COMMISSION OF THE EUROPEAN COMMUNITIES

COM(82) 365 final

Brussels, 8th June 1982

COMMISSION COMMUNICATION TO THE COUNCIL
ON THE PROBLEM OF INVESTMENT

COM(82) 365 final

CONTENTS

Introduction

The European Council of 29 to 30 March expressed its concern at the level of productive investment in Europe, especially in the growth industries of the future. It agreed on the need for the Community and each Member State to take, as from this year, each as far as it was individually concerned, all appropriate steps or initiatives to reverse this trend. It confirmed the importance it attributed to the lowering of interest rates and the strengthening of the Community lending instruments for the benefit of investment, particularly in the fields of energy and industrial and agri-foodstuffs development. It requested the Commission to make any proposals it deemed useful and the Council to adopt the means and procedures for attaining these objectives. It requested a preliminary report for the meeting in June.

The present document recalls the growth of investment in recent years. It analyses the role of government and the Community's possible contribution in the area of investment, with a view to providing a framework for the initiatives and the proposals for a coordinated investment policy.

1. The necessity of increasing investment

1.1. The share of gross fixed capital formation in GDP in the Community has declined appreciably relative to the first half of the 1970s: this trend is common to all the Community countries, except Ireland, although it differs in degree. It is due to the fall in absolute terms recorded in 1974 and 1975 and to a marked weakness over the recovery period 1976-80, except for Germany where the share of investment in GDP has nevertheless not managed to climb back to the level recorded in the early 1970s. The preliminary figures for 1981 show, again with the exception of Ireland, a new fall in real terms which will continue into 1982 according to the latest forecasts for the majority of the Member States - the positive rates of Ireland, Italy, Luxembourg and the United Kingdom remaining very low.

Within this overall trend, the share in value added of investment in industrial production is tending to decline relative to the first half of the 1970s although the volume growth rate has fluctuated fairly sharply over the period and in 1979 in particular. Further, for equipment investment, the growth rate was generally higher than for non-residential building, reflecting a greater need to rationalize as a result of the changes in relative prices. There is also evidence of a decline, since 1974, in the investment share in value added for the market services sector, and since 1976 for energy products. Lastly, the share of general government fixed investment in GDP, and even more in total public expenditure, has shown a fall in the second half of the 1970s. (See annexed tables.)

1.2. This investment trend must be reversed because:

- the consequence of the weakness of investment is an ageing of productive equipment and a slowdown in the incorporation of technological progress at a time when the Community must

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maintain and in certain cases re-establish its competitiveness, if it is not to lose out, on both domestic and third markets, to its trading partners in the race for profits and new jobs deriving from an improvement in internal and international demand; a dynamic ability to adapt to new market prospects depends on the modernity of the productive apparatus.

Although markedly greater than that of its chief industrialized partners, the Community's market share in extra-Community trade in manufactured products has fallen, whereas those of the United States and Japan have increased; the losses in certain intermediate technology sectors are greater than those of the United States, and it is beginning to fall significantly behind in the high-technology sectors:

1973-80 % change in market shares		EC	USA	Japan
Manufactured products		-0,2	+0,7	+2
of which:	steel	-1,7	-0,1	+2,3
	Equipment goods of which:	-0,7	-0,1	+4,3
	office and telecommunications equipment	-1	+2,2	+1,8
	road vehicles	-3,7	-3,2	+10,3

In particular, despite a positive export-import balance for high-technology products (120, compared with 597 for Japan, while the USA is in equilibrium), the movement in its relative position as regards the share of exports of these products in total exports was somewhat unfavourable (an index number of 100 indicates a ratio of high-technology products to total exports equal to that of the OECD):

High technology products specialization in the OECD	EC	USA	Japan
1963	102	129	56
1970	94	127	87
1980	88	120	141

While taking into account the fact that for investment goods the EEC's market share in exports to the rest of the world is greater than that of the USA and Japan (in 1980 28.4% compared with 15% and 15.1% respectively), it should be noted that the export/import ratio for these goods has deteriorated significantly, reflecting a growing penetration on the Community market, and an inadequate performance on third markets:

Investment goods: export/import	EC	USA	Japan
1973	151	130	572
1980	139	132	809

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b) a lasting relaxation of the energy constraint on growth depends either on investment in this sector, or on the conversion of industrial plant and equipment, which is linked to the rate of substitution of existing capital;

According to available estimates the share of energy investment between 1981 and 1990 is likely to be some 2% of gross national product. But these rates remain appreciably below those forecast for the United States (4%) and Japan (3 to 3.5%) over the same period.

c) the possibilities of a non-inflationary return to growth are connected with the existence of adequate production capacity: now, a level of capacity utilization which, according to available estimates is low (78% for industry in the Community in 1981) can, as a result of economic obsolescence caused by the change in energy prices and by the slowdown in the rate of substitution of capital, prove quite insufficient to prevent bottlenecks and new bursts of inflation: apparent capacity no longer corresponds to economic capacity.

d) the creation of lasting jobs requires the proportion of investment in GDP to be increased, in order to help to absorb existing unemployment, or because, as a result of technological progress and the need to adopt more energy-saving production processes, the average volume of investment needed to create a new job in industry and services has progressively risen, or because part of the existing unused capacities are anyway obsolete.

By way of illustration, in 1980 average capital intensity in industry (at 1970 prices and exchange rates) was some 20.000 ECU per annum per employed person. Using this average figure as an approximation, it is possible to estimate that the creation of 5 million new jobs (about half of current unemployment) would demand a volume of 100.000 million ECU of investment, or about 12,5% of GDP.

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At company or even industry level, investment may possibly result in a loss of jobs; however, at the level of the economy as whole, increased capital formation determines the competitivity of the industrial sector in particular, and is hence an important determinant of the maintenance of a large proportion of the existing jobs and of the capacity to create lasting new ones. The fear of unfavourable effects on employment is very often due to an insufficient awareness of the full forward and backward linkages and their effects on employment, including employment in the service activities (e.g. the development of automated industrial installations creates a heavy demand for specialized technicians).

2. The obstacles to investment

If investment is to stage a lasting recovery, the chief requirements are the re-establishment of a more stable and more predictable macroeconomic environment, and more optimistic expectations as to the future of external and internal demand.

In the present slow-growth situation a number of factors form a particular barrier to investment decisions.

These are:

2.1. a high level of uncertainty concerning:

- the movement of exchange rates: in recent years, the ECU has in turn appreciated and depreciated almost 50% against the yen and depreciated by a similar amount against the dollar (1); these movements do not correspond to equivalent divergences in inflation or in the movement of costs.

- the movement of relative prices: high inflation rates (still above 10% for the Community as a whole) make it more difficult for those involved in business activity to distinguish between price variations determined by changes in the demand for various goods or by the general increase in prices; added to this are the uncertainties as to the future of certain prices, such as oil and energy prices, the determination of which depends also on non-economic factors;

- the level and variability of real and nominal interest rates. In 1981, real long-term rates stood at levels above 5% in Belgium, Denmark, the Federal Republic of Germany and the Netherlands: because of lower growth prospects, these real rates have a greater impact than the similar rates recorded in the 1960s. High nominal rates bear particularly heavily on deferred-profitability investment (e.g. in the field of construction, certain types of energy investment, and in the case of plans for the introduction of new products) and reduce the incentive to invest, in particular when the company has no access to additional sources of finance for the period during which the investment is not producing profits. Then again, the variability of interest rates makes it more difficult to forecast the cost of the capital, and the burden of indebtedness, and tends to result, at least in the short term, in a wait-and-see attitude on the part of companies.

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(1) ECU/Yen: February 1980 - August 1981 50% devaluation (preceded by an equivalent revaluation between August 1978 and November 1979); ECU/$: 45% devaluation between July 1980 and August 1981. In 1981, the variability of European currencies against the ECU, measured by the variation coefficient, stood at 14.2 (non-weighted average), as against 62.3 for the dollar.

The increased uncertainty is accompanied by an increase in the degree of risk, which means that the rate of return must be higher for the investment to be undertaken.

2.2. The trend in profitability: the net yield on business capital in manufacturing industry was particularly low in the Community in the late 1970s: for the Federal Republic of Germany, France, the United Kingdom, Italy, the net yields on fixed capital (% - annual average) were markedly lower than in the USA and Japan:

Net operating surplus as % of fixed capital	1960-73	1974-79
EC (FRG, F, I, UK)	18,7	13,4
USA	29,1	20,6
Japan (gross surplus)	34,2	32,0

The growth in labour costs, when it is greater than that of productivity adjusted by the movement of the terms of trade and of indirect taxation, is reflected in a drain on profits: compared with 1973, the relationship between productivity adjusted in this way and real wages moved as follows:

Adjusted productivity/ real wages (1973 = 100)	CE	USA	Japan
1979	102,1	99,5	109,3
1980	103,0	100,4	110,6
1981	105,8	100,6	111,7

It should be noted that, although real wages in Japan rose more rapidly relative to adjusted productivity, the wage share as a percentage of value added in manufacturing industry remained at a lower level than in the Community:

Wage share/ V.A.	1962-73	1973-78
EEC (FRG, F, I, UK)	0,64	0,70
Japan	0,51	0,60

Then again, competitive edge also depends on the level of wage costs: in the countries where these are particularly low, an increase in the growth of adjusted productivity can take place without altering competitiveness decisively: now, according to certain estimates, in 1981 Japan's position in terms of wage

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costs per unit of output was markedly better than that of the Community (figures in DM, D = 100):

D	B	F	I	NL	UK	USA	Japan
100	115	91	119	99	123	97	82

2.3. insufficient channeling of savings towards medium and long-term investment and direct company financing, even though the personal savings ratio is high in the Community (16.2% in nominal terms in 1981) and close to that in Japan (18.7%). Public deficits, partially recession-induced, absorb an excessive proportion of savings and increase the cost of credit; the general government [1] borrowing requirement, as a percentage of GDP, which averaged -0.4 for the period 1961-70, has remained very high for the Community in recent years, and higher than that of the USA and Japan in 1981.

General government financial deficit (%GDP)	1974-78	1979	1980	1981
EC	-3,7	-3,6	-3,6	-5,0
USA	-0,9	+0,5	-1,2	-0,9
Japan	-3,2	-4,7	-4,2	-4,0

Further, at the time when the slow growth of demand and the pressure of costs were narrowing the margins for self-financing and weakening the financial structures of companies, a group of factors such as the insufficient real after-tax yield on securities issued by companies, the reluctance to enter into long-term commitments in an uncertain climate, in some cases an under-development of the activity of non-bank intermediaries (e.g. institutional investors or mutual investment funds), imperfections in the financial market (stock exchanges), the more favourable tax treatment of savings invested in housing or insurance, and the nominal rates of public securities, often tax-exempt, have helped to make companies' recourse to external financing more difficult.

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(1) For the USA, these figures may appear to contradict those usually quoted. The figures in the text relate to the whole of general government (i.e. central and local government and social security funds) : in the USA, the federal deficit (- 2,1 % of GNP in 1981) is partly offset by the surpluses of the states and local administrations (+ 1,2 % of GNP in 1981).

In the Community, in the latter part of the 1970s, the funds raised on credit markets by the corporate sector, as a percentage of GNP, decreased:

Recourse to credit markets (% GNP)	D	F	UK	USA	JAP
1972-76	3,8	7,3	4,7	5,7	13,3
1977-79	3,4	5,9	2,8	6,1	6,3

In 1979, the breakdown of recourse to the share, bonds and loan markets, as a % of GNP, was the following:

Recourse to credit markets (% GNP)	D	F	UK	USA	JAP
shares	0,3	0,6	0,5	0,1	0,6
bonds	-0,2	0,5	0,0	1,1	0,4
loans	4,1	3,8	2,9	5,4	4,7
total	4,2	4,9	3,4	6,6	5,7

More recently, in several Member States, companies' recourse to the capital markets by the issue of shares has increased substantially; nevertheless, further progress along this road is necessary if an upturn in investment in response to an improvement - even moderate - in general economic conditions is not to be held back by unbalanced financial structures or is not to run into bottlenecks because of specific inadequacies in the financial channels. These obstacles can be particularly severe in the case of small or medium-sized enterprises which can be hampered from exploiting their innovation potential, or in the case of certain deferred profitability projects - R&D in particular - by large companies which involve the mobilization of substantial financial resources.

2.4. insufficient adaptability of labour at the level of worker qualification or company management, which constitutes an obstacle to the use of the most sophisticated and efficient equipment, and production and organizational techniques, so impeding a speedy and widespread introduction of technical progress.

2.5. inadequacy of outlets: an insufficient level of demand of certain European product lines often reflects companies' inability to satisfy a potential or existing demand by offering a better deal in terms of costs, quality, delivery dates, financing and after-sales service.

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3. The role and instruments of government

3.1. Government has a crucial role, at the macroeconomic level. In the current situation, it has to :

- reduce uncertainty by strengthening confidence in the policies of fighting inflation and of restoring the key economic equilibria.

- improve the general climate and create more optimistic expectations by taking, at the appropriate time, every possible opportunity to support internal and international growth, the recovery of which is still fragile and extremely vulnerable to exogenous external shocks; interest rates must be brought down in line with the slowdown in inflation and must also result from the reduction of excessive public deficits.

3.2. Irrespective of their responsibilities in stabilization policy governments exert a positive or negative influence on capital formation through the structure and "quality" of public expenditure, the action of the public sector as broadly defined, tax and financial incentives to corporate investment, and regulations; on a more general level, structural policies, such as industrial policy, research and innovation policy and vocational training policy, have an influence, though one which is difficult to quantify, on the rate of increase and the quality of the capital stock.

3.3. Efforts to reduce public deficits have concentrated, particularly in certain member countries, on reducing public investment rather than consumption: in 1981, general government gross capital formation, which in 1970 represented 4.1% of GDP, stood at 3.1% of GDP, while total current expenditure has increased from 33% to 45% of GDP on the same period.

Investment by public undertakings also represents a large proportion of capital formation. Since these undertakings predominate, in the Community, in the transport, energy and telecommunications sectors, their investment can be crucial for the modernization of

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infrastructures of the Member States, while at the same time representing a demand for high technology products.

An indiscriminate reduction of public sector investment under the pressure of the financial constraints which are particularly evident in the deferred profitability areas certainly implies risks for the quality of the services offered to the productive sector and for the actual competitiveness of the economy.

This assessment needs to be qualified in two ways.

First, if the overall impact of public sector investment is to be positive, the aspects of medium-term profitability must be correctly incorporated into the decision-making process and preference must be given, in public investment, to expenditure, including infrastructure expenditure, which helps to develop productive activities.

Second, certain elements of <u>current public expenditure</u> in reality have an investment value to the extent that they finance the improvement of human capital, vocational training and the dissemination of its results, and offer companies market prospects by creating a level of demand high enough to permit the production of advanced technology products. In certain cases, the issue should also be tackled of the submission to market rules of some types of public services and products.

3.4. <u>Tax and financial</u> investment <u>incentives</u> (grants, tax breaks, interest rate subsidies) have seen their weight in the public budgets become progressively significant. Because of this steady increase in a period of greater budget deficits, reconsideration is justified of their effectiveness in assisting capital formation and promoting the overall competitiveness of the economy.

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Investment grants (national accounts definition) accounted for 1 % of Community GDP on average in the 1970s. In general total gross fixed capital formation was subsidized in this way by roughly 4% in the first half of the 1970s and by 5% since then. Levels and trends varied substantially between countries, reflecting to a large degree the varying emphasis placed on different instruments (like interest-rate subsidies, investment grants, and tax depreciation allowances).

As regards taxation, the adjustment of depreciation allowances is an important instrument, on which the recent tax reform in the USA has relied heavily. However, its impact is a function of the marginal rates of corporation tax, and of the other taxes on costs or income from capital.

The interaction between tax structure, inflation and technological progress is also clear: the replacement of investment goods in an inflationary climate requires higher nominal expenditure and liquidity (the replacement cost of a capital good after 10 years' use, in 1970, was in the Community some 32% higher than the nominal capital costs recovered, but in 1980 this figure rose to 62%), while the acceleration of technological progress reduces the useful life of the capital.

The ratio of internal to external financing, and the possibilities of external corporate financing (recourse to risk capital, medium and long term indebtedness) also partly depend on the taxation of the different types of financial assets, which is often designed to favour the placement of public securities in order to enable the financing of the public deficits.

3.5. Public intervention in the form of laws or administrative regulations has a great impact, although one which is difficult to quantify, on the whole investment process. The laying down of measures and the setting of standards for the purposes of safety, environmental protection, and technical compatibility determine the characteristics of products and manufacturing processes; measures governing working hours and conditions affect the degree of equipment utilization and, in the end, the relative factor cost; the rules governing the financial sector, in particular when they are rigid in laying down operational possibilities (e.g., by limiting the acquisition of certain types of assets) influence the mechanism for channelling savings into productive investment.

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In general, intervention in the form of regulations must respect a balance between the specific objectives in view (e.g. safety, environmental protection, etc.) and their possible action as a brake on investment and innovation. In any event, new regulations or changes to them - justified on the grounds of changes in technology - must be as predictable as possible, so that they can be incorporated into companies' investment decisions.

3.6. If concrete results are to be obtained, the public authorities must use all the different instruments available to them (macro-economic policies, public expenditure, incentives, regulations), which support capital formation and channel it, directly or indirectly, at structural level; the instruments must be used coherently, the criterion always being a judgment of present and potential relative advantage. The effectiveness of these specific instruments depends on their simplicity and on the guarantee that they will be durable at least as much as on their volume.

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4. Lines of action at national and Community level

4.1. The recovery of investment depends on coherent public authority action at macroeconomic and structural level, and this action must be supported by the social partners; since most of the instruments for this action are available at national level, this is the level at which the chief effort must be made.

Nevertheless, the Community has a specific role to play at different levels because:

- joint action in the field of economic policy coordination may facilitate more convergent trends, promote greater exchange rate stability and lead to a more orderly evolution of payments balances; furthermore, concerted action with the other industrialized countries and cooperation with the developing countries if it is to produce concrete results, particularly in terms of growth, cannot result from unilateral uncoordinated initiatives;

- the systematic exploitation of a continent-sized common market can provide a very substantial support for investment activity for:

  - the guarantee of a really open Community-scale common market represents a condition of stability and expansion for company activity;

  - optimum size, notably in the advance technology industries, will henceforth be greater than that defined by national markets, and if the crisis sectors are restructured and converted on a purely national scale, the results are liable to prove incompatible at Community level;

- the pooling of experience by Member States can lead to a convergence of choices on the most effective models; furthermore, a systematic joint analysis of the policies pursued is a way of ensuring their coherence and their compatibility with the obligations stemming from the Community's existence;

- selective support at Community level can direct national policies towards the common objective of improving competitiveness.

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(1) Annex II outlines recent Community measures or measures in preparation wich have direct and indirect effects on investment.

4.2. For these reasons, a Community approach can make a positive contribution. It should keep to the following guidelines:

4.3. an improvement of the macroeconomic environment, with a view to support company expectations: Community coordination within the framework of the EMS must enable each member country to take every possible opportunity, with reference to specific situations, to support growth; a coordinated lowering of interest rates in line with the results achieved in reducing inflation is an essential element of the joint action.

4.4. a programming of the public budgets in a medium term perspective: the first requirement is to reduce the deficits, in order to limit their inflationary effects and the drain on private savings; secondly, the need is to increase the positive impact of current expenditure, capital expenditure and tax and financial incentives on corporate investment. This implies a revision of public expenditure and of its structure; the areas of public expenditure (for instance, in the field of infrastructure, R+D, vocational training) which make the economy more competitive, as far as possible, to be increased relative to total expenditure, but above all made more effective.

These questions must be examined jointly when the budget guidelines are laid down.

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4.5. An effort to rationalize taxation and improve the financing of productive investment: the Commission has initiated analytical work on investment incentives and will review ideas on the obstacles (especially for PME) to the channelling of savings into corporate investment; the objective is not to seek harmonization "for its own sake",nor to substitute Community measures, but to take advantage of the experience of Member States to identify the most effective mechanisms. In any event, the use of the various forms of investment incentives in the Community must remain compatible with treaty rules, so avoiding the creation of direct or indirect forms of distortion within the common market and the danger of competitive bidding which can reduce their overall effectiveness appreciably.

Furthermore, greater freedom of capital movements within the Community could also help to improve the allocation of financial resources.

4.6. A revision of regulatory activity in the legal and administrative fields with a dual objective:

- to make the regulatory framework less complex, and changes to it more predictable, in order to prevent uncertainties as regards the conditions for gaining access to markets and delays in investment decisions;

- to strengthen the common internal market which must represent an assured base which Community industry can use as a springboard for tackling international competition.

4.7. A more positive approach in certain sectors of activity:

- in the crisis sectors, the restructuring in close cooperation between the Member States and the Community must permit an autonomous capacity for development, without freezing productive structures, so that the most dynamic companies and segments can become more competitive with third countries.

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- in the strategic area of advanced technology, a more concrete commitment must make it possible :

  . to make up the ground lost in certain industries of the future, in which prolonged technological dependence inevitably has repercussions on the competitiveness of the economy as a whole;

  . to renew the industrial fabric in depth, so that particularly the intermediate technology-based sectors are able to introduce new productive processes and satisfy the expanding demand for new products ;

- in the field of energy, the guidelines recently decided on by the Council must be implemented without delay; a regulatory and financial contribution at Community level can support national policies.

- in the field of small and medium enterprises, as well as local initiatives, it is important to support their investment activity, which can represent a source of innovation and be particularly job-creating, by measures aiming to reduce their handicaps in terms of access to credit, information, know-how and management.

4.8. greater attention of the improvement of human capital: efforts at national and Community level must more closely match this factor's real contribution to a general recovery of investment, over and above its specific role in active employment policy. In this field, Community recources will reinforce, through the Social Fund, the adaptation of that part of the labour force affected by rationalization investment, so that workers will be able to take jobs created by the introduction of new technologies and by job-creating sectors.

4.9. the strengthening of Community lending instruments for the benefit of investment, in response to the invitation of the European Council. This process must not be merely quantitative in nature, but should also be accompanied by a greater concentration of resources on specific schemes to modernize production structures. The Commission will propose, to this end, the adoption of a new tranche of NCI loans amounting to 3 000 million ECU.

5. Summary and conclusions

5.1. An investment drive is necessary for reasons of competitiveness, to relax the energy constraint, to permit a non-inflationary return to growth, and to create new jobs.

5.2. The obstacles to investment can be identified in the uncertainty relating to exchange rates, inflation and interest rates; in insufficient profitability; in certain financing constraints; in shortcomings in the adaptation of human capital; in inadequacy of outlets; in regulations constraining the more efficient use of capital.

5.3. Government influences capital formation through macroeconomic policies, the level of deficits, the structure and quality of current and capital expenditure, incentives to private investment, and regulations.

5.4. A global strategy for promoting investment must include greater macroeconomic stability, the reduction of public deficits and a shift in the structure of public expenditure, the rationalization of taxation, the improvement of the financial channels and the elimination of regulation-induced distortions, and support measures in specific areas. This is the context which will provide a framework for the initiatives and proposals to be put forward by the Member States and the Community in the months ahead.

Annex 1

Investment in the Community

ANNEX I - Table 1

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Investment ratio (Gross fixed capital formation as % of GDP)	22,9	23,1	22,8	22,9	22,4	21,3	21,1	20,7	20,7	21,0	21,2	20,2	19,7
Growth rate % (volume)	6,2	3,9	3,6	4,6	-3,7	-4,3	3,5	0,9	2,8	4,1	2,0	-4,2	-1,3
Investment ratio by branch (1) (GFCF / value added %)													
- fuel and power products	33,5	35,3	35,3	33,2	38,7	38,9	37,1	33,1	32,4	32,0			
- manufactured products	16,7	16,3	14,6	14,2	14,2	13,1	12,5	12,4	11,9	12,3			
- market services	29,8	30,4	31,4	32,2	30,1	28,2	28,4	28,6	28,8	28,3			
Growth rate % (volume) (1)													
- fuel and power products	-0,5	8,7	2,6	-1,8	8,3	10,6	-0,1	-4,4	4,0	5,9			
- manufactured products	18,3	-1,3	-6,3	2,4	-0,8	-12,6	1,4	0,6	-0,9	6,3			
- market services	3,4	7,2	8,2	6,7	-5,5	-5,0	4,7	3,9	4,4	3,2			
General government gross fixed Capital formation as % of GDP	4,1	3,9	3,7	3,7	3,8	3,8	3,6	3,2	3,1	3,2	3,2	3,1	2,9

Sources: EUROSTAT National accounts 1970-79
Economic Budgets DG II 1981-82

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ANNEX I - Table 2

INVESTMENT RATIO
(GFCF as % of GDP)
current prices

Year / Country	1970	1973	1976	1979	1980	1981	1982
B	22.7	21.4	22.1	20.6	21.4	19.5	19.0
DK	24.7	24.8	23.0	20.5	18.3	15.6	15.7
D	25.6	24.5	20.7	22.6	23.6	22.8	21.4
GR	23.6	28.0	21.2	25.6	23.5	20.8	19.7
F	23.4	23.8	23.3	21.4	21.6	21.1	20.3
IRL	22.7	25.3	24.8	31.4	28.9	30.1	28.5
IT	21.4	20.8	20.0	18.9	20.0	20.3	20.1
L	23.5	27.4	24.5	25.0	25.3	25.1	25.7
NL	25.7	23.0	19.2	21.1	21.0	19.0	18.2
UK	18.6	19.5	19.0	17.8	17.8	16.2	16.2
EC-10	22.9	22.9	21.1	21.0	21.2	20.2	19.7
USA	17.6	19.1	17.2	19.4	17.7	18.1	-
JAP	35.5	36.4	31.3	32.0	31.7	31.0	-

Sources: EUROSTAT National Accounts 1970-1979 and Economic Budgets DG II 1981-1982

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ANNEX I Table 3

GROSS FIXED CAPITAL FORMATION

(Volume growth rate - 1975 prices)

Period/year / Country	1960-65 ∅	1965-70 ∅	1970-73 ∅	1973-76 ∅	1976-80 ∅	1978	1979	1980	1981	1982
B	7.3	4.4	2.8	2.8	1.6	2.4	- 2.6	5.6	- 8.5	- 3.4
DK	8.9	5.7	4.8	2.1	5.1	2.4	- 1.7	- 13.8	- 16.3	3.6
D	5.7	3.7	3.4	- 3.1	7.0	5.0	8.4	3.7	- 3.3	- 4.2
GR	11.0	7.6	12.3	- 6.4	4.2	6.0	7.9	- 8.6	- 10.0	- 2.0
F	9.1	6.5	6.8	0.4	0.9	0.8	2.7	0.8	- 2.0	- 0.9
IRL	13.0	6.4	10.9	- 1.5	10.1	15.9	12.1	- 7.7	5.0	1.7
I	2.7	7.5	1.7	- 2.4	5.0	- 0.1	5.8	10.0	- 0.2	0.2
L	7.2	0.1	10.7	- 5.2	3.6	8.1	1.0	1.3	- 3.6	1.2
NL	7.2	6.9	1.7	- 3.5	5.1	2.7	- 1.5	- 2.6	- 11.3	- 1.6
GB	6.4	3.7	2.9	- 0.8	0.2	3.3	0.3	- 0.7	- 7.6	2.3
EUR-10	6.4	5.2	4.0	- 1.7	3.4	2.8	4.1	2.0	- 4.2	- 1.3
JAP	-	4.5	9.4	- 2.4	5.2	9.4	6.6	0.2	2.1	0.7
USA	6.8	1.2	6.5	- 3.9	5.9(1)	7.1	1.7	- 7.2	0.5	- 4.4

(1) 1976-79

<u>Sources</u> : EUROSTAT, National Accounts 1970-1979 and Economic Budgets DG II 1980-82

GROSS FIXED CAPITAL FORMATION BY MAJOR PRODUCT CATEGORIES

(average annual growth rate at 1975 prices)

ANNEX I - Table 4

Period: / category: / Country		B	DK	D	F	IRL	I	NL	UK	EC-8
970-1973	1. Equipment	3.2	5.3	1.6	9.1	9.9	5.9	1.8	5.3	4.7
	2. Non-residential building	3.6	2.6	1.3	2.3	5.2	0.2	-3.8	1.2	1.3
	3. Residential building	0.6	11.3	8.5	7.5	20.4	-3.0	8.4	2.4	5.6
1973-1976	1. Equipment	3.1	5.2	-1.3	0.4	-0.7	-1.9	-3.4	-1.0	-0.7
	2. Non-residential building	-1.4	-3.1	-2.2	0.4	-6.1	-2.0	-2.5	-2.6	-1.6
	3. Residential building	9.5	-8.4	-7.7	0.2	-1.0	-4.1	-6.0	0.9	-3.3
976-1979	1. Equipment	-1.8	0.3	8.2	3.0	13.5	2.6	8.3	5.2	5.1
	2. Non-residential building	2.9	2.3(1)	4.5	-1.3(1)	16.2	0.3	5.3	-4.5	0.3(1)
	3. Residential building	-2.6	4.2(1)	4.4	-2.3(1)	13.2	1.2	4.1	-5.7	1.2(1)
980	1. Equipment	-7.3	-7.6	2.9	-	-9.6	17.3	7.3	5.2	-
	2. Non-residential building 3. Residential building	0.9	-16.9	4.4	-	-6.0	3.8	0.9	-6.7	-
981	1. Equipment	-4.9	-6.9	-3.1	-	8.1	-1.3	-11.7	-5.3	-
	2. Non-residential building 3. Residential building	-10.3	-21.8	-3.4	-	2.5	0.8	-10.8	-10.1	-
982	1. Equipment	2.0	8.8	-2.7	-	4.4	-0.7	0.9	3.5	-
	2. Non-residential building 3. Residential building	-6.1	0.0	-5.3	-	-0.7	1.1	-3.4	0.9	-

(1) 1976-1978

Sources: EUROSTAT - National accounts 1970-1979 and Economic budgets DG II 1980-82

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ANNEX I - Table 5

General government gross fixed capital formation

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
	as % of general government current and capital expenditure												
D	11,9	11,4	10,3	9,4	9,4	8,2	7,6	7,1	7,6	8,0	8,4	7,6	6,8
F	10,1	9,8	9,3	9,1	9,1	8,9	8,4	8,0	7,5	6,6	6,2	6,1	6,0
I	9,6	8,5	8,1	7,6	8,4	8,7	8,9	8,5	8,4	6,9	7,0	6,5	6,7
NL	10,8	11,0	9,6	8,5	8,0	7,8	7,5	6,5	6,1	5,5	5,7	5,4	5,3
B	9,5	10,7	10,3	8,6	8,0	7,7	7,7	7,4	6,8	7,2	7,2	7,1	6,7
L	10,8	11,8	12,4	10,2	14,1	13,4	12,4	13,5	14,3	13,9	16,0	15,3	15,3
UK	13,6	13,0	11,9	13,5	12,9	11,3	10,6	8,6	6,9	6,5	5,9	4,5	4,3
IRL	9,9	10,0	9,8	10,5	12,0	10,5	8,3	8,8	9,6	11,4	12,0	11,7	11,4
DK	:	11,0	10,4	9,1	8,6	8,1	7,9	8,0	7,6	7,0	5,6	4,8	4,5
	as % of GDP												
D	4,3	4,2	4,0	3,6	3,9	3,7	3,4	3,1	3,3	3,7	3,9	3,6	3,3
F	3,6	3,4	3,2	3,2	3,3	3,6	3,4	3,3	3,1	3,0	2,9	3,0	3,0
I	3,0	2,8	2,8	2,6	2,9	3,6	3,6	3,4	3,7	3,2	3,2	3,3	3,5
NL	4,8	4,9	4,3	3,8	3,8	4,1	3,9	3,4	3,3	3,2	3,3	3,2	3,1
B	3,9	4,5	4,4	3,7	3,4	3,7	3,8	3,8	3,6	3,8	3,9	4,2	3,9
L	3,3	4,0	4,3	4,7	4,7	6,1	5,7	6,8	7,1	7,4	9,1	9,3	9,3
UK	4,8	4,5	4,3	5,0	5,3	4,8	4,4	3,4	2,7	2,8	2,6	2,0	1,9
IRL	3,7	3,9	3,6	4,0	5,0	4,8	3,8	3,9	4,4	5,8	6,5	6,6	6,1
DK	:	4,8	4,5	3,7	4,0	3,9	3,6	3,7	3,7	3,8	3,3	3,0	2,8

Sources: SOEC: general government accounts and statistics 1970-78
DG II: Economic budgets 1980 - 1982

Annex II

Summary of Community policies and measures which have direct and indirect effects on investment

Over and above the direct support to private or public investment activity which the Community provides through the Regional Fund, the Guidance Section of the EAGGF and the Community lending instruments, this annex outlines the recent measures or those about to be proposed which also have direct or indirect effects on investment in the following areas: the internal market; research and development and industrial innovation; energy; the adaptation of human capital; the strengthening of Community lending instruments.

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1. Strengthening the internal market

In response to a Commission communication, the European Council of 29-30 June 1981 agreed 'that a concerted effort must be made to strengthen and develop the internal market which lies at the very basis of the European Community and which is the platform from which it conducts its common commercial policy'. The Commission referred to the Council on 21 October a resolution on the strengthening of the internal market which is designed both to ensure progress on a number of proposals now held up in the Council and to simplify formalities at the Community's internal frontiers in the areas of customs, taxation and statistics.

- The proposal for a decision on information and mutual consultation in the field of technical standards and regulations should be implemented this year, once the Council has completed its work.

- In the field of measures having an effect equivalent to quantitative restrictions, the Commission, as it had done in the past in respect of certain cases of widespread infringement, instituted proceedings, notably in the area of formalities - such as automatic licences, technical approvals and certificates of origin - required for imports of certain products which were not justified by Community law.

- As regards the removal of technical barriers to trade, the Commission is continuing with work on harmonization (directives concerning industrial products, foodstuffs, proprietary medicinal products, etc.).

- On 20 April 1982, the Commission forwarded to the Council a proposal for a directive on the easing of formalities and controls on goods transport between Member States.

- The Commission will forward to the Council two draft proposals for a regulation simplifying formalities in trade within the Community and Community transit.

- In the field of business law, the Council's subordinate bodies are continuing their work on the proposal for a seventh Directive concerning group accounts; on the amended proposal for an eighth Directive concerning the approval of persons responsible for carrying out statutory audits of the annual accounts of certain types of company; on the proposal on the division of public limited companies; and on the regulation of the European Cooperation Grouping. The examination of the proposal for a regulation on the Statute for European companies has been discontinued. The examination is in progress of the proposal for a Directive on the approximation of the Member States' trade-mark laws and the proposal for a regulation creating a Community trade-mark and a Community Trade-marks Office.

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- As regards the opening up of public contracts, the Commission

  . is continuing to monitor the implementation of the Community Directives coordinating procedures for the award of public works and public supply contracts, and the GATT agreement on Government Procurement;

  . is continuing direct action for further progress in this area, in particular with a view to the use of public contracts for purposes of industrial policy and Community innovation, without however affecting the Community's international obligations. It is awaiting a Council decision for the opening of public telecommunications contracts.

2. Framework and support in the fields of research and development, innovation and industry

2.1. The Commission has recently forwarded basic policy documents to the Council:

- on 15 October 1981, a Communication devoted to the future strategy of the Community with regard to research and development. On 9 November 1981, the Council requested the Commission to present concrete proposals in particular on: the concept of outline programme aiming at a global strategy; the stimulation of the European research system, the orientation of R&D programmes towards the needs of industrial innovation;

- On 24 May 1982, a Communication proposing new guidelines for the Joint Research Centre's 1984-87 multi-annual research programme.

- On 26 October 1981, a Communication on industrial strategy concerning the creation of a genuine European industrial area, in particular by the implementation of European policies for energy, research, innovation and the development of financial instruments for these policies.

- On 28 October 1981, a Communication on a Community strategy for industrial innovation. The Commission proposed: the improvement of the internal market and the opening of public contracts, in particular by the introduction of new technologies, the re-examination of tax measures and other regulations likely to provide selective encouragement for high-risk productive investment, the acceptance of new technologies by the public, the creation of appropriate infrastructures at national and transnational level to support primarily new-technology-oriented SMEs and improved coordination between Community loan instruments and national instruments, giving priority to innovation.

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2.2. Initiatives have also been taken in specific sectors:

- data processing: under the multi-annual data processing programme (1979-1983) after the first call for proposals, support projects, totalling 4 million ECU, were put in hand in 1982. Several projects were launched, including the study of an automatic data-exchange system for European ports, a project for the development of hydrological models and the writing of software for the Ada language. Following a second call for proposals, other projects have been or will shortly be the subject of contracts between the Community and various European data-processing companies.

- microelectronics: on a proposal from the Commission, the Council adopted on 7 December 1981 a regulation providing for direct Community support of 40 million ECU entered in the 1981 budget, for use over two years, for projects to provide Community industry with highly specialized equipment for the design and manufacture of submicronic integrated circuits.

- information technologies:

  . the Euronet network, set up by the Community with the assistance of the national posts and telecommunications administrations gives accesss to over 300 data bases and banks; this data is marketed under the name of DIANE (Direct Information Network for Europe); charges are based not on distance but on utilization time;

  . the INSIS and CADDIA projects (draft decisions forwarded to the Council on 15 July 1981) concern the coordination of the activities of the Member States and the Community: for the circulation of administrative information through the interconnection by integrated numerical networks of Community institutions and the capitals of the Member States (INSIS); for the computer transmission of information on exports and imports, and the management and financial control of agricultural market organizations (CADDIA).

- innovation: the Commission will forward to the Council a Communication and a draft Council decision relating to a transnational plan to develop the infrastructure assisting innovation and the transfer of technologies. The objective is to promote the rapid dissemination of new technologies, in particular at SME level, by giving a European dimension to the national bodies responsible for promoting innovation (including the financial institutions specializing in the financing of innovation), helping to satisfy training needs and stimulating the exchange of experience and the development of pilot programmes in the Member States.

2.3. In the autumn the Commission will propose to the Council an overall strategy for the data-processing and microelectronics sector:

- at the end of the month it will present the Esprit research programme to the Council: its objective is to develop between now and 1990 a European information technology industry by encouraging research in the pre-commercial phase.

3. <u>Framework and support in the field of energy</u>

3.1. The general framework for action in the field of energy is represented by:

. the Council Resolution of June 1980 inviting the Member States to present to the Commission annually their energy policy programmes to 1990 (and implicitly the energy investment on which these programmes are based) and requesting the Commission to evaluate these programmes (this was done for the first time in February 1981 in COM(81) 64);

. the Community's energy strategy, laid down in Communications COM(81) 540 and COM(82) 36 for the nuclear aspect, which places energy investment at the centre of the process of adapting the Community economy to the new energy situation and makes it an essential element of medium-term economic policy;

. the Communication of 5 February 1982 on investment in the rational use of energy (RUE) (COM(82) 24), in which the Commission analysed the chief obstacles to RUE investment and proposed a number of measures, some of which aim to improve the financial circuits. In this connection, the Commission is studying the desirability of specific financial incentives to assist certain types of RUE investment.

3.2. In the research field, the Commission has proposed to the Council, which has given its approval, a five-year (1982-86) research programme in the field of controlled thermonuclear fusion. The total financial costs of the proposed programme, including the contributions of the Member States' associated bodies, is some 1 500 million ECU, of which 620 million ECU will be provided by Community institutions.

3.3. The Commission has presented its evaluation of the present programmes for the support of demonstration projects, and has presented proposals for the extension of these programmes to other areas.

3.4. N.B.: EIB and NCI loans in the field of energy, Euratom loans for the industrial production of nuclear energy and industrial fuel cycle installations, ECSC loans to develop the consumption of Community coal.

4. The adaptation of human capital to change

The Commission will present concrete proposals on vocational training, for young people in particular, and will propose new Community initiatives for the period 1983-87 as regards the new information technologies.

5. The strengthening of the Community lending instruments for the benefit of investment

5.1. In October 1978, the new Community borrowing and lending instrument was created, empowering the Commission to contract loans not exceeding 1 000 million ECU to finance investment projects which help attain the priority Community objectives in the energy, industry and infrastructure sectors. The Council decided to prolong this scheme and authorized the Commission on 15 March 1982 to contract new loans totalling 1 000 million ECU to finance investment projects in the rational use of energy, infrastructure and the productive investment of small and medium-sized enterprises.

As a result of the conclusions of the European Council of 29 and 30 March 1982, the Commission feels it necessary for this scheme to be continued: it will propose to the Council the adoption, under the new Community instrument, of a new tranche of loans, the principal being 3 000 million ECU; this was discussed at the European Council in London in November 1981, and the field of application will be broadened.

In addition, as a result of two successive increases, in 1978 and 1981, the EIB's subscribed capital has been increased from 3 500 million ECU to 14 500 million ECU. These increases have greatly strengthened the Bank's power to intervene in order to finance investment.