also slowed down.

Within manufacturing industry, the hierarchy of industries arranged according to growth rates also changed appreciably. For example, the food industries sector, whose performance was only average or poor during the 1960-73 period, moved to the top of the growth table in most countries during the recession. On the other hand, the performance of certain industries producing primary products, such as chemicals, whose previous growth had been rapid, was now only average or even below average.

Table 9.3

Annual rates of growth of value-added by sector (1970-prices)

(%)

	D			F			I			UK			NL			B		
	60/73	70/73	73/76	60/73	70/73	73/76	60/73	70/73	73/76	60/73	70/73	73/76	60/73	70/73	73/76	60/73	70/73	73/76
	1. Agric. prod.	1.4	3.8	-1.9	1.9	1.9	-4.4	1.9	-0.1	0.6	2.7	3.5	-3.1	3.0	4.9	1.8	1.2	3.1
2. Energy prod.	4.2	5.3	-0.6	7.4	7.5	3.8	7.5	5.4	0.6	1.9	3.3	0.9	10.2	12.5	5.5	6.3	10.8	3.6
3. Interim. prod.	6.0	5.7	0.6	7.0	8.0	0.4	8.0	6.5	3.1	4.1	4.7	-1.9	9.1	8.1	1.4	8.2	8.1	-1.7
4. Equipment prod.	4.3	2.6	1.7	8.6	7.0	5.0	7.0	3.1	1.6	2.6	2.2	-2.4	5.5	3.8	1.9	6.3	8.6	4.7
6. General con. products	4.1	4.3	0.7	5.2	6.2	1.3	6.2	5.5	2.8	2.4	4.4	-3.6	3.9	1.1	-1.1	5.3	7.8	0.4
5. Food products	4.4	3.5	3.7	4.4	6.3	5.6	6.3	4.9	3.2	2.6	2.9	0.5	4.4	4.7	2.8	4.6	4.5	2.7
Total manufact. industry (1)	4.8	3.8	1.5	6.6	6.9	3.3	6.9	5.0	2.6	2.9	3.4	-2.6	5.6	4.5	1.4	6.8	7.6	1.5
7. Building con., civil eng.	4.4	4.6	-4.2	6.8	2.7	2.1	2.7	-0.3	-2.2	2.6	2.2	-5.9	4.9	1.0	-2.1	3.2	2.8	3.4
8. Market services	4.3	3.3	2.0	5.9	6.2	3.4	6.2	4.5	2.8	3.0	4.2	0.7	4.6	4.5	3.5	3.5	4.4	2.8
9. Non-Market serv.	4.4	4.2	2.8	3.0	2.8	2.8	2.8	3.6	2.5	0.7	2.3	2.7	4.7	2.6	2.7	5.1	5.2	3.2
Total	4.4	3.9	1.1	5.7	5.3	2.8	5.3	3.8	2.0	2.6	3.5	-0.5	5.1	4.5	2.5	4.7	5.7	2.2

Source: For 1960/73, cf. table 9.1

For 1970/73 and 1973/76, EUROSTAT, national accounts, ESA 1970-1976.

(1) Industries : 3, 4, 5, 6.

The main features of demand from firms were a slowdown in their consumption of intermediate products, more cautious policies with regard to stocks, and a sharp fall in investment. This was bound to lead to a very poor performance by capital goods industries and inhibit the growth of output of intermediate goods.

Conversely, the maintenance of an appreciable rate of growth of private consumption (in some countries, higher than that of GDP) should have helped industries producing goods for current consumption, as it helped the agri-foodstuffs industries. Given the influence of both external demand and competition from non-member countries, however, these industries performed in almost exactly the opposite manner.

In all member countries, the current consumption goods industries were amongst those worst affected. Internal causes were partly responsible: the firms in these industries were financially more vulnerable, were generally less concentrated and were more affected by the general contraction of markets; there was a continued tendency for private consumption to favour durable goods (motor vehicles, household equipment, etc.), which are classified in the equipment products industries. However, external competition also aggravated the position of many industries by reducing their shares of the European market and more especially of external markets, thus keeping prices down and preventing firms from correcting, through price increases (which had been possible in the motor vehicle industry) financial positions compromised by weak demand.

The intermediate products industries - steel, chemicals, building materials, etc. - were amongst those hardest hit by the recession. Here again, internal factors alone cannot account for what happened: it was expected that, following a period of adaptation during which existing stocks were used up by firms, the growth of the intermediate products industries would catch up with that of the economy generally (or at least of the manufacturing sector). In fact, this happened in only one country, Italy.

The explanation lies in the trend of external trade in these products. Whereas in the past, the European countries' exports of intermediate products had tended to expand at a rate well above the rate of growth of world trade, their export performance was much weaker between 1973 and 1976. During the same period, their imports increased at a rate almost equal to that of world trade. Italy, which achieved the best rates of growth in these industries, owed this mainly to its export successes (particularly in the steel industry) and to a much lower import elasticity than that of its partner countries (see Table 9.4).

Table 9.4

Growth of foreign trade 1973-1976 (in current \$)

(%)

	World trade *	D		F		I		UK		N		B	
		Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.	Imp.	Exp.
Agricultural prod.	10,4	9,9	8,6	13,2	6,6	4,7	14,3	8,9	6,8	14,9	17,7	15,0	14,9
Food	10,1	10,8	16,3	11,3	9,4	7,1	14,6	3,4	13,7	16,4	14,6	15,5	12,0
Intermediate prod.	14,2	13,0	13,3	14,2	14,3	11,7	19,7	11,7	11,5	16,4	17,3	13,7	9,4
of which :													
ores, iron, steel	10,9	9,7	11,0	12,1	14,2	9,2	26,9	11,4	6,1	11,4	12,4	10,4	3,5
chemical products	17,2	18,7	14,7	16,5	15,1	15,0	17,2	16,1	17,1	18,3	18,5	18,3	18,5
Equipment prod.	19,1	17,3	15,1	16,4	22,1	12,0	18,9	12,2	15,6	15,1	19,8	14,7	18,3
of which : motor veh.	19,5	18,2	14,3	22,9	19,9	17,7	19,4	15,1	13,8	19,5	22,7	18,3	19,2
electrical and electronic equipment	20,3	17,2	15,8	19,1	22,0	11,9	16,7	5,5	21,3	17,2	18,9	14,4	17,4
Current consumption products	13,0	14,2	14,4	17,6	9,0	9,4	17,8	8,0	12,5	17,0	10,9	14,8	9,2
of which : textiles, clothing	10,5	13,5	11,9	16,1	5,4	8,8	14,4	8,8	8,6	16,5	8,0	12,5	8,0

* The sum of the total exports of OECD countries + the sum of the imports of these countries from non-OECD countries
 Source : OECD, external trade statistics.

On the other hand, the equipment products industries (capital goods and private consumer durables) were least affected by the crisis. Although their rate of growth fell appreciably compared with earlier trends, it remained in each country above that of the economy or industry as a whole. This can be explained only in part by the continuing satisfactory rate of purchases of durable goods by households or by the policies adopted in some countries to boost investment. The main reason was the sharp growth of external demand for capital goods - growth which was maintained for the whole of the Community (extra-Community exports) at about 19.5% per annum in value terms between 1973 and 1976. As trade in capital goods between industrialized countries had been adversely affected by the slow-down in national rates of investment, it was orders from a number of developing countries, from the USSR (increasing by 35% per annum since 1973) and especially from OPEC countries (increasing by 58%) which accounted for this Community export performance. Most European countries especially France and the Benelux countries (see Table 9.4) shared fully in the export boom. However, the trend was less favourable in the Federal Republic of Germany and the United Kingdom, which, while maintaining substantial surpluses on trade in these products, forfeited part of their shares of the world market (their exports growing at an annual rate of 15.1% and 15.6% respectively, compared with 19.1% for world trade), while imports made substantial progress on their domestic markets (Tables 9.5 and 9.6).

In these two countries, external demand therefore compensated only slightly for the depressive effect of the fall in business investment. Germany and the United Kingdom therefore fared worst of the six major European countries in terms of the growth of their equipment products industries and of their economies generally; however, Germany remained on a par with the United States as the leading world exporter.

Table 9.5

Levels of import penetration in industry (imports/production + imports-exports) (%)

	D			F			I			UK			N		
	1970	1973	1976	1970	1973	1976	1970	1973	1976	1970	1973	1976	1970	1973	1976
	Intermediate products	16.2	15.1	18.1	21.4	22.2	25.0	24.9	25.0	-	24.9	27.1	28.7	-	-
Equipment products	12.5	13.6	18.3	16.2	18.2	21.0	22.1	23.6	-	14.8	22.3	26.1	-	-	-
Current consumption products	11.3	13.6	16.4	11.5	13.7	16.8	10.8	11.6	-	17.4	19.9	21.9	-	-	-
Food	9.0	9.7	10.6	8.8	10.1	10.7	10.4	15.6	-	15.6	17.0	14.7	18.1	17.8	24.9
Total industry	12.7	13.3	16.3	14.8	16.4	18.9	17.1	18.8	17.9	17.9	21.5	23.0	43.3	42.4	53.7

Table 9.6.

Proportion of production exported in industry (exports/production) (%)

	D			F			I			UK			N		
	1970	1973	1976	1970	1973	1976	1970	1973	1976	1970	1973	1976	1970	1973	1976
	Intermediate products	18.3	19.9	23.8	20.5	20.9	23.7	15.5	18.1	-	23.5	28.0	29.6	-	-
Equipment products	28.1	32.0	38.8	18.5	20.3	26.1	31.0	22.9	-	27.2	29.1	35.6	-	-	-
Current consumption products	8.4	10.0	12.2	11.9	13.9	14.0	18.2	17.1	-	13.6	12.6	15.5	-	-	-
Food	2.8	4.5	5.7	8.4	11.5	11.5	3.9	4.9	-	5.6	6.6	10.3	30.1	28.8	37.1
Total industry	17.0	19.3	23.4	15.4	17.2	20.1	18.1	15.8	20.9	19.0	20.3	23.7	40.0	42.8	54.4

Source : OECD external trade statistics; national sources and Commission staff estimates.

Note : Production is defined here as : value added plus intermediate consumption.

The analysis of the overall trend of the market services sector does not show any special features during the period 1973-76. Demand for market services is made up largely of intermediate consumption by firms and of final consumption of households. Despite a long-term shift in the pattern of household consumption towards services, the overall growth of the sector remains fairly closely related to that of industrial output. An analysis of the period 1973-76 confirms this close relationship, since in most countries the growth of market services was very close to that of these two aggregated. The trend towards the "tertiarization" of the economy was therefore not more pronounced during the recession than before.

In the case of non-market services, the changes in volume terms are not easily interpreted owing to the conventional method of estimating them (this sector is also dealt with in chapter 6). However, except, perhaps, in the United Kingdom, their rate of growth does not appear to have been much higher than that of GDP. The non-market services sector therefore played only a modest anti-cyclical role in the recession, at least until 1976.

(iii) Structural change in employment and labour productivity since 1973

The generally very unfavourable employment trend and the resultant unemployment have been the most serious aspects of the recession. Table 9.7 pinpoints two main factors - both linked to the slowdown in growth - which have contributed to the general increase in the number of unemployed: the reduction in the numbers employed in industry and in building and construction and the sharp deceleration in the rate of growth of jobs in the tertiary sector. Although it has caught the public eye much less than the situation in industry, the slowdown in the growth of jobs in the tertiary sector has had at least as marked a quantitative impact on the disequilibrium of employment generally. The unfavourable employment trends which were already discernible before the recession were thus accentuated during the period 1973-76. Since the very beginning of the 1970s, only the tertiary sector had been a net creator of jobs in the Community as a whole. Despite the remarkable growth of manufacturing industry during the period 1970-73, the number of jobs in this sector was already declining (except in Italy and France where the rate of growth of GDP was sharpest).

During the recession, the number of jobs in industry had to be adjusted, with time-lags and to varying extents according to country and industry, to the downward trend of production. The redundancies were heaviest - and came most rapidly - in Germany, where the number of wage- and salary-earners in industry fell very sharply (by 3.7% per annum between 1973 and 1976) and where labour productivity (measured by the value added per employee) not only did not slacken, but actually increased at a sharper rate than in previous years (see Table 9.8). A similar movement was observed in Belgium and the Netherlands, where productivity in industry forged ahead (at a rate of between $4\frac{1}{2}$ % and 5% per annum), entailing heavy losses of jobs (3.7% and 1.6% respectively). Owing to a still fairly rapid growth of industry in France, the productivity performance there remained fairly good (4.3% per annum), with relatively few job losses (1% per annum), whereas in the United Kingdom employment and labour productivity fell (by 2.5% and 0.1% per annum respectively). In Italy, however, the position was the opposite of that in Germany: with an almost identical rate of growth in industry, the number of jobs continued to increase, while labour productivity fell.

Table 9.7. Annual rates of growth of employment by sector (%)

	D			F			I			UK			N			B		
	60/73	70/73	73/76	60/73	70/73	73/76	60/73	70/73	73/76	60/73	70/73	73/76	60/73	70/73	73/76	60/73	70/73	73/76
	1. Agricultural products	-4.6	-3.9	-2.1	-3.9	-4.2	-4.0	-3.6	-3.0	-2.8	-3.1	-2.1	-1.5	-3.1	-2.1	-1.5	-5.8	-6.1
2. Energy products	-3.0	-2.5	1.4	-1.0	-2.3	-0.5	-3.4	-4.7	3.5	-3.7	-2.9	-0.7	-3.7	-2.9	-3.2	-5.6	-2.8	-3.1
3. Intermediate products	-0.3	-0.9	-3.2	0.8	0.9	-0.7	-0.6	-2.5	1.8	1.8	:	-2.2	1.8	:	-0.1	-1.1	-1.7	
4. Equipment products	1.3	-0.1	-3.4	2.2	2.2	0.0	-0.2	-2.4	1.7	1.0	:	-2.3	1.0	:	2.2	1.2	-1.8	
6. Current consumption products	-1.2	-1.6	-5.3	-0.1	0.2	-2.5	-1.0	-1.6	0.0	-1.7	-4.8	-3.1	-1.7	-4.8	-5.2	-0.1	-0.4	-5.3
5. Food	-0.2	-1.0	-2.0	-0.2	0.0	-0.6	-0.2	-1.6	0.1	-0.5	-1.3	-1.8	-0.5	-1.3	-2.8	-0.9	-1.1	-2.8
Total manufacturing industry	0.3	-0.7	-3.7	0.6	1.1	-1.0	0.1	-2.1	0.8	0.9	-2.1	-2.5	0.9	-2.1	-2.6	-0.7	-0.1	-3.1
7. Building and civil engineering	0.3	-0.2	-7.4	1.8	-0.4	-2.0	-0.7	3.3	-1.3	1.4	-2.2	-3.4	1.4	-2.2	-2.5	1.2	-1.5	1.3
8. Market services	0.9	+1.6	-0.7	2.9	2.6	1.7	1.4	1.1	2.4	2.4	1.5	-0.3	2.4	1.5	1.0	1.1	2.5	1.5
9. Non-market services	2.5	3.2	2.3	2.1	2.1	1.2	1.6	2.7	2.3	1.2	1.8	3.0	1.2	1.8	1.7	2.4	1.9	1.2
TOTAL	0	.6	-1.9	0.9	0.9	-0.1	0.2	0.3	0.8	0.9	-0.1	-0.4	0.9	-0.1	-0.3	0.7	0.7	-0.2

Source : cf. table 9.3.

(1) : branches 3, 4, 5, 6.

: Data not available.

Structural factors, such as the varying mobility of labour or the capacity for adapting the industrial apparatus, certainly contributed to these great differences in the adjustment of industrial employment. Assessments of the scale of the crisis and expectations regarding recovery probably varied from one country to the next. However, the revaluation of the German, Belgian and Dutch currencies undoubtedly acted as a constraint on industry in these countries and as an incentive to managements to seek a high rate of labour productivity, so that employment necessarily suffered.

The retention of labour was most marked in the intermediate products sector, particularly in the ores and steel branch. In all European countries, output fell so sharply that, in spite of heavy redundancies, productivity per employee marked time or increased very slowly. In most countries, therefore, there were extensive reserves of productivity available in these industries at the end of 1976.

Conversely, in the branches producing goods for current consumption, employment levels were adjusted very rapidly and labour productivity maintained a good rate of increase, especially in Germany and Belgium. These differences of behaviour must be attributed to the varying sizes of firms in the various industries. In the intermediate products industries, more dominated than others by large firms, the opportunities for borrowing or for attracting subsidies enabled managements (frequently backed by the authorities and under pressure from the unions, which tend to be relatively stronger in big firms) to hoard labour they might otherwise have shed. There was less room for manoeuvre in the consumer industries, where there are many more small firms, which had either to rationalize or go out of business altogether.

Table 9.8
Annual rates of growth of value added per person employed by industry (1970 prices)
(%)

	D		F		I		UK		N		B				
	60/73	70/73	70/73	73/76	60/73	70/73	60/73	70/73	60/73	70/73	60/73	70/73			
1 Agricultural products	6.3	7.9	0.3	-0.4	6.9	4.0	3.5	6.9	6.7	6.2	7.1	3.4	5.3	9.8	-3.7
2 Energy products	7.5	8.0	-2.0	4.4	4.4	6.0	-2.8	5.5	8.4	14.4	15.8	9.0	17.8	13.9	6.9
3 Intermediate products	6.2	6.7	4.0	1.1	6.8	6.2	1.3	3.8	7.3	7.3	:	:	7.7	9.3	0.0
4 Equipment products	3.3	2.7	5.3	5.0	3.2	1.2	-0.1	2.5	4.7	4.6	:	:	6.7	7.3	6.6
6 Current consumption products	5.0	6.0	6.4	3.8	5.8	6.4	2.8	3.2	4.6	4.9	6.1	4.4	4.5	8.3	6.0
5 Food	5.0	4.5	5.8	6.3	5.8	5.7	3.1	2.7	3.4	4.9	6.2	5.8	4.5	5.7	5.7
Total manufacturing(1)	4.5	4.6	5.5	4.3	5.6	4.8	1.8	3.0	5.6	6.5	6.8	4.1	6.1	7.8	4.7
7 Building and civil engineering services	3.3	4.9	3.5	4.2	2.9	4.0	-1.0	2.2	-1.1	3.3	3.3	0.5	2.8	4.3	2.1
8 Market services	3.4	1.7	2.8	1.7	4.4	3.0	0.4	1.6	3.0	2.2	3.0	2.4	2.4	1.9	1.3
9 Non-market services	1.8	1.0	0.5	1.5	:	0.5	0.2	:	-0.4	3.4	0.8	1.0	3.1	3.3	1.9
Total	4.2	3.3	3.1	2.9	5.2	4.1	1.2	2.2	3.3	4.3	4.6	2.8	4.2	4.9	2.4

Source : cf. table 9.3
(1) branches 3, 4, 5, 6.
: Data not available.

In the equipment products industries, the same differences occurred between countries as for industry generally. Germany and Belgium (no figures are available for the Netherlands) seem to have given priority to maintaining productivity improvements, whereas productivity fell in Italy and the United Kingdom, although in the latter country numbers employed also fell sharply.

STATISTICAL ANNEX

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TABLE 1

Gross domestic product 1958-1978, '000 millions national currencies, at current prices

	DK	D	F	IRL	I (a)	NL	B	L	UK
1958	34,477	246,628	244,380	0,557	18,758	35,010	506,564	22,817	22,797
1959	38,085	264,908	264,987	0,598	19,772	36,819	522,483	23,259	23,923
1960	41,098	302,800	296,506	0,634	21,632	41,840	557,018	25,574	25,489
1961	45,616	331,800	323,459	0,683	24,118	44,173	592,441	25,058	27,209
1962	51,387	360,880	361,164	0,739	27,117	47,554	633,714	26,648	28,486
1963	54,705	382,470	404,881	0,794	31,053	51,592	681,300	28,068	30,276
1964	62,529	420,280	449,157	0,904	33,941	60,708	762,525	32,394	33,047
1965	<u>70,251</u>	459,270	483,488	0,962	36,530	67,802	829,955	33,688	35,521
1966	76,798	488,340	523,416	1,015	39,521	73,829	892,114	35,011	37,850
1967	84,597	494,460	565,389	1,109	43,517	80,997	955,350	35,442	39,960
1968	94,101	534,900	614,517	1,251	46,953	89,811	1,022,336	38,879	43,146
1969	107,389	596,950	700,689	1,445	51,691	101,715	1,134,165	45,169	46,109
1970	119,067	578,750	782,560	1,620	57,937	114,573	1,262,110	53,395	50,724
1971	131,633	754,880	872,433	1,854	63,056	129,650	1,382,972	55,144	56,826
1972	151,484	825,990	981,115	2,219	69,080	146,730	1,542,627	61,404	62,881
1973	174,634	918,600	1,114,200	2,681	82,503	168,110	1,751,922	75,521	71,963
1974	193,969	987,130	1,278,302	2,929	101,723	190,290	2,057,045	91,452	81,932
1975	215,666	1,030,020	1,450,932	3,663	115,072	209,690	2,262,781	84,521	103,139
1976	248,982	1,125,400	1,669,308	4,492	143,849	237,990	2,577,300	92,681	121,978
1977	276,243	1,198,500	1,870,341	5,380	172,988	261,120	2,791,200	98,529	139,789
(1978)	302,800	1,277,100	2,121,300	6,272	200,850	280,300	2,972,600	105,498	157,660

(a) Italy : '000 billions Lit.

TABLE 2

Gross domestic product 1958-1978, '000 millions EUA, at current prices and exchange rates

	DK	D	F	IRL	I	NL	B	L	UK	EC
1958	4,551	53,543	52,980	1,423	27,366	8,401	9,238	0,416	58,203	216,122
1959	5,220	59,717	50,817	1,585	29,952	9,174	9,894	0,440	63,420	230,219
1960	5,633	68,259	56,861	1,683	32,769	10,425	10,548	0,484	67,571	254,233
1961	6,188	77,030	61,383	1,793	36,154	11,331	11,101	0,470	71,379	276,828
1962	6,954	84,333	68,380	1,934	49,556	12,279	11,847	0,498	74,556	301,340
1963	7,493	89,379	76,658	2,079	46,443	13,322	12,737	0,525	79,241	327,786
1964	8,462	98,214	85,040	2,367	50,762	15,676	14,255	0,606	86,494	361,877
1965	9,507	107,326	91,541	2,518	54,634	17,508	15,516	0,630	92,969	392,148
1966	10,393	114,119	99,100	2,659	59,108	19,064	16,678	0,655	99,065	420,841
1967	11,397	116,091	107,549	2,062	65,389	21,013	17,944	0,666	103,082	445,993
1968	12,195	129,971	120,976	2,919	73,016	24,113	19,873	0,756	100,643	484,462
1969	14,008	148,265	132,449	3,394	80,910	27,488	22,191	0,884	108,259	537,879
1970	15,530	181,417	137,831	3,804	90,683	30,962	24,693	1,045	119,090	605,055
1971	16,979	207,063	151,145	4,326	97,397	35,448	27,188	1,084	132,590	673,220
1972	19,448	230,929	173,428	4,945	105,584	40,759	31,252	1,244	140,065	747,656
1973	23,548	280,365	203,777	5,337	115,154	49,033	36,650	1,580	143,261	858,705
1974	26,720	320,131	222,939	5,747	131,130	59,424	44,333	1,971	160,713	973,108
1975	30,279	337,779	272,771	6,544	142,144	66,889	49,656	1,855	184,168	1,092,085
1976	36,822	399,722	312,320	7,223	154,651	80,534	59,708	2,147	196,293	1,249,420
1977	40,294	452,553	333,628	8,230	171,822	93,254	68,274	2,410	213,842	1,384,307
(1978)	43,161	497,008	369,568	9,516	188,176	101,571	74,012	2,627	239,213	1,525,190

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TABLE 3

Gross domestic product per capita 1958-1978, EUA, at current prices and exchange rates

	DK	D	F	IRL	I	NL	B	L	UK	EC
1958	1 008	986	1 183	499	553	751	1 024	1 337	1 122	947
1959	1 148	1 088	1 123	557	601	808	1 091	1 407	1 216	1 000
1960	1 230	1 231	1 245	594	653	908	1 157	1 538	1 286	1 095
1961	1 340	1 371	1 330	636	716	974	1 211	1 473	1 348	1 181
1962	1 496	1 484	1 455	684	798	1 041	1 285	1 544	1 396	1 272
1963	1 580	1 557	1 603	730	907	1 114	1 372	1 612	1 476	1 370
1964	1 793	1 694	1 760	826	984	1 293	1 522	1 835	1 601	1 500
1965	1 998	1 831	1 877	876	1 051	1 424	1 642	1 891	1 710	1 611
1966	2 167	1 929	2 016	922	1 129	1 531	1 754	1 955	1 813	1 716
1967	2 355	1 958	2 171	987	1 242	1 668	1 878	1 986	1 877	1 808
1968	2 506	2 184	2 424	1 002	1 378	1 895	2 072	2 246	1 825	1 954
1969	2 864	2 468	2 632	1 159	1 518	2 135	2 309	2 611	1 955	2 154
1970	3 151	2 991	2 715	1 289	1 690	2 376	2 562	3 077	2 145	2 406
1971	3 421	3 379	2 949	1 453	1 803	2 687	2 811	3 142	2 380	2 657
1972	3 896	3 745	3 354	1 641	1 940	3 058	3 218	3 573	2 506	2 931
1973	4 689	4 524	3 910	1 749	2 097	3 649	3 762	4 480	2 557	3 346
1974	5 296	5 159	4 250	1 860	2 366	4 388	4 537	5 515	2 867	3 775
1975	5 984	5 463	4 727	2 093	2 546	4 897	5 067	5 176	3 286	4 226
1976	7 258	6 496	5 905	2 284	2 753	5 847	6 081	6 024	3 504	4 828
1977	7 909	7 371	6 286	2 575	3 043	6 731	6 942	6 788	3 822	5 340
1978	8 446	8 139	6 942	2 955	3 316	7 288	7 506	7 400	4 280	5 879

TABLE 4

Gross domestic product volume growth 1958-1978
percentage changes on preceding year
(1970 prices and exchange rates)

	DK	D	F	IRL	I	NL	B	L	UK	EC
1958 (a)	2,6	3,4	3,0	-2,1	4,9	-1,0	-0,7	-	0,4	2,2
1959	6,4	6,6	2,6	4,5	6,1	3,9	2,3	3,8	3,8	4,7
1960	6,6	10,5	7,6	5,8	6,7	9,9	5,8	5,6	5,0	7,7
1961	6,4	5,1	5,6	5,0	8,2	2,9	5,0	3,4	3,3	5,1
1962	5,7	4,4	6,7	3,2	6,2	4,3	5,2	1,6	1,0	4,4
1963	0,6	3,0	5,2	4,8	5,6	3,3	4,4	2,2	3,9	4,0
1964	9,3	6,7	6,2	3,8	2,6	8,6	7,0	7,3	5,6	5,9
1965	4,6	5,6	4,8	1,9	3,2	5,3	3,6	1,8	2,3	4,2
1966	2,7	2,5	5,3	0,9	5,8	2,8	3,2	1,7	1,9	3,5
1967	4,7	-0,2	4,7	5,8	7,0	5,3	3,9	0,2	2,6	3,1
1958-67	5,0	4,8	5,2	3,1	5,6	4,5	4,0	3,0	3,0	4,5
1968	4,2	6,3	4,3	8,2	6,3	6,7	4,2	4,1	3,4	5,1
1969	6,9	7,8	7,2	5,9	5,7	6,8	6,6	8,3	1,4	5,9
1970	2,6	6,0	5,9	3,1	5,0	6,9	6,4	2,8	2,5	5,1
1971	2,4	3,2	5,4	4,1	1,6	4,4	4,1	4,5	2,8	3,5
1972	5,5	3,7	5,9	5,7	3,1	3,9	5,6	6,2	2,4	4,0
1973	5,2	4,9	5,4	4,6	6,9	5,9	6,5	11,3	6,6	5,8
1974	0,6	0,5	2,8	2,1	4,2	4,2	4,7	5,0	-0,6	1,7
1975	-1,2	-2,1	0,3	1,2	-3,5	-0,9 (b)	-2,1	-11,0	-1,6	-1,6
1976	6,3	5,6	4,6	2,9	5,7	4,5 (b)	5,7	2,9	2,6	4,7
1977	1,8	2,8	3,0	5,5	1,7	2,4 (b)	1,3	1,3	0,7	2,2
1968-77	3,4	3,9	4,5	4,3	3,7	4,5	4,3	3,4	2,0	3,6
(1978) (c)	0,3	2,7	3,0	6,0	2,2	1,9	2,0	2,5	3,2	2,6

EC at 1977 exchange rates

1973 = 5,8
1974 = 1,8
1975 = -1,5
1976 = 4,8
1977 = 2,3

TABLE 5

Industrial production (a) 1958-1978

percentage changes on preceding year

	DK	D	F	IRL	I	NL	B	L	UK	EC
1958	3,0	2,6	4,0	3,0	3,6	2,2	-4,7	-4,3	-1,3	1,7
1959	11,5	7,1	1,1	8,8	10,6	8,7	4,6	4,5	5,2	5,7
1960	8,7	11,7	8,9	6,9	16,7	10,0	6,8	9,0	6,8	10,1
1961	5,1	6,1	5,5	8,5	9,5	3,6	6,2	2,9	0,0	4,8
1962	8,9	8,4	5,1	7,2	7,8	3,5	5,7	-4,2	1,1	5,7
1963	1,3	3,5	6,0	5,9	7,8	5,1	7,4	1,0	4,0	4,8
1964	11,7	7,8	6,2	7,6	1,3	9,7	6,5	9,2	7,9	6,8
1965	6,6	5,3	1,6	4,2	3,8	4,4	2,5	0,8	3,3	3,8
1966	2,9	1,2	5,9	3,2	12,0	4,2	2,0	-3,2	1,4	3,6
1967	3,9	-2,6	2,4	7,9	8,9	2,7	1,8	-0,6	0,2	1,1
1958-67	6,4	5,1	4,7	6,3	8,2	5,4	3,9	1,5	2,9	4,8
1968	7,4	9,4	3,5	10,5	6,7	9,2	5,5	6,0	6,7	7,0
1969	12,4	13,0	10,9	7,2	3,0	10,8	9,7	12,8	3,3	9,0
1970	2,5	6,2	5,6	4,4	6,4	8,7	3,1	0,5	0,5	4,9
1971	2,4	1,5	6,4	3,7	-0,5	6,0	1,7	-1,3	-0,2	2,3
1972	4,4	4,1	5,5	4,2	4,9	4,7	7,5	4,2	2,2	4,4
1973	3,4	7,1	6,7	9,9	9,7	7,2	6,2	12,0	8,2	7,4
1974	-1,1	-1,1	2,5	2,9	3,9	5,0	4,0	3,5	-1,8	0,6
1975	-5,7	-6,2	-7,2	-6,1	-8,8	-4,8	-9,8	-21,9	-4,9	-6,6
1976	11,4	7,4	8,6	8,5	11,6	5,9	7,7	6,3	1,1	7,3
1977	0,3	3,1	1,6	8,1	0,0	0,8	0,1	0,5	1,7	1,8
1968-77	3,5	4,5	4,4	5,3	3,7	5,4	3,6	2,3	1,7	3,8
(1978)	1,0	2,2	4,0	10	1	0	1,5	3,6	2,1	2,3

TABLE 6

Gross domestic product price deflator 1958-1978, percentage changes

on preceding year

(base year 1970; 1970 exchange rates)

	DK	D	F	IRL	I	NL	B	L	UK	EC
1958 (a)	1,8	3,4	11,8	5,8	2,5	1,8	1,5	-	4,0	4,8
1959	3,6	0,8	5,7	2,7	-0,7	1,2	0,8	-1,8	1,1	1,7
1960	1,8	3,4	4,0	0,3	2,5	3,4	0,7	4,1	1,5	2,8
1961	4,3	4,3	3,3	2,5	3,1	2,6	1,3	-5,2	3,3	3,4
1962	6,6	4,2	4,6	4,8	5,9	3,2	1,7	4,7	3,7	4,3
1963	5,8	2,9	6,6	2,6	8,5	5,0	3,0	3,1	2,3	4,5
1964	4,6	3,0	4,5	9,7	6,5	8,4	4,6	7,6	3,3	4,3
1965	7,4	3,5	2,7	4,4	4,3	6,1	5,1	2,2	5,1	4,1
1966	6,8	3,7	2,8	4,7	2,3	5,9	4,2	2,2	4,6	3,7
1967	5,2	1,4	3,1	3,2	2,9	4,1	3,1	1,0	2,9	2,6
1958-67	4,8	3,1	4,9	4,1	3,8	4,2	2,6	2,0	3,2	3,6
1968	6,8	1,8	4,2	4,2	1,5	3,9	2,7	5,4	4,4	3,1
1969	6,8	3,5	6,4	9,1	4,2	6,1	4,0	7,3	5,4	4,9
1970	8,1	7,3	5,4	9,0	6,8	5,4	4,6	15,0	7,3	6,6
1971	8,0	7,7	5,8	9,9	7,2	8,4	5,2	-1,1	9,0	7,3
1972	9,1	5,6	6,2	13,2	6,2	8,9	5,6	4,8	8,0	6,6
1973	9,6	6,0	7,7	15,5	11,7	8,2	6,8	10,5	7,4	7,9
1974	10,4	6,9	11,6	7,1	18,3	8,6	12,1	15,4	14,6	11,6
1975	12,5	6,7	13,2	23,6	17,2	11,2 (b)	13,0	3,8	27,9	14,7
1976	8,6	3,4	10,0	19,1	18,2	8,6 (b)	7,3	6,6	15,3	10,1
1977	9,0	3,6	8,7	13,6	18,3	7,2 (b)	6,8	5	14,0	9,5
1968-77	8,9	5,3	7,9	12,4	11,0	7,6	6,8	7,3	11,3	8,2
(1978) (c)	9,5	3,8	10,1	10,0	13,6	5,4	4,4	4,4	9,3	7,7

EC at 1977 exchange rates : 1973 = 7,7
 1974 = 11,1
 1975 = 13,7
 1976 = 9,5
 1977 = 8,9

TABLE 7.

Consumer prices 1958-1978, percentage changes

On preceding year

(base year 1970; 1970 exchange rates)

	DK	D	F	IRL	I	NL	B	L	UK	EC
1958 (a)	0,5	2,5	12,1	3,8	2,3	1,6	0,1	-	2,7	4,3
1959 (a)	2,5	1,0	5,8	0,4	-0,7	1,2	-0,3	-	1,0	1,8
1960 (a)	2,9	1,0	3,6	0,9	1,4	2,5	2,4	-	1,1	1,7
1961	3,6	3,6	3,1	2,4	2,1	2,1	2,7	0,5	2,9	3,0
1962	6,2	3,2	4,2	3,5	5,6	2,7	1,0	0,9	3,9	3,8
1963	5,7	2,9	5,7	2,2	7,4	3,9	3,7	2,9	1,8	4,0
1964	4,0	2,6	3,7	7,4	5,2	6,9	4,1	3,1	3,5	3,8
1965	6,1	3,4	2,4	4,9	3,9	4,1	4,6	2,7	5,0	3,8
1966	6,5	3,8	3,0	3,1	2,9	5,5	4,1	3,3	4,1	3,7
1967	6,0	1,7	3,0	3,1	2,9	3,1	2,5	2,2	2,8	2,6
1958-67	4,4	2,6	4,7	3,2	3,3	3,4	2,5	2,2	2,9	3,3
1968	6,9	1,8	5,0	4,3	1,6	2,8	2,9	2,5	4,7	3,3
1969	6,0	2,3	6,8	7,2	2,9	6,5	2,9	2,3	5,6	4,4
1970	7,3	3,5	4,7	7,4	5,4	4,4	2,5	4,6	6,0	4,9
1971	7,0	5,4	5,5	9,1	5,8	8,1	4,9	4,6	8,5	6,4
1972	7,9	5,6	5,9	9,2	6,5	8,4	4,8	4,8	6,7	6,2
1973	9,8	7,1	6,9	12,0	12,2	8,9	5,8	5,5	8,2	8,3
1974	12,3	7,0	13,4	15,8	21,0	9,7	12,2	9,5	16,5	13,2
1975	9,5	6,2	11,7	21,8	17,6	10,7 (b)	12,1	10,7	23,6	13,4
1976	10,1	4,5	9,9	18,5	17,9	9,2 (b)	7,7	9,8	15,5	10,7
1977	10,1	3,8	9,1	13,6	18,0	6,8 (b)	6,6	6,7	14,2	9,9
1968-77	8,7	4,7	7,9	11,9	10,9	7,5	6,2	6,1	11,0	8,1
(1978) (c)	9,0	2,5	9,2	8,0	12,5	4,4	4,0	3,1	8,6	6,9

EC at 1977 exchange rates : 1973 = 8,2
 1974 = 12,7
 1975 = 12,8
 1976 = 10,0
 1977 = 9,0

TABLE 8

Private consumption in gross domestic product 1958-1978, percentage shares

(current prices)

	DK	D	F	IRL	I	NL	B	L	UK	EC
1958	67,8	62,8	63,2	84,4	67,8	60,6	68,5	59,4	66,7	65,0
1959	66,1	61,6	62,5	80,2	66,6	60,0	69,5	60,3	66,8	64,3
1960	65,9	59,8	61,4	80,5	65,9	58,3	68,7	56,2	66,1	63,2
1961	65,9	59,7	61,6	79,0	64,7	59,4	67,4	60,4	65,1	62,7
1962	65,6	59,5	61,8	78,3	64,7	60,1	66,3	59,9	65,9	62,9
1963	65,2	59,7	62,4	77,6	65,8	61,6	66,7	61,2	65,8	63,2
1964	64,1	58,5	61,4	76,3	65,1	59,0	63,7	59,3	64,2	62,0
1965	62,6	59,1	61,0	75,9	64,9	58,9	63,8	61,1	63,7	61,8
1966	60,1	59,7	61,0	75,2	66,1	58,5	63,4	61,8	63,3	62,0
1967	60,3	60,9	61,1	73,7	66,0	57,6	62,4	62,1	63,1	62,3
1958-67	64,3	60,3	61,7	78,1	65,8	59,4	66,0	60,1	65,1	62,9
1968	59,2	60,0	61,2	74,2	65,1	56,6	63,3	60,8	62,9	61,8
1969	57,7	59,2	61,2	72,6	64,5	56,8	61,8	55,9	62,6	61,3
1970	57,4	57,7	60,2	70,9	65,0	56,7	59,4	51,9	62,0	60,4
1971	55,6	57,9	60,6	69,7	65,1	56,2	59,7	55,6	61,8	60,4
1972	53,2	58,3	60,5	66,3	65,5	56,0	59,5	54,7	63,0	60,6
1973	54,3	57,7	60,1	64,6	65,1	55,4	59,8	47,5	62,3	60,0
1974	54,6	58,2	61,2	68,3	65,6	55,2	59,1	45,8	63,2	60,6
1975	55,7	61,3	62,0	64,6	67,3	57,4	60,6	58,2	61,5	61,9
1976	56,1	60,9	62,3	63,6	65,7	56,5	61,3	59,2	60,5	61,4
1977	56,2	61,3	62,1	63,2	65,8	57,2	60,0	60,0	60,0	61,5
1968-77	56,0	59,2	61,1	67,7	65,5	56,4	60,4	54,7	62,0	61,0
(1978)	55,8	61,1	61,9	63,2	65,1	57,6	59,7	58,8	61,1	61,3

TABLE 9

Public consumption in gross domestic product 1958-78

percentage shares
(current prices)

	DK	D	F	IRL	I	NL	B	L	UK	EC
1958	12,8	10,6	13,1	12,6	12,1	14,3	11,9	11,9	16,3	13,2
1959	12,5	10,7	13,6	12,4	12,2	13,4	12,4	10,8	16,5	13,3
1960	12,3	10,7	13,0	12,4	12,2	13,4	12,4	9,6	16,5	13,2
1961	13,8	11,1	13,1	12,5	12,0	14,0	11,9	9,9	16,7	13,3
1962	14,1	11,9	13,3	12,5	12,4	14,5	12,3	10,7	17,1	13,7
1963	14,3	12,6	13,4	12,7	13,3	15,4	13,0	12,1	16,9	14,1
1964	14,4	11,9	13,3	13,3	13,7	15,5	12,5	10,6	16,5	13,8
1965	15,1	12,7	13,1	13,6	14,5	15,5	12,8	10,6	16,8	14,1
1966	17,3	12,1	13,0	13,6	14,2	15,9	13,1	11,2	17,2	14,1
1967	18,0	12,6	13,0	13,3	13,6	16,2	13,5	11,7	18,0	14,4
1958-67	14,4	11,6	13,2	12,9	13,0	14,8	12,6	10,9	16,8	13,7
1968	18,7	11,8	13,5	13,3	13,6	15,9	13,6	11,7	17,7	14,2
1969	18,9	12,0	13,3	13,5	13,3	16,0	13,6	10,7	17,3	14,0
1970	20,0	12,1	13,4	14,8	12,7	16,3	13,4	10,0	17,7	14,1
1971	21,3	12,8	13,4	15,4	14,1	16,7	14,1	11,0	18,0	14,7
1972	21,3	12,8	13,2	15,6	14,6	16,7	14,5	11,2	18,5	14,7
1973	21,0	13,2	13,2	16,1	14,0	16,3	14,5	10,3	18,4	14,6
1974	23,0	14,1	13,6	18,1	13,5	17,0	14,6	10,7	20,2	15,4
1975	24,7	14,6	14,4	19,5	13,8	18,4	16,5	14,2	22,1	16,3
1976	24,0	14,0	14,6	19,5	13,2	18,3	16,5	14,4	21,8	16,0
1977	24,0	13,9	14,9	19,2	13,7	18,5	16,7	15,3	21,0	15,9
1968-77	21,6	13,1	13,7	16,3	13,6	17,0	14,8	11,8	19,2	15,0
(1978)	24,0	13,8	14,9	19,2	14,2	18,6	17,2	15,4	20,2	15,9

TABLE 10

Fixed investment in gross domestic product 1958-1978, percentage shares
(current prices)

	DK	D	F	IRL	I	NL	B	L	UK	EC
1958	17,3	22,4	20,3	14,2	20,8	23,0	17,0	22,9	15,7	19,6
1959	18,8	23,6	20,1	13,9	21,1	23,8	17,8	22,3	15,9	20,0
1960	19,4	24,3	20,1	14,3	22,3	24,0	19,3	21,3	16,4	20,6
1961	20,9	25,2	21,2	16,2	22,9	24,7	20,7	25,3	17,3	21,6
1962	20,8	25,7	21,4	17,8	23,2	24,4	21,3	26,8	17,0	21,8
1963	19,8	25,5	22,1	19,5	23,6	23,7	20,7	31,4	16,7	21,9
1964	22,0	26,6	22,9	20,4	21,9	25,4	22,4	34,9	18,3	22,7
1965	21,7	26,1	23,3	21,3	19,0	25,0	22,4	29,2	18,3	22,3
1966	23,7	25,4	23,7	19,7	18,5	26,1	22,9	28,0	18,3	22,2
1967	23,9	23,1	23,8	19,7	19,2	26,2	22,9	25,1	18,8	21,8
1958-67	20,7	24,8	21,8	17,5	21,2	24,6	20,6	26,4	17,2	21,4
1968	23,0	22,5	23,3	20,8	20,2	26,8	21,5	23,0	19,0	21,7
1969	24,4	23,4	23,4	23,2	20,9	24,5	21,3	23,1	18,7	22,0
1970	24,7	25,6	23,4	22,6	21,3	25,7	22,7	23,7	18,7	22,8
1971	24,4	26,4	23,6	23,8	20,3	25,8	22,1	28,9	18,6	23,0
1972	24,9	25,9	23,7	23,4	19,7	23,7	21,4	27,6	18,6	22,8
1973	25,4	24,5	23,8	25,3	20,8	23,0	21,5	25,2	19,7	22,8
1974	24,7	21,9	24,3	26,1	22,4	21,8	22,7	24,4	20,7	22,4
1975	22,1	20,8	23,2	23,4	20,6	21,0	22,6	27,8	20,0	21,4
1976	24,2	20,7	23,3	24,5	20,0	19,7	22,0	26,9	19,2	21,1
1977	23,3	20,8	22,6	25,9	19,8	20,8	21,6	28,0	18,2	20,9
1968-77	24,1	23,2	23,5	23,9	20,6	23,2	21,9	26,2	19,1	22,1
(1978)	21,9	21,4	22,1	27,2	18,9	21,0	21,4	27,6	17,8	20,7

TABLE 11

Net stockbuilding in gross domestic product 1958-1978, percentage shares

(current prices)

	DK	D	F	IRL	I	NL	B	L	UK	EC
1958	-0,5	1,5	3,2	-1,4	0,8	0,3	0,8	1,8	0,5	1,6
1959	2,3	1,5	2,2	4,0	1,0	0,7	0,2	2,0	0,7	1,4
1960	3,6	2,9	3,0	2,0	1,6	3,3	-0,1	-0,3	2,2	2,5
1961	1,4	1,9	1,7	1,4	2,0	2,7	0,5	1,5	1,0	1,6
1962	2,5	1,5	2,3	1,6	1,7	1,5	0	1,4	0	1,3
1963	0,2	0,6	1,5	0,9	1,3	1,1	0,4	0,7	0,5	0,9
1964	1,5	1,4	2,4	1,2	0,5	3,0	1,5	-0,3	2,2	1,8
1965	2,1	2,2	1,6	2,3	0,7	1,9	0,8	0,9	1,4	1,6
1966	0,6	1,0	2,0	0,8	0,9	1,3	1,0	0,6	0,9	1,2
1967	-0,1	-0,2	1,8	-0,4	1,5	0,9	0,4	0,3	0,8	0,8
1958-67	1,3	1,4	2,2	1,2	1,3	1,7	0,6	0,9	1,0	1,5
1968	0,5	2,0	1,8	1,1	0	0,6	0,9	0,6	1,1	1,3
1969	1,2	2,6	2,6	2,4	0,9	2,4	1,9	0,4	0,9	1,9
1970	1,0	2,3	2,7	1,7	1,8	2,5	1,6	2,1	0,8	2,0
1971	0,6	0,5	1,5	0,4	0,7	1,4	1,5	2,2	0,1	0,8
1972	0,2	0,3	1,9	1,1	0,6	0,7	0,5	2,2	0	0,7
1973	1,4	0,8	2,4	1,8	3,6	1,8	1,2	5,4	1,9	1,8
1974	1,0	0,6	2,4	3,7	4,5	2,9	2,2	3,0	1,4	1,9
1975	-1,5	-0,3	-0,4	-1,2	-0,4	-0,7	-0,7	1,0	-1,3	-0,6
1976	0,6	1,2	1,1	0,7	3,9	1,4	0,4	-0,2	0,3	1,3
1977	0,2	1,9	0,9	0,8	1,4	1,5	0,3	0	0,9	1,0
1968-77	0,4	1,1	1,7	1,2	1,7	1,4	1,0	1,8	0,6	1,2
(1978)	-0,2	0,7	0,7	0,4	1,4	1,2	0,2	-0,2	1,1	0,8

TABLE 12

Total exports in gross domestic product 1958-1978, percentage shares

(current prices)

	DK	D	F	IRL	I	NL	B	L	UK	EC
1958	33,8	18,5	12,3	30,4	12,5	48,3	31,9	77,3	21,5	18,9
1959	33,0	19,6	13,8	29,7	12,9	49,6	30,8	79,0	21,0	20,0
1960	32,8	19,0	15,0	31,4	14,7	50,2	32,9	88,9	21,3	20,5
1961	30,4	18,1	14,5	34,1	15,0	47,8	33,7	87,2	20,7	19,9
1962	29,1	17,4	13,3	31,7	14,9	47,2	34,0	82,6	20,3	19,2
1963	30,9	17,9	13,2	33,0	14,3	47,1	34,6	78,5	20,1	19,2
1964	30,4	18,1	13,1	32,9	15,1	45,8	35,9	78,9	19,4	19,2
1965	30,8	18,1	13,8	34,7	17,2	45,0	36,3	76,5	19,5	18,6
1966	30,0	17,1	13,8	37,0	17,7	45,4	36,2	74,1	19,6	19,6
1967	28,8	20,5	13,7	37,7	17,3	42,9	36,3	72,3	19,3	20,2
1958-67	31,0	18,4	13,6	33,2	15,1	46,9	34,2	79,4	20,3	19,5
1968	29,4	21,3	13,7	38,7	18,5	43,4	38,7	75,1	21,6	21,3
1969	29,1	21,7	14,6	37,1	19,3	45,1	41,9	79,9	22,6	22,2
1970	29,6	21,1	16,3	36,8	19,3	47,2	43,9	87,4	23,4	22,9
1971	30,5	20,8	17,1	36,0	19,8	47,7	43,4	85,0	23,5	23,1
1972	30,3	20,7	17,2	34,8	20,5	47,3	43,6	80,1	22,2	22,8
1973	32,1	21,9	18,2	38,2	20,4	49,6	47,6	86,4	24,5	24,4
1974	35,0	26,3	21,6	43,6	24,5	56,5	53,4	97,3	28,6	28,9
1975	34,2	24,8	19,8	45,0	25,0	51,9	46,2	86,0	26,5	26,9
1976	33,4	26,0	20,3	48,8	26,7	54,3	48,2	85,4	29,1	28,7
1977	<u>33,5</u>	25,9	20,0	51,6	26,1	50,1	47,1	80,8	31,1	28,5
1968-77	31,6	22,9	17,7	40,7	21,8	49,2	45,2	84,2	25,1	24,8
(1978)	28,8	25,3	19,6	53,6	25,4	47,2	45,9	80,5	30,5	27,6

TABLE 13

Intra-Community exports in gross domestic product 1958-1978

percentage shares
(current prices)

	DK	D	F	IRL	I	NL	B	L	UK	EC
1958	14,4	5,4	2,4	18,8	2,7	19,1	14,9		2,8	4,9
1959	14,3	5,8	3,3	17,2	3,2	20,7	16,1		2,9	5,5
1960	14,0	6,0	4,1	19,1	4,0	21,9	19,0		3,0	6,0
1961	12,4	6,1	4,4	21,6	4,3	21,6	19,4		3,3	6,2
1962	11,8	6,1	4,3	18,5	4,5	22,0	21,0		3,6	6,3
1963	12,4	6,8	4,4	20,1	4,3	22,7	23,3		3,8	6,7
1964	12,0	6,8	4,5	20,8	4,9	23,2	24,4		3,8	6,9
1965	11,3	6,7	4,8	19,0	5,7	22,8	25,2		3,6	7,1
1966	11,5	7,2	4,9	19,7	5,9	21,8	25,4		3,6	7,2
1967	9,7	7,7	4,7	21,7	5,6	21,3	24,5		3,5	7,2
1958-67	12,4	6,5	4,2	19,7	4,5	21,7	21,3		3,4	6,4
1968	9,6	8,3	5,0	21,4	6,2	22,8	26,9		4,0	7,9
1969	9,2	8,9	5,8	20,1	6,7	24,7	31,1		4,5	8,8
1970	9,0	8,5	6,8	21,2	6,8	26,3	32,4		4,6	9,1
1971	8,8	8,8	7,1	21,6	7,3	27,7	31,6		4,7	9,4
1972	8,9	8,5	7,5	22,6	7,9	27,3	32,9		4,7	9,6
1973	10,4	9,1	8,0	24,4	7,9	28,9	35,0		5,6	10,5
1974	11,0	10,5	9,2	25,8	8,9	33,1	36,2		6,7	12,1
1975	11,1	9,4	7,6	31,4	9,0	30,4	32,0		6,2	10,9
1976	10,8	10,4	8,1	31,9	10,3	32,6	35,2		7,5	12,2
1977	10,4	10,3	8,4	36,5	10,7	29,2	32,7		8,6	12,2
1968-77	9,9	9,3	7,4	25,7	8,2	28,3	32,6		5,2	10,3
(1978)	10,2	10,0	8,6	37,3	10,5	27,1	31,7		8,6	12,0

TABLE 14

Extra-Community exports in gross domestic product 1958-1978

percentage shares
(current prices)

	DK	D	F	IRL	I	NL	B	L	UK	EC
1958	10,5	10,3	6,2	4,3	5,8	14,7	13,3		11,5	9,4
1959	10,7	10,4	6,8	4,4	5,8	15,0	13,6		11,3	9,6
1960	10,9	9,9	7,3	4,6	6,6	14,7	13,6		11,4	9,6
1961	10,5	9,3	6,6	5,1	6,6	14,0	12,6		10,8	9,1
1962	10,4	8,6	5,7	4,7	6,2	13,0	11,8		10,2	8,1
1963	11,2	8,5	5,5	5,0	5,9	12,0	10,8		10,2	8,1
1964	11,1	8,6	5,4	4,1	6,0	11,3	10,8		10,0	8,1
1965	11,2	8,9	5,5	3,7	6,6	11,4	11,7		10,2	8,3
1966	11,1	9,3	5,3	4,8	6,8	11,3	11,5		10,2	8,4
1967	10,9	9,9	5,2	7,1	6,9	11,2	13,2		9,6	8,4
1958-67	10,9	9,4	6,0	4,8	6,3	12,9	12,3		10,5	8,7
1968	11,4	10,3	5,2	7,6	7,4	10,9	11,6		10,8	8,8
1969	11,8	10,2	5,2	7,7	7,5	10,8	11,5		11,4	8,9
1970	12,1	9,9	5,8	7,6	7,4	10,9	11,8		11,2	9,0
1971	11,8	10,1	5,8	7,1	7,5	10,4	11,5		11,5	9,1
1972	11,8	9,6	5,8	6,4	7,8	9,6	11,7		10,8	8,8
1973	12,4	10,3	6,2	7,7	7,8	10,9	12,9		11,7	9,4
1974	14,5	12,9	8,1	9,0	10,7	13,6	15,6		13,4	11,8
1975	13,5	12,1	7,9	8,1	11,0	12,4	13,4		13,0	11,2
1976	12,8	12,4	7,9	10,2	11,3	11,7	12,6		13,6	11,3
1977	13,1	12,6	8,3	11,2	12,3	12,3	13,2		15,0	11,9
1968-77	12,5	11,0	6,6	8,3	9,1	11,4	12,6		12,2	10,0
(1978)	11,3	12,3	7,7	11,0	11,8	11,1	12,8		14,6	11,4

TABLE 15

Total imports in gross domestic product 1958-1978, percentage shares

(current prices)

	DK	D	F	IRL	I	NL	B	L	UK	EC
1958	31,1	15,0	12,8	36,2	12,0	45,3	30,1	74,1	21,1	18,2
1959	32,6	16,1	12,3	36,2	11,8	46,3	31,8	75,1	21,3	18,7
1960	33,8	16,5	13,2	36,6	14,9	48,1	33,9	76,0	22,6	19,8
1961	31,8	15,8	13,0	39,1	15,0	47,5	34,8	80,2	21,0	19,1
1962	32,0	16,1	12,6	38,3	15,5	46,6	34,3	81,5	20,4	19,7
1963	30,3	16,3	12,8	40,1	16,9	47,7	35,8	83,3	20,4	19,2
1964	32,2	16,5	13,3	40,4	15,0	47,8	36,6	85,1	21,0	18,9
1965	32,1	17,8	12,9	43,7	14,4	45,6	36,2	78,3	20,1	19,3
1966	31,3	17,5	13,6	42,9	15,5	46,1	37,2	75,7	19,6	19,5
1967	30,6	16,8	13,4	40,7	16,1	43,9	36,2	71,7	20,2	19,3
1958-67	31,8	16,4	13,0	39,3	14,6	46,5	34,6	78,0	20,8	19,2
1968	30,6	17,7	13,8	45,0	15,9	43,5	38,6	71,2	22,4	20,2
1969	31,2	18,8	15,2	46,1	17,4	45,3	41,1	70,0	22,1	21,2
1970	32,3	19,0	15,8	44,8	18,7	49,0	41,6	75,1	22,5	22,0
1971	32,0	18,8	16,1	43,2	18,6	48,0	41,4	82,7	21,9	21,8
1972	29,4	18,6	15,9	40,2	19,5	44,4	40,4	75,9	22,3	21,6
1973	33,9	18,9	17,6	45,0	22,7	46,3	45,6	74,3	23,6	23,2
1974	37,6	21,9	23,1	58,8	29,4	53,6	53,0	80,7	33,9	29,2
1975	34,9	22,1	19,0	50,7	25,0	48,9	46,0	87,4	28,4	26,1
1976	38,0	23,7	21,5	56,4	28,1	51,0	49,3	86,4	30,3	28,3
1977	36,8	23,5	20,5	60,4	26,8	49,4	47,9	84,7	30,2	27,9
1968-77	33,5	20,2	17,6	48,6	21,7	47,8	44,3	78,6	25,4	23,9
(1978)	30,2	22,8	19,2	63,4	25,1	46,9	46,8	82,5	29,9	26,7

TABLE 16

Intra-Community imports in gross domestic product 1958-78

percentage shares
(current prices)

	DK	D	F	IRL	I	NL	B	L	UK	EC
1958	15,8	4,4	2,5	23,7	3,1	19,1	15,9		3,3	5,0
1959	17,2	5,2	2,9	22,7	3,5	20,6	17,4		3,3	5,5
1960	16,3	5,2	3,5	22,2	4,7	22,0	19,0		3,6	6,0
1961	15,2	5,1	3,7	25,0	4,8	24,1	20,1		3,6	6,1
1962	14,8	5,4	4,0	24,2	5,4	23,8	20,5		3,5	6,3
1963	13,6	5,5	4,5	26,3	6,2	24,9	22,0		3,6	6,7
1964	14,3	5,8	4,8	26,3	5,3	25,2	22,9		4,0	6,9
1965	13,6	6,8	4,7	25,8	4,7	24,3	23,1		3,8	7,1
1966	13,0	6,6	5,2	24,7	5,2	24,0	24,8		4,0	7,3
1967	12,2	6,4	5,3	23,9	5,6	22,7	23,0		4,3	7,2
1958-67	14,6	5,6	4,1	24,5	4,9	23,1	20,9		3,7	6,4
1968	12,2	7,1	5,9	27,4	5,7	23,1	24,8		4,8	7,9
1969	12,8	8,1	7,1	28,2	6,6	24,7	27,6		4,7	8,9
1970	13,3	8,0	7,3	28,8	7,4	26,4	28,2		4,8	9,2
1971	11,9	8,8	7,4	26,9	7,4	25,2	30,5		5,1	9,5
1972	11,1	8,4	7,7	26,2	8,0	23,6	30,4		5,6	9,6
1973	13,0	8,2	8,2	30,1	9,6	24,6	33,2		7,2	10,5
1974	14,9	8,7	9,5	34,1	11,2	26,9	36,1		8,5	11,9
1975	13,4	8,9	7,9	32,3	9,4	24,2	32,5		7,6	10,8
1976	15,1	9,5	9,1	36,8	8,5	24,7	35,0		8,2	11,6
1977	14,8	9,7	9,1	42,6	10,4	23,7	33,3		10,0	12,2
1968-77	13,3	8,5	7,9	31,3	8,4	24,7	31,2		6,7	10,2
(1978)	13,0	9,5	8,3	45,8	10,1	23,1	32,2		10,4	12,0

TABLE 17

Extra-Community imports in gross domestic product 1958-1978

percentage shares
(current prices)

	DK	D	F	IRL	I	NL	B	L	UK	EC
1958	11,0	8,8	7,0	11,1	7,5	19,1	13,2		12,9	10,0
1959	11,8	8,8	6,3	11,6	6,8	18,4	13,6		13,1	9,9
1960	14,2	8,8	6,9	12,9	9,0	19,2	15,1		14,2	10,7
1961	13,1	8,2	6,5	13,5	8,7	18,1	14,2		12,6	9,8
1962	13,9	8,3	6,2	12,2	7,5	17,1	14,0		12,2	9,6
1963	13,3	8,2	6,1	12,8	9,1	16,8	14,0		12,3	9,5
1964	14,7	8,1	6,2	12,8	8,1	16,8	14,3		13,3	9,7
1965	14,2	8,4	5,8	12,8	7,9	15,6	13,7		12,4	9,4
1966	14,0	8,2	6,0	12,6	8,4	15,3	14,0		11,8	9,3
1967	13,9	7,7	5,5	14,0	8,5	14,6	13,2		11,8	9,0
1958-67	12,4	8,4	6,3	12,6	8,2	17,1	13,9		12,7	9,7
1968	14,0	7,9	5,3	13,9	8,0	14,4	14,5		13,5	9,2
1969	14,2	8,3	5,7	13,9	8,5	14,4	14,8		13,4	9,5
1970	14,9	8,1	6,2	12,8	8,8	16,0	15,0		13,0	9,6
1971	14,3	8,0	6,0	13,4	8,3	16,1	13,2		12,1	9,2
1972	13,1	7,2	6,0	11,6	8,3	14,3	12,3		12,1	8,8
1973	15,4	7,5	6,5	11,9	10,1	15,7	13,8		14,8	9,8
1974	17,9	9,5	10,5	17,6	15,2	20,0	18,5		19,8	13,5
1975	15,8	9,0	8,3	14,4	12,5	18,4	15,9		15,7	11,5
1976	17,0	10,3	9,3	16,2	16,7	20,0	16,7		17,3	13,1
1977	16,3	10,0	9,4	15,9	13,8	19,6	16,0		16,0	12,4
1968-77	15,3	8,6	7,3	14,2	11,0	16,9	15,1		14,8	10,7
(1978)	13,2	9,4	9,0	14,9	13,0	17,3	15,5		16,6	11,9

TABLE 18

Balance of payments
Current balance in gross domestic product, 1958-1977, percentage shares

	DK	D	F	IRL	I	NL	BLEU	UK	EC
1958	2,9	2,5	-0,4	-1,6	2,0	4,5	3,9	1,7	1,7
1959	0,4	1,6	1,5	-6,4	2,5	4,8	0,7	0,7	1,5
1960	-1,1	1,6	1,4	-0,6	0,9	3,2	1,0	-1,1	0,7
1961	-1,8	0,9	1,8	-0,7	1,3	1,5	0,4	0	0,9
1962	-3,5	-0,5	1,3	-3,6	0,6	0,6	0,6	0,5	0,3
1963	0,3	0,2	0,5	-4,4	-1,4	-1,4	-0,7	0,4	0,1
1964	-2,2	0,1	-0,1	-4,4	1,3	1,3	0	-1,1	-0,2
1965	-1,7	-1,4	0,8	-4,6	3,8	3,8	0,9	-0,1	0,3
1966	-1,9	0,1	0,2	-2,5	3,4	3,4	-0,5	0,3	0,5
1967	-2,4	2,0	0,2	1,1	2,3	2,3	1,0	-0,8	0,7
1958-67	-1,1	0,7	0,7	-2,8	1,7	2,4	0,7	0,1	0,7
1968	-1,8	2,2	-0,9	-2,0	3,5	3,5	0,1	-0,7	0,7
1969	-2,9	1,3	-1,5	-5,6	2,8	2,8	0,3	1,0	0,5
1970	-3,5	0,5	-0,1	-4,8	0,8	0,8	2,7	1,4	0,4
1971	-2,5	0,4	0,3	-4,2	1,6	1,6	2,9	1,9	0,8
1972	-0,3	0,3	0,2	-2,4	1,7	1,7	3,2	0,2	0,7
1973	-1,7	1,3	-0,3	-3,6	-1,8	-1,8	2,5	-1,4	0,1
1974	-3,0	2,6	-2,3	-9,8	-5,1	2,9	1,7	-4,4	-1,0
1975	-1,5	1,0	0	-0,3	-0,3	1,9	1,1	-1,6	0,1
1976	-5,0	0,9	-1,8	-3,3	-1,6	2,7	-0,5	-0,7	-0,5
1977	-3,8	0,7	-0,9	-2,3	1,2	0,2	-0,4	0,1	0,1
1968-77	-2,6	1,1	-0,7	-3,8	0,3	1,6	1,4	-0,4	0,2

TABLE 19

Structure of EC exports by country and region, 1958 and 1976, percentages of total

EXPORTS OF TO	DK		D		F		IRL		I		NL		B/L		UK		EC	
	1958	1976	1958	1976	1958	1976	1958	1976	1958	1976	1958	1976	1958	1976	1958	1976	1958	1976
DK			2,96	2,59	0,75	0,79	0,05	0,63	0,77	0,85	2,63	1,72	1,64	1,44	2,37	2,55	2,00	1,77
D	20,05	14,60			10,46	17,28	2,22	8,78	14,29	19,19	18,98	31,46	17,57	23,42	4,20	7,15	6,71	12,82
F	2,97	4,17	7,58	13,15			0,79	5,18	5,31	15,24	4,87	10,82	10,60	21,17	2,42	6,67	4,59	10,38
IRL	0,30	0,42	0,25	0,27	0,16	0,32			0,13	0,24	0,45	0,38	3,50	0,27	3,50	4,86	1,16	0,94
I	5,31	4,50	5,02	7,42	3,37	10,89	0,43	2,34			2,74	5,25	2,27	4,77	2,11	3,22	3,08	5,92
NL	2,19	3,19	8,10	9,71	2,03	5,10	0,51	5,98	2,05	4,14			20,70	17,07	3,14	5,85	5,41	7,07
B/L	1,24	1,68	5,69	7,92	6,34	10,16	0,80	4,55	2,27	3,91	14,97	15,58			1,93	5,46	4,89	7,43
UK	25,91	17,11	3,95	7,76	4,89	6,03	78,76	49,42	6,83	4,86	11,90	8,45	5,71	6,07			5,72	5,69
TOTAL INTRA COMMUNITY TRADE	57,92	45,70	34,49	45,85	27,98	50,61	83,54	76,92	31,64	48,47	56,53	73,69	52,81	74,25	19,64	35,78	34,28	52,08
OTHER EUROPEAN OECD- COUNTRIES	17,58	29,53	25,17	19,82	11,14	12,23	1,87	4,45	18,69	13,68	13,19	9,15	11,07	18,02	10,31	15,64	15,46	14,88
USA	9,34	5,83	7,31	5,63	5,93	4,52	5,85	7,01	9,71	6,55	5,64	2,89	9,42	3,57	8,83	9,60	7,79	5,59
CANADA	0,68	0,78	1,19	0,78	0,83	0,78	0,67	1,13	1,19	0,96	0,79	0,37	1,13	0,36	5,77	2,45	2,34	0,59
JAPAN	0,20	1,41	0,95	1,09	0,32	0,75	0,05	1,28	0,32	0,87	0,41	0,48	0,60	1,40	0,61	1,40	0,59	0,93
AUSTRALIA	0,26	0,42	1,02	0,69	0,46	0,27	0,08	0,97	0,79	0,70	0,68	0,41	0,55	0,29	7,11	2,68	2,50	0,82
DEVELOPING COUNTRIES of which :	9,65	12,50	22,30	17,85	48,38	24,17	1,57	7,29	27,86	21,86	18,14	10,58	18,80	9,86	33,81	25,97	28,49	18,61
OPEC	.	4,19	.	8,10	.	9,11	.	3,48	.	11,63	.	4,36	.	4,02	.	11,16	.	8,09
OTHER DEVELOPING COUNTRIES	.	8,31	.	9,75	.	15,06	.	3,81	.	10,23	.	6,22	.	5,84	.	14,81	.	10,52
CENTRALLY PLANNED ECONOMIES	3,80	3,56	5,00	6,90	3,00	5,76	0,21	0,64	4,69	5,96	1,98	2,15	3,75	2,64	3,09	3,00	3,75	4,88
REST-WORLD AND UNSPECIFIED	0,61	0,69	2,62	1,39	1,27	0,91	6,19	0,31	4,99	0,95	2,68	0,28	1,90	0,47	10,87	3,48	4,79	1,26
WORLD (EXCL. EEC)	42,08	54,30	65,51	54,15	72,02	49,39	16,46	23,08	68,36	51,53	43,47	26,31	47,19	25,75	80,36	64,22	65,72	47,92
WORLD (INCL. EEC)	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100

Source : EUROSTAT

TABLE 20

Structure of EC imports by country and region 1958 and 1976, percentages of total

IMPORTS OF FROM	DK		D		F		IRL		I		NL		B/L		UK		EC	
	1958	1976	1958	1976	1958	1976	1958	1976	1958	1976	1958	1976	1958	1976	1958	1976	1958	1976
	DK			3,35	1,50	0,63	0,61	0,70	0,87	2,19	0,89	0,67	0,74	0,53	0,45	3,07	2,20	2,04
D	19,84	20,85			11,64	19,21	4,00	6,88	12,13	16,97	19,48	23,78	17,16	22,39	3,60	8,60	8,33	13,05
F	3,43	3,80	7,59	11,63			1,60	4,70	4,86	13,55	2,79	6,93	11,60	16,26	2,67	6,63	4,29	8,46
IRL	0,01	0,17	0,10	0,36	0,05	0,28			0,05	0,21	0,05	0,40	0,10	0,40	2,90	2,76	0,91	0,71
I	1,70	2,84	5,46	8,51	2,35	8,92	0,85	2,55			1,77	3,33	2,15	3,82	2,04	3,59	2,57	5,34
NL	7,34	5,48	8,03	13,77	2,53	6,08	2,86	3,18	2,58	4,70			15,72	17,59	4,22	5,45	5,29	8,19
B/L	3,81	3,84	4,53	8,60	5,37	9,59	1,83	1,94	2,02	3,68	17,85	13,98			1,61	2,99	4,46	6,73
UK	22,82	10,22	4,38	3,85	3,59	4,90	56,41	49,27	5,50	3,50	7,39	6,12	7,40	6,73			5,14	4,72
TOTAL INTRA COMMUNITY TRADE	58,92	47,18	33,41	48,20	26,13	49,55	68,21	69,38	29,30	43,47	49,97	55,25	54,63	67,63	20,09	32,20	35,00	48,16
OTHER EUROPEAN OECD- COUNTRIES	19,51	26,70	17,55	12,16	8,55	8,82	4,43	5,40	12,50	8,04	7,84	6,43	8,19	5,64	14,11	12,04	12,69	9,97
USA	9,10	5,15	13,57	7,91	10,04	7,33	6,98	8,55	16,23	7,88	11,31	9,06	9,92	6,12	9,34	11,37	11,16	8,22
CANADA	0,25	0,38	3,10	1,05	1,02	0,95	2,97	1,29	1,44	1,30	1,43	0,69	1,42	1,04	8,17	3,63	3,71	1,42
JAPAN	1,48	2,88	0,61	2,45	0,18	1,91	1,07	2,22	0,41	1,35	0,82	1,58	0,63	1,58	0,94	2,74	0,69	2,08
AUSTRALIA	0,03	0,09	1,21	0,70	2,42	0,72	1,21	0,15	3,01	0,90	0,20	0,31	1,73	0,59	5,40	1,25	2,71	0,73
DEVELOPING COUNTRIES of which :	6,06	12,14	24,43	20,44	46,71	26,26	9,67	8,58	31,18	28,19	25,02	23,54	19,56	14,51	34,98	25,80	30,41	22,70
OPEC	.	5,40	.	10,23	.	17,71	.	4,10	.	18,42	.	15,76	.	7,44	.	13,84	.	13,56
OTHER DEVELOPING COUNTRIES	.	6,74	.	10,21	.	8,55	.	4,48	.	9,77	.	7,78	.	7,07	.	11,96	.	9,14
CENTRALLY PLANNED ECONOMIES	4,59	4,85	5,31	4,97	3,	3,48	1,24	2,37	3,60	6,09	2,61	2,61	2,01	1,85	3,19	3,78	3,55	4,01
REST - WORLD AND UNSPECIFIED	2,17	0,63	0,84	2,12	1,68	0,98	4,26	2,06	2,36	2,78	1,83	0,50	1,73	1,04	3,82	7,20	2,28	2,71
WORLD (EXCL. EEC)	41,08	52,82	66,59	51,80	73,87	50,45	31,79	30,62	70,70	56,53	50,03	44,75	45,37	32,37	79,91	67,80	67,00	51,73
WORLD (INCL. EEC)	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100

Source : EUROSTAT

TABLE 21

Population 1958-1978, '000

	DK	D	F	IRL	I	NL	B	L	UK	EC
1958	4 515	54 292	44 789	2 853	49 476	11 185	9 024	311	51 870	228 315
1959	4 547	54 876	45 240	2 846	49 831	11 347	9 072	313	52 157	230 229
1960	4 581	55 433	45 684	2 832	50 198	11 483	9 119	315	52 559	232 204
1961	4 617	56 175	46 163	2 818	50 523	11 637	9 166	319	52 954	234 372
1962	4 647	56 837	46 998	2 830	50 843	11 801	9 218	323	53 414	236 911
1963	4 684	57 389	47 816	2 850	51 198	11 964	9 283	326	53 691	239 201
1964	4 720	57 971	48 310	2 864	51 600	12 125	9 367	330	54 033	241 320
1965	4 758	58 619	48 758	2 876	51 987	12 293	9 448	333	54 378	243 450
1966	4 797	59 148	49 164	2 884	52 332	12 455	9 508	335	54 653	245 276
1967	4 839	59 286	49 548	2 900	52 667	12 597	9 557	335	54 933	246 662
1968	4 867	59 500	49 914	2 913	52 987	12 726	9 590	337	55 157	247 990
1969	4 891	60 067	50 318	2 929	53 317	12 873	9 613	339	55 372	249 718
1970	4 929	60 651	50 772	2 950	53 661	13 032	9 638	340	55 522	251 495
1971	4 963	61 284	51 251	2 978	54 005	13 194	9 673	345	55 712	253 405
1972	4 992	61 669	51 701	3 014	54 412	13 330	9 711	348	55 882	255 059
1973	5 022	61 976	52 118	3 051	54 913	13 438	9 742	353	56 021	256 633
1974	5 045	62 054	52 460	3 089	55 413	13 543	9 772	357	56 053	257 787
1975	5 060	61 829	527705	3 127	55 830	13 660	9 801	358	56 042	258 412
1976	5 073	61 531	52 891	3 162	56 170	13 774	9 818	356	56 001	258 777
1977	5 095	61 396	53 078	3 192	56 460	13 853	9 835	355	55 956	259 220
1978	5 110	61 066	53 239	3 222	56 750	13 937	9 860	355	55 894	259 433

TABLE 22

Employment 1958-1978, percentage changes

on preceding year

	DK	D	F	IRL	I	NL	B	L	UK	EC
1958	0,7	0,4	-0,3	-1,5	0,0	-0,9	-1,1	0,0	-1,1	-0,3
1959	3,1	0,9	-0,9	-0,7	0,0	1,0	-0,6	0,0	0,3	0,2
1960	2,8	1,4	0,1	-0,5	-0,2	1,9	0,3	-1,5	-0,1	0,5
1961	1,5	1,4	0,1	-0,2	0,2	1,5	0,8	0,2	1,2	0,8
1962	1,5	0,4	0,2	0,7	-1,0	2,0	1,6	0,3	0,7	0,3
1963	1,2	0,2	1,0	0,6	-1,5	1,4	0,7	-0,6	0,1	0,1
1964	2,1	0,1	1,1	0,5	-0,4	1,8	1,3	0,8	1,1	0,6
1965	1,8	0,6	0,4	-0,2	-1,9	0,9	0,2	0,3	0,9	0,2
1966	1,7	-0,3	0,8	-0,3	-1,5	0,8	0,5	0,3	0,6	0,0
1967	2,1	-3,3	0,3	-0,6	1,1	-0,3	-0,3	-1,8	-1,5	-0,9
1958-67	1,9	0,2	0,3	-0,2	-0,5	1,0	0,3	-0,2	0,2	0,2
1968	0,3	0,1	-0,1	0,3	-0,1	0,9	-0,1	-0,2	-0,7	-0,1
1969	0,9	1,6	1,7	0,3	0,5	1,7	1,7	0,7	0,2	1,0
1970	1,4	1,3	1,3	-1,2	0,4	1,2	-0,5	2,6	-0,5	0,6
1971	0,3	0,3	0,4	0,2	-0,2	0,6	1,0	2,7	-1,4	-0,1
1972	0,3	-0,2	0,6	-0,5	-1,3	-0,9	-0,1	2,7	-0,1	-0,2
1973	0,7	0,3	1,3	0,7	0,7	0,0	1,3	2,1	2,4	1,1
1974	-0,5	-1,9	0,6	0,9	1,4	0,0	1,4	2,6	0,4	0,1
1975	-2,1	-3,4	-1,3	-1,5	0,5	-0,7	-1,4	0,2	-0,5	-1,3
1976	1,2	-0,9	0,2	-1,4	0,8	-0,3	-0,6	-1,5	-0,9	-0,3
1977	0,3	-0,3	0,1	0,2	0,4	0,3	-0,5	-0,8	0,2	0,1
1968-77	0,3	-0,3	0,5	-0,2	0,3	0,3	0,2	1,1	-0,1	0,1
(1978)	-0,1	-0,2	-0,1	1,1	0,2	0,1	-0,7	-1,0	0,5	0

TABLE 23

Unemployed population 1958-1978 as a percentage of civil active population

	DK	D	F	IRL	I	NL	B	L	UK	EC
1958	3,0	2,9	0,5	5,5	9,8	2,0	2,9	0,1	1,9	3,7
1959	0,0	2,1	0,7	5,2	8,7	1,5	3,8	0,1	1,9	3,2
1960	1,5	1,0	0,7	4,7	7,6	0,7	3,1	0,1	1,6	2,5
1961	1,2	0,7	0,6	4,2	6,8	0,5	2,5	0,1	1,4	2,2
1962	1,1	0,6	0,7	4,2	5,7	0,5	2,0	0,1	1,9	2,0
1963	1,5	0,7	0,7	4,5	5,3	0,6	1,5	0,2	2,3	2,1
1964	0,9	0,6	0,6	4,3	5,6	0,5	1,5	0	1,6	1,9
1965	0,7	0,6	0,7	4,5	6,0	0,6	1,8	0	1,4	1,9
1966	0,8	0,6	0,7	4,3	5,8	0,8	2,0	0	1,4	1,9
1967	1,0	1,8	1,0	5,0	5,3	1,7	2,6	0,1	2,2	2,4
1958-1967	1,2	1,2	0,7	4,6	6,6	0,9	2,4	0,1	1,8	2,4
1968	1,7	1,3	1,3	5,2	5,0	1,5	3,1	0,1	2,3	2,4
1969	1,4	0,7	1,1	5,1	4,7	1,1	2,3	0	2,3	2,0
1970	1,0	0,6	1,3	5,8	4,6	1,0	2,2	0	2,5	2,1
1971	1,2	0,7	1,6	5,6	5,0	1,3	2,2	0	3,2	2,5
1972	1,2	0,9	1,8	6,5	5,1	2,3	2,8	0	3,5	2,7
1973	0,7	1,0	1,8	6,0	4,9	2,3	2,9	0	2,5	2,5
1974	2,0	2,2	2,3	6,3	4,8	2,9	3,2	0	2,4	2,9
1975	4,6	4,2	3,9	8,8	5,2	4,1	5,3	0,2	3,8	4,4
1976	4,7	4,1	4,3	9,8	5,5	4,4	6,8	0,3	5,3	5,0
1977	5,8	4,0	4,9	9,7	6,4	4,3	7,8	0,6	5,6	5,3
1968-77	2,4	2,0	2,4	6,9	5,1	2,5	3,9	0,1	3,4	3,2
(1978)	7,2	3,9	5,5	8,9	7,2	4,2	8,2	1,0	5,8	5,8

TABLE 24

Current receipts of general government (taxation, social security contributions and other) in gross domestic product 1958-78

percentage shares

	DK	D	F	IRL	I	NL	B	L	UK	EC
1958	27,7	35,9	34,9	26,5	28,3	33,0	25,7	33,5	32,7	33,0
1959	28,0	36,4	35,0	25,8	29,1	33,3	26,2	31,7	32,5	33,2
1960	28,1	35,8	34,2	25,4	30,1	34,0	27,6	33,6	30,7	32,7
1961	27,4	36,7	35,3	26,3	29,5	35,0	28,6	35,0	32,5	33,9
1962	28,7	37,3	35,6	25,7	30,5	34,5	29,4	33,8	34,2	34,6
1963	29,4	37,2	36,5	26,7	31,1	35,7	29,5	34,4	32,8	34,4
1964	30,3	36,8	37,4	27,5	32,0	35,8	30,2	33,9	32,6	35,0
1965	31,7	36,0	37,8	28,6	31,9	37,4	30,9	34,9	34,4	35,2
1966	34,0	36,6	37,6	30,6	31,8	39,3	32,6	36,8	35,4	35,9
1967	34,6	37,2	37,7	31,3	33,1	40,7	33,4	37,2	37,2	36,7
1958-67	30,0	36,6	36,2	27,4	30,7	35,9	29,4	34,5	33,5	34,5
1968	37,5	36,9	37,9	31,7	33,8	41,9	34,0	41,2	38,9	37,3
1969	37,7	38,7	38,8	32,3	33,2	42,7	34,5	40,4	41,0	38,7
1970	42,2	37,9	39,3	33,9	32,9	43,9	35,4	41,1	42,4	38,7
1971	45,4	38,9	38,7	35,1	34,6	46,1	36,0	44,8	40,5	39,1
1972	45,8	39,3	38,6	34,4	34,6	47,2	36,0	46,5	38,8	38,9
1973	45,4	41,8	38,6	36,0	33,6	48,9	36,9	46,5	38,4	39,7
1974	48,3	42,0	39,8	35,6	34,3	50,7	39,4	44,1	39,2	40,6
1975	45,1	41,5	41,5	34,2	34,7	51,9	42,8	51,3	40,5	41,2
1976	47,5	42,9	43,7	37,9	36,3	53,6	43,1	54,7	40,0	42,6
1977	45,2	44,0	43,2	38,2	37,7	53,9	43,6	55,8	40,1	43,1
1968-77	44,0	40,4	40,0	34,9	34,6	48,1	38,2	46,6	40,0	40,0
(1978)	45,8	43,4	43,1	35,6	38,5	54,9	45,5	55,6	38,9	42,9

TABLE 25

Public expenditure (of general government) in gross domestic product 1958-78

percentage shares

	DK	D	F	IRL	I	NL	B	L	UK	EC
1958	26,0	34,3	35,1	28,2	29,7	34,7	27,9	34,5	32,2	32,9
1959	25,2	34,3	33,3	27,4	30,6	32,8	29,6	35,2	32,4	32,5
1960	25,1	32,5	33,6	27,5	30,4	33,2	30,3	30,5	32,2	32,2
1961	27,3	33,6	34,8	29,3	29,7	35,0	29,8	30,3	33,8	33,2
1962	28,1	35,7	36,1	29,2	30,6	35,6	30,5	32,2	34,7	34,5
1963	28,6	36,1	36,9	30,1	31,4	37,6	31,5	32,8	35,1	35,1
1964	28,4	35,7	37,0	31,4	31,8	37,6	30,8	32,1	35,4	35,1
1965	29,9	36,4	37,5	32,7	35,0	38,7	32,3	33,5	36,5	36,2
1966	31,7	36,7	37,3	33,2	35,1	40,7	33,4	35,2	36,1	36,3
1967	34,3	38,5	37,9	34,4	34,8	42,5	34,5	38,1	38,7	37,7
1958-67	28,5	35,4	36,0	30,3	31,9	36,8	31,1	33,4	34,7	34,6
1968	36,3	37,7	38,8	34,8	36,3	43,5	36,3	43,7	39,9	38,4
1969	36,3	37,6	39,2	36,3	35,9	43,9	36,1	39,8	42,0	38,9
1970	40,0	37,4	38,3	38,1	35,4	45,5	36,5	38,0	39,8	38,2
1971	42,4	39,2	38,0	39,0	39,2	47,4	38,1	42,1	39,1	39,4
1972	42,0	39,4	38,0	38,8	41,2	47,8	39,2	44,0	40,9	40,1
1973	39,5	40,1	38,1	40,7	41,5	49,1	39,5	44,3	41,9	40,6
1974	42,8	43,3	39,2	44,7	39,7	50,6	41,3	39,6	43,7	42,3
1975	47,3	47,4	43,7	48,1	46,0	54,9	46,6	51,1	45,3	46,4
1976	48,1	46,5	44,0	48,1	45,8	55,6	48,0	55,5	44,9	46,3
1977	45,6	46,6	44,5	47,2	46,8	55,4	48,6	55,2	43,4	46,3
1968-77	42,0	41,5	40,2	41,6	40,8	49,4	41,0	45,3	42,1	41,7
(1978)	46,5	46,6	44,9	47,3	49,5	57,8	50,6	55,9	43,1	46,9

TABLE 26

Net lending or net borrowing in gross domestic
product of general government

percentage shares

	DK	D	F	IRL	I	NL	B	L	UK	EC
1958	1,7	1,6	-0,2	-1,7	-1,4	-1,7	-2,2	-1,0	0,5	- 0,1
1959	2,8	2,1	1,7	-1,6	-1,5	0,5	-3,4	-3,5	0,1	0,7
1960	3,0	3,3	0,6	-2,1	-0,3	0,8	-2,7	3,1	-1,5	0,5
1961	0,1	3,1	0,5	-3,0	-0,2	-	-1,2	4,7	-1,3	0,7
1962	0,6	1,6	-0,5	-3,5	-0,1	-1,1	-1,1	1,6	-0,5	0,1
1963	0,8	1,1	-0,4	-3,4	-0,3	-1,9	-2,0	1,6	-2,3	- 0,7
1964	1,9	1,1	0,4	-3,9	0,2	-1,8	-0,6	1,8	-2,8	- 0,1
1965	1,8	-0,4	0,3	-4,1	-3,1	-1,3	-1,4	1,4	-2,1	- 1,0
1966	2,3	-0,1	0,3	-2,6	-3,3	-1,4	-0,8	1,6	-0,7	- 0,4
1967	0,3	-1,3	-0,2	-3,1	-1,7	-1,8	-1,1	-0,9	-1,5	- 1,0
1958-67	1,5	1,2	0,2	-2,9	-1,2	-0,9	-1,7	1,1	-1,2	- 0,1
1968	1,2	-0,8	-0,9	-3,1	-2,5	-1,6	-2,3	-2,5	-1,0	- 1,1
1969	1,4	1,1	-0,4	-4,0	-2,7	-1,2	-1,6	0,6	-1,0	- 0,2
1970	2,2	0,5	1,0	-4,2	-2,5	-1,6	-1,1	3,1	2,6	0,5
1971	3,0	-0,3	0,7	-3,9	-4,6	-1,3	-2,1	2,7	1,4	- 0,3
1972	3,8	-0,1	0,6	-4,4	-6,6	-0,6	-3,2	2,5	-2,1	- 1,2
1973	5,9	1,7	0,5	-4,7	-7,9	-0,2	-2,6	2,2	-3,5	- 0,9
1974	5,5	-1,3	0,6	-9,1	-5,4	0,1	-1,9	4,5	-3,5	- 1,7
1975	-2,1	-5,9	-2,2	-13,9	-11,3	-3,0	-3,8	0,2	-4,8	- 5,2
1976	-0,6	-3,6	-0,3	-10,2	-9,5	-2,0	-4,9	-0,8	-4,9	- 3,7
1977	-0,4	-2,6	-1,3	- 9,0	-9,1	-1,6	-5,1	0,6	-3,4	- 3,3
1968-77	2,0	-1,1	-0,2	- 6,7	-6,2	-1,3	-2,8	1,3	-2,1	- 1,7
(1978)	-0,5	-4,0	-1,4	-11,8	-11,0	-3,0	-5,1	-0,3	-4,2	- 4,0

TABLE 27

Growth of money supply (M2) 1958-1978 (a), percentage changes
on preceding year

	DK	D	F	IRL	I	NL	B	L	UK	EC
1958			6,5	3,8		13,9	6,7			
1959			13,8	2,0	14,3	4,2	5,0			
1960		10,9	16,2	5,5	13,3	4,5	4,0			
1961		14,8	16,7	6,9	15,8	4,9	10,3			
1962		10,4	18,7	7,1	16,7	6,6	7,3			
1963		9,9	14,1	5,5	12,8	9,8	10,3			
1964		9,4	9,8	10,1	8,7	10,4	7,6		5,8	8,3
1965		10,6	10,9	4,1	15,4	6,2	8,7		6,7	9,8
1966	13,0	8,3	10,6	17,9 (b)	13,8	5,9	8,5		3,2	7,5
1967	9,9	12,0	13,1	11,8	13,4	10,9	7,6		9,3	11,5
1958-67			13,0	7,5		7,7	7,6			
1968	14,4	11,8	11,6	15,6	11,4	14,8	9,4		8,5	11,1
1969	10,4	9,4	6,1	10,8	11,4	10,2	9,6		2,1	7,5
1970	2,9	9,0	15,2	6,8 (b)	13,6	11,0	9,3		9,5	11,1
1971	8,8	13,3	18,2	11,9 (b)	17,0	9,0	13,5		13,3	14,5
1972	15,0	14,3	18,6	14,3	18,2	11,9	17,3		27,1	18,2
1973	12,7	9,0	15,0	25,7	23,0	21,9	14,6		27,2	16,5
1974	8,9	8,4	18,1	20,2	15,4	20,1	11,1		10,3	12,8
1975	25,5	8,5	15,9	20,7	23,5	5,7	17,2		6,6	12,7
1976	11,3	8,4	12,8	14,3	21,1	22,7	13,4		8,9	11,1
1977	9,8	11,1	13,9	16,3	21,9	5,5	10,0		10,1	12,5
1968-77	12,0	10,3	14,5	15,7	17,7	11,2	12,5		12,4	

TABLE 28

Short-term interest rates 1958-1978

percentages

	DK	D	F	IRL	I	NL	B	L	UK	EC
1958		3,6	6,5	6,4	3,9	3,0		2,9		
1959		3,2	4,1	5,8	3,6	1,9		1,9		
1960		5,1	4,1	6,5	3,6	2,1		3,9	5,0	4,4
1961		3,6	3,6	6,6	3,6	1,1		4,4	5,2	3,9
1962		3,4	3,6	6,2	3,5	1,9		3,1	4,1	3,6
1963		4,0	4,0	5,8	3,6	1,9		3,3	3,7	3,7
1964		4,1	4,7	6,3	3,6	3,4		4,4	4,8	4,2
1965		5,1	4,2	7,3	3,6	3,9		4,6	5,9	3,1
1966		6,6	4,8	7,6	3,6	4,7		5,3	6,1	5,3
1967		4,3	4,8	7,7	3,6	4,6		5,2	5,9	4,6
1958-67		4,3	4,4	6,6	3,6	2,8		3,9		
1968		3,8	6,1	8,4	3,6	4,4		4,1	7,0	5,0
1969		5,8	9,0	9,0	3,7	5,6		7,1	7,7	6,6
1970		9,4	8,7	9,5	6,5	6,0		7,8	7,0	7,9
1971		7,1	5,8	8,5	5,7	4,3		5,0	5,5	5,9
1972	6,3	5,6	5,0	7,2	5,5	2,2		3,8	5,6	5,2
1973	8,1	12,1	8,9	9,9	6,2	4,1		6,3	9,5	9,3
1974	13,3	9,9	12,9	12,1	15,6	6,9		10,3	11,3	11,5
1975	14,5	5,0	7,9	11,0	9,2	4,4		6,8	10,2	7,5
1976	10,3	4,2	8,6	11,2	15,9	5,8		9,9	11,5	8,5
1977	14,5	4,4	9,1	9,7	15,0	3,9		7,1	7,7	7,8
1968-77		6,7	8,2	9,7	8,7	4,8		6,8	8,3	

TABLE 29

Long term interest rates 1958-1978
percentages

	DK	D	F	IRL	I	NL	B	L	UK	EC
1958		6,5	7,6		6,7	4,3	5,5		5,0	6,1
1959		5,8	6,3		5,7	4,1	5,0		4,8	5,2
1960	6,0	6,3	5,7		5,3	4,2	5,6		5,4	5,6
1961	6,6	5,9	5,5		5,3	3,9	5,9		6,2	5,7
1962	6,6	6,0	5,4		5,8	4,2	5,2		6,0	5,9
1963	6,5	6,1	5,3		6,1	4,2	5,3		5,6	5,6
1964	7,1	6,2	5,4		7,0	4,9	6,5		6,0	6,0
1965	8,6	6,8	6,3		6,7	5,2	6,4		6,4	6,5
1966	8,7	7,8	6,6		6,4	6,2	6,7		6,8	6,9
1967	9,1	7,0	6,7		6,5	6,0	6,7		6,7	6,7
1958-67		5,8	6,1		6,1	4,7	5,9		5,9	
1968	8,7	6,7	7,0		6,5	6,2	6,5		7,4	6,9
1969	9,7	7,0	8,2		6,7	7,0	7,3		8,9	7,7
1970	11,1	8,2	8,6		8,6	7,8	7,8		9,2	8,5
1971	11,0	8,2	8,4		8,0	7,1	7,3		9,1	8,3
1972	11,0	8,2	8,0		7,3	6,7	7,0		9,1	8,1
1973	12,6	9,5	9,0		7,3	7,3	7,5		10,9	9,1
1974	15,9	10,6	11,0		9,4	8,9	8,8		15,0	11,1
1975	12,7	8,7	10,3	14,0	10,6	8,0	8,5		14,7	10,4
1976	14,9	8,0	10,5	14,6	12,2	8,1	9,1		14,3	10,4
1977	16,2	6,4	11,0	12,9	14,6	7,3	8,8		12,3	9,9
1968-77	12,4	8,2	9,2		9,1	7,4	7,9		11,1	

TABLE 30

Gross external financial reserves 1958-1978

annual averages / billions UA/EUA

	DK	D	F	IRL	I	NL	B	L	UK	EC
1958	0,20	6,09	0,87	0,26	1,96	1,37	1,41	2,64	14,80	
1959	0,30	4,89	1,62	0,26	2,99	1,46	1,37	2,80	15,69	
1960	0,27	5,89	2,06	0,31	3,08	1,59	1,38	3,19	17,77	
1961	0,27	7,10	2,97	0,33	3,44	1,87	1,63	3,47	21,08	
1962	0,25	6,75	3,81	0,34	3,73	1,97	1,77	3,40	22,02	
1963	0,32	7,22	4,63	0,37	3,91	2,01	1,90	3,27	23,63	
1964	0,52	7,71	5,26	0,43	3,28	2,12	2,03	3,04	24,39	
1965	0,53	7,48	6,13	0,42	4,20	2,39	2,31	2,65	26,11	
1966	0,57	7,52	6,69	0,44	4,83	2,39	2,33	3,30	28,07	
1967	0,54	7,96	6,78	0,48	5,13	2,48	2,47	2,96	28,80	
1958-67	0,38	6,86	4,08	0,36	3,66	1,97	1,86	3,07	22,24	
1968	0,46	8,95	5,51	0,43	5,42	2,47	2,21	2,68	28,13	
1969	0,37	9,66	3,87	0,59	5,13	2,47	2,67	2,46	27,22	
1970	0,40	9,70	4,51	0,73	4,83	2,87	3,24	2,73	29,01	
1971	0,48	15,91	6,11	0,80	5,96	3,36	3,10	4,04	39,76	
1972	0,71	19,99	8,29	0,93	5,78	4,04	3,41	5,96	49,11	
1973	0,88	26,03	8,62	0,85	5,03	4,70	3,98	5,19	55,28	
1974	0,76	27,67	7,05	0,93	5,17	5,18	4,15	5,76	56,67	
1975	0,70	26,21	8,49	1,06	4,89	5,69	4,72	5,18	56,94	
1976	0,80	30,31	8,99	1,47	4,87	6,13	4,58	4,86	62,01	
1977	1,57	30,91	8,74	1,72	8,00	6,70	4,92	11,99	74,55	
1968-77	0,71	20,53	7,02	0,95	5,51	4,36	3,70	5,09	47,87	

Table 31

E U A yearly average rates
(currency amount for 1 EUA)

	DK	D	F	IRL	I	NL	B	L	UK	US
1958	7,57507	4,60614	4,61264	0,311678	685,438	4,16745	54,8350		0,391678	1,09670
1959	7,29535	4,43605	5,21454	0,377215	660,126	4,01357	52,8101		0,377215	1,05621
1960	7,29535	4,43605	5,21454	0,377215	660,126	4,01357	52,8101		0,377215	1,05621
1961	7,37224	4,30742	5,26950	0,381191	667,084	3,89854	53,3667		0,381191	1,06734
1962	7,38928	4,27921	5,28168	0,382073	668,626	3,87268	53,4901		0,382073	1,06981
1963	7,38928	4,27921	5,28168	0,382073	668,626	3,87268	53,4901		0,382073	1,06981
1964	7,38928	4,27921	5,28168	0,382073	668,626	3,87268	53,4901		0,382073	1,06981
1965	7,38928	4,27921	5,28168	0,382073	668,626	3,87268	53,4901		0,382073	1,06981
1966	7,38928	4,27921	5,28168	0,382073	668,626	3,87268	53,4901		0,382073	1,06981
1967	7,42293	4,25924	5,25703	0,387652	665,506	3,85461	53,2404		0,387652	1,06482
1968	7,71663	4,11554	5,07967	0,428702	643,052	3,72456	51,4442		0,428702	1,02889
1969	7,66640	4,02622	5,29027	0,425912	638,866	3,70032	51,1093		0,425912	1,02219
1970	7,66675	3,74138	5,67767	0,425931	638,895	3,70049	51,1116		0,425931	1,02223
1971	7,75264	3,64566	5,77214	0,428583	647,414	3,65750	50,8663		0,428583	1,04776
1972	7,78909	3,57681	5,65717	0,448541	654,264	3,59991	49,3611		0,448941	1,12178
1973	7,41598	3,27644	5,46775	0,502321	716,460	3,42853	47,8009		0,502321	1,23173
1974	7,25927	3,08352	5,73386	0,509803	775,743	3,20224	46,3994		0,509803	1,19270
1975	7,12266	3,04939	5,31923	0,559814	809,545	3,13490	45,5690		0,560026	1,24077
1976	6,76176	2,81545	5,34486	0,621920	930,150	2,95515	43,1654		0,621578	1,11805
1977	6,85567	2,64831	5,60607	0,653701	1006,785	2,80010	40,8826		0,653701	1,14112
(1978) (a)	7,02507	2,57018	5,73995	0,659085	1067,35	2,75964	40,1640		0,659079	1,24542

TABLE 32

Budgetary expenditure of the European Communities 1958-1979

1 000 UA (a)

	ECSC Operational Budget	European Develop. Fund	Euratom (b)	EC General Budget					Total	Total
				FEOGA	Social Fund	Regional Fund	Industry Energy Research	Admn. and others(c)		
1958	21 700	-	3 700	-	-	-	-	19 000	19 000	44 400
1959	30 700	51 200	8 500	-	-	-	-	29 500	29 500	119 900
1960	23 500	63 200	5 800	-	-	-	-	33 100	33 100	125 600
1961	26 500	172 000	6 900	-	8 600	-	-	38 800	47 400	252 800
1962	13 600	162 300	54 800	-	11 300	-	-	44 700	56 000	286 700
1963	21 900	55 500	84 700	-	4 600	-	-	50 700	55 200	217 400
1964	18 700	35 000	100 100	-	7 200	-	-	56 900	64 100	217 900
1965	37 300	248 800	120 000	30 300	3 000	-	-	62 000	95 300	501 400
1966	28 100	157 800	129 200	55 000	18 400	-	-	72 100	145 500	460 600
1967	10 400	105 800	129 500	401 600	20 000	-	-	66 100	487 700	733 400
1968	21 200	121 000	73 400	1 295 600	26 100	-	-	92 800	1 414 500	1 630 100
1969	40 700	104 800	59 200	1 675 100	20 600	-	100	104 400	1 800 200	2 004 900
1970	56 200	10 500	63 400	3 166 800	37 700	-	1 000	116 300	3 321 800	3 451 900
1971	37 400	236 100	-	1 883 586	56 473	-	65 010	284 370	2 289 439	2 560 939
1972	43 700	212 700	-	2 477 557	97 498	-	75 145	424 173	3 074 373	3 330 773
1973	86 900	210 000	-	3 768 837	269 220	-	69 144	533 813	4 641 014	4 913 914
1974	92 000	157 000	-	3 651 336	290 684	-	82 770	1 011 944	5 036 734	5 187 934
1975	127 400	71 000	-	4 598 564	360 300	150 000	99 870	1 032 377	6 241 111	6 375 611
1976	94 000	320 000	-	6 043 555	439 397	300 000	117 457	1 343 475	8 243 884	8 657 884
1977	93 000	800 000	-	6 751 520	172 440	400 000	173 800	1 400 030	8 897 790	9 790 790
1978	EUA	:	-	9 131 959	559 107	525 000	295 336	1 851 253	12 362 655	:
1979 (draft)	EUA	:	-	10 069 824	748 182	390 000	516 265	2 135 048	13 859 300	:

TABLE 33

Budget receipts of the European Communities, 1958-1978

1 000 UA (2)

	ECSC Levies and other	Europ. Dev. Fund Contrib.	Euratom Contrib. (Research only)	E C B U D G E T					Total EC	T o t a l
				Miscellan. and Contrib. under spec. keys	Own resources			Total EC		
					Miscella- neous	Agricult. Levies	Import Duties			
1958		116	3 003	4 856	16	-		10 350	15 222	
1959		116	29 931	9 139	81	-		22 418	31 638	
1960		116	34 578	31 373	179	-		20 502	52 054	
1961		116	62 503	22 389	254	-		44 846	67 489	
1962		116	76 788	34 019	1 482	-		59 712	95 213	
1963		-	93 349	34 812	6 316	-		47 413	88 541	
1964		-	109 938	34 806	2 372	-		59 920	97 098	
1965		-			2 665	-		161 093	189 879	
1966		-			3 088	-		370 665	390 457	
1967		40	140 460	62 168	3 635	-		612 783	678 586	
1968		90	-		6 232	-		2 171 635	2 408 639	
1969		110	-		14 874	-		2 695 761	4 005 647	
1970		130	-		11 189	-		4 879 821	5 448 339	
1971	57 900	170	-	69 515		713 800	582 200	923 825	2 289 438	2 347 410
1972	61 100	170	-	80 935		799 600	957 400	1 236 613	3 074 372	3 135 818
1973	120 300	150	-	57 127		510 500	1 986 500	2 257 300	4 583 887	4 931 877
1974	124 600	150	-	65 256		330 200	2 737 800	1 963 408	5 096 664	5 221 414
1975	189 500	220	-	307 980		590 078	3 151 023	2 164 628	6 213 710	6 403 429
1976	129 600	311	-	334 357		983 910	3 860 108	2 245 496	7 423 871	7 553 782
1977	123 000	410	-	385 694		2 085 723	4 652 580	3 207 507	10 331 504	10 454 914
1978	:	147	-	135 900		2 063 000	4 833 000	5 330 800	12 362 700	:
1979 (Draft)	:	:	-	158 500		2 144 100	4 745 500	6 811 200	13 859 300	:

TABLE 34
 Borrowing operations of the European Communities and of the European Investment Bank 1958-1977
 in millions UA/EUA (a)

	CECA	BEI	EURATOM	C.E.E.
1958	50,0	-	-	-
1959	-	-	-	-
1960	35,0	-	-	-
1961	23,2	21,4	-	-
1962	69,8	32,3	-	-
1963	33,2	35,2	4,5	-
1964	127,8	66,8	8,0	-
1965	54,3	65,0	11,0 (b)	-
1966	103,0	138,5	13,7	-
1967	58,0	194,5	2,6	-
1968	108,0	212,5	-	-
1969	52,0	146,0	-	-
1970	60,0	168,9	-	-
1971	102,3	412,9	0,6 (b)	-
1972	230,0	462,0	-	-
1973	262,9	608,0	-	-
1974	527,7	825,5	-	-
1975	731,3	813,7	-	-
1976	956,2	731,9	-	1249,3
1977	727,4 (c)	1029,5	99,2	571,4

TABLE 35

Net outstanding borrowing of the European Communities and of the European Investment Bank 1958-1977
in millions UA/EUA (a)

	CECA	BEI	EURATOM	C.E.E.
1958	212,2	-	-	-
1959	208,6	-	-	-
1960	236,4	-	-	-
1961	247,8	21,4	-	-
1962	304,3	53,7	-	-
1963	321,7	88,4	-	-
1964	436,0	153,7	-	-
1965	474,7	217,2	-	-
1966	559,7	355,0	-	-
1967	601,3	547,8	-	-
1968	685,9	736,8	-	-
1969	718,6	882,6	-	-
1970	740,6	1020,0	-	-
1971	801,7	1423,3	-	-
1972	963,0	1784,3	-	-
1973	1172,3	2286,5	-	-
1974	1617,1	3123,8	-	-
1975	2393,1	3926,0	-	-
1976	3476,5	4731,8	-	1160,8
1977	3955,9 (c)	5420,5	110,0	1499,8

The annual credits taken up with the Eximbank (U.S.) are not available for 1976 and earlier years.

NOTES ON THE STATISTICAL ANNEX

General remarks:

Unless otherwise specified, aggregates are defined as in the ESA (European system of integrated economic accounts). Where possible, the tables include the latest available information. Thus data may differ from those given in publications by the Statistical Office of the European Communities.

Unless otherwise specified, the data for 1978 refer to the whole year; as the report was completed at the end of September, they therefore incorporate forecasts for the latter part of the year.

Remarks on the tables:

<u>Tables</u>	<u>Notes</u>
1 - 3:	<p><u>Sources:</u> 1958-76: Eurostat <u>National Accounts ESA</u>, except for Denmark from 1966 (<u>Statistiske Efterretninger 1978</u>, No 20, Danmarks Statistik) and for Ireland from 1970 (CSO, <u>National Income and Expenditure 1976</u>).</p> <p><u>1977:</u> Eurostat, national sources and Commission estimates.</p> <p><u>1978:</u> Commission forecasts.</p>
4, 6 and 7:	<p><u>Sources:</u> 1958: tables 4 and 7, and <u>1958-60</u> : table 6 : Eurostat, <u>National Accounts, 1972</u>, (non-ESA system).</p> <p>1959-1976 : tables 4 and 7, and 1960- 1976 : table</p> <p>Eurostat <u>National Accounts ESA</u> for all countries except Denmark and Ireland (see sources for tables 1 - 3).</p> <p><u>1977:</u> Eurostat, national sources and Commission departments.</p> <p><u>1978:</u> Commission departments.</p>

<u>Tables</u>	<u>Notes</u>
4, 6 and 7:	(a) 1963 prices and exchange rates (b) 1975 prices for the Netherlands. (c) Previous year's prices and exchange rates.
5:	<u>Sources:</u> 1958-77: Eurostat <u>General Statistics</u> . 1978: Commission forecasts (value-added). (a) Not including building.
7, 8, 9, 10 and 11:	<u>Sources:</u> 1958-60: SOEC, <u>National Accounts</u> , 1972 (the rates of change have been applied to ESA 1960 values to keep the series consistent). 1961-76: Eurostat <u>National Accounts ESA</u> . 1977: Eurostat, national sources and Commission estimates. 1978: Commission sources (the rates of change have been applied to ESA 1977 values to keep the series consistent).
12 and 15:	<u>Coverage:</u> goods, services (including tourism), not including factors payments. <u>Sources:</u> 1958-67: SOEC <u>National Accounts</u> , 1972, except for FR Germany and the United Kingdom, where national sources were used. 1968-77: OECD National Accounts. 1978: Commission forecasts.
13, 14, 16 and 17:	<u>Coverage:</u> merchandise: imports c.i.f. at national frontier exports f.o.b. at national frontier. <u>Sources:</u> 1958-75: Eurostat <u>Foreign trade</u> (monthly bulletin) special edition 1958-75, and <u>National Accounts ESA</u> . 1976-77: Eurostat <u>Foreign trade</u> (monthly bulletin) No 5 1978 and <u>National Accounts ESA</u> . 1978: Commission forecasts.
18:	<u>Sources:</u> Eurostat

Tables

19 and 20:

Sources: Eurostat and OECD.

Sources: 1958-76: Eurostat National Accounts ESA.

Sources: 1958-77: Eurostat. This is the ratio of the number of registered unemployed (SOEC definition) to the civilian labour force.

1978: Commission forecasts; definitions of unemployment in some countries are different from the SOEC definitions and the rate has been calculated as a percentage of total labour force, so that 1978 data are not completely comparable with 1977 data.

24, 25, 26:

Sources: 1958-73: OECD National Accounts.

1974-78: Economic budgets drawn up by Commission departments.

27:

Sources: DK: money supply M2, national definition from Danmarks Nationalbank, Monetary Review.

D: money supply M3, national definition from Deutschen Bundesbank, Monatsbericht.

F: money supply M2, national definition from Conseil National du Credit, Rapports.

IRL: money supply M3, national definition from Central Bank of Ireland.

Estimates for the periods of band strikes and industrial action, i.e. March-September, 1966 and March 1970- March 1971.

I : primary and secondary liquid assets (M2), national definitions from Banca d'Italia, Supplemento al Bolletino.

NL: domestic liquidity: Nederlandse Bank, Kwartaalbericht.

B: 1958-69: money supply including other commitments towards firms and individuals: Banque Nationale de Belgique, Bulletin.

1970-1977: deposits up to one year held by firms and individuals with national financial bodies: Banque Nationale de Belgique, Bulletin.

Tables

27:

Sources: UK: money supply sterling M3: CSO, Economic Trends, Annual Supplement, 1977 and Economic Trends, July 1978.

28:

Sources: DK: money market rates, annual average daily rate: OECD, Main economic indicators.
D: three-months' money Deutschen Bundesbank, Monatsbericht.

F: daily rates for loans against non-government securities between banks on the money market: Couseil National de Credit, Rapport.

IRL : Prime lending rate (average rate of last Friday of each month). Central Bank of Ireland.

I: yield on 12-month treasury bonds: Banca d'Italia, Supplemento al Bolletino.

NL: three-month treasury bonds: Nederlandse Bank, Kwartaalsbericht.

B: three-month treasury bonds: Nationale Bank van Belgie", Bulletin.

UK: Treasury bill rate: OECD, Main Economic Indicators, Historical Statistics 1960-1975, and CSO, Economic Trends.

29:

Sources: DK: 1960-70: yields on mortgage debentures: OECD, Main Economic Indicators. 1971-77: average of yields on state bonds and ordinary and special mortgage loans: Danmarks Nationalbank, Monetary Review.

D: interest rate on capital (Kapitalzins) Deutschen Bundesbank, Monatsbericht.

F: long-term interest rate: stock exchange yield on public and semi-public sector bonds. 1958 and 1959: public sector industrial bonds. From 1965, issues subject to withholding tax.

IRL : Government bond yield. Average gross yields, as far as possible the average of the last Thursday of each month.

Tables	Notes
29 :	<p><u>Sources</u>: I: yield on bonds: Banca d'Italia, <u>Supplemento al Bollettino</u>.</p> <p>NL: yield on Nederland 1948 bonds (3.25%): Nederlandse Bank, <u>Kwartaalbericht</u>.</p> <p>B: yield on government securities maturing after more than five years: Nationale Bank van Belgie, <u>Tijdschrift</u>.</p> <p>UK: British Government securities 2 1/2 % consols yield: CSO, <u>Economic Trends</u>, July 1977 and <u>Economic Trends, Annual Supplement 1977</u>.</p>
30 :	<u>Sources</u> : OECD
31 :	<p><u>Sources</u>: Commission departments</p> <p>(a) average to August 1978.</p> <p><u>Coverage</u> : outturns except authorisations for 1978 and 1979.</p>
32 :	<p><u>Sources</u>: <u>1958-77</u>: Management accounts.</p> <p><u>1978</u>: General EC budget.</p> <p><u>1979</u>: Draft general EC budget.</p> <p>(a) <u>Sources</u>: u.a. up to 1977, EUA 1978 onwards.</p> <p>(b) incorporated in the EC budget from 1971.</p> <p>(c) including the European Parliament, the Council, the Court of Justice, the Court of Auditors and the administrative part of the ECSC budget.</p>
33 :	<p>(a) Outturn except 1978 estimates + 1979 Forecasts -</p> <p><u>Sources</u> : <u>1958 to 1977</u> : Comptes de Gestion, <u>1978</u> - General Budget of the EC, <u>1979</u> Draft General Budget of the EC.</p> <p>(b) UA until 1977 - EUA 1978 onward.</p> <p>(c) GNP until 1978, VAT from 1979 onward.</p> <p>(d) This column includes for the years to 1969) surplus revenue from previous years.</p>

<u>Tables</u>	<u>Notes</u>
34, 35	<p data-bbox="608 313 1424 414"><u>Coverage:</u> actual figures, except for 1978 and 1979, where appropriations are given.</p> <p data-bbox="608 425 1424 526"><u>Sources:</u> ECSC: European Investment Bank, 20 years 1958-78</p> <p data-bbox="762 526 1401 616">Euratom: D. Strasser, <u>Europe's Finances</u> and Euratom prospectus</p> <p data-bbox="762 616 1270 660">EEC: Commission departments</p> <p data-bbox="762 660 1124 705">ECSC: 1958-74: u.a.</p> <p data-bbox="900 705 1108 750">1975-77: EUA</p> <p data-bbox="762 750 1124 795">EIB: 1961-73: u.a.</p> <p data-bbox="762 795 1124 840">Euratom: 1963-71: u.a.</p> <p data-bbox="900 840 1062 884">1977: EUA</p> <p data-bbox="762 884 1108 929">EEC: 1976-77: EUA</p> <p data-bbox="400 660 454 705">(a)</p> <p data-bbox="762 974 1424 1064">withdrawals from credit lines opened with Eximbank (USA).</p> <p data-bbox="400 974 454 1019">(b)</p> <p data-bbox="400 1075 454 1120">(c)</p> <p data-bbox="762 1075 1085 1131">provisional figures.</p>