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A COMMUNITY STRATEGY FOR FULL EMPLOYMENT AND STABILITY

The present document whose main lines have been approved by the Commission, is intended to serve as a basis for the consultations with the social partners which the Commission will hold pursuant to the mandate given by the European Council for the preparation of the next Tripartite Conference.

A COMMUNITY STRATEGY FOR FULL EMPLOYMENT AND STABILITY

I. The present situation and the outlook

1. In the spring of 1976 there are definite signs, for the Community as a whole, that the economy is picking up. On the basis of present evidence, a growth in gross national product of almost 4 % - following a decline of 2.5 % in 1975 - and some loss of momentum in the upward price movement - from 12.5 % to a rate still as high as 10 % - can be expected for 1976. On the other hand, it is to be feared that, for the Community as a whole, average unemployment for 1976 may still be somewhat higher than in 1975 (3.9 %).
2. There is great uncertainty as to the pace, duration and scale of the present upswing and the longer-term prospects for economic development. Even the optimistic variants of the medium-term projections for the individual Community Member States offer no more than a gloomy view of the future. In comparison with the achievements of the ten years preceding the 1974/75 recession, they point to :
 - slower growth in potential GNP,
 - higher unemployment,
 - a sharper increase in consumer prices.

The pessimism with regard to growth, employment and inflation emerging from these projections reflects the experience of recent years. It foreshadows a trend according to which, from cycle to cycle, growth rates will decline, unemployment will rise and the inflationary spiral will turn ever faster. Such a development could indeed prove a reality if we fail to learn from the mistakes of the past and do not plot the way ahead, accurately and carefully. The democratic forces in the political, social and economic institutions of the Member States must rise together to this formidable challenge.

II. The reasons for the recession and the lessons to be drawn from it

3. The roots of the recession of 1974/75 reach back into the 'sixties. The almost uninterrupted economic growth of the post-war period had resulted in substantially higher living standards but had also increased the need for structural change and generated expectations that could not be satisfied, at least not in the short term, considering also the different adaptability of the economies. At the same time the economic and monetary interpenetration of the industrial countries among themselves grew on a scale which the boldest optimists had not predicted, but so did the mutual dependence of the industrialized countries and their dependence on raw materials imports from developing countries. At all events, in almost all the member countries, the excess strain imposed on GNP by the social partners and the government sector had already reached a critical level at the beginning of the 'seventies while unemployment had already been on an upward trend since 1965-66.

4. Without the boost to liquidity associated with the collapse of the Bretton Woods System, it is likely that the crisis would not have become acute as early as it did and in the way it did. Because of commitments with regard to the maintenance of exchange rates, those implementing monetary policy had to comply with severe constraints in all the Member States until 1973, the result being an uncontrolled explosion in money supply. The exchange rate changes made in 1971 and 1973 also forced the Member States to make sharp adjustments and the way in which the dollar rate has since fluctuated and the devaluations of important member state currencies have added to the many uncertainties already clouding the future.

5. Efforts to achieve greater income shares within the industrialized countries have been paralleled by a corresponding struggle at the world level. With the economic trends running parallel and inflation tending to keep in step in the industrialized countries, and with the failure of the harvests, 1973/74 saw a world-wide increase in raw materials prices with speculation in these commodities, culminating in a 400 % increase in world oil prices.

6. The extent to which the sharp increase in oil prices would inhibit demand was underestimated by the governments of all industrialized countries. Since the demand deriving from the oil cartel countries did not expand immediately following the increase in their export earnings, a demand gap opened in the industrialized countries which was not closed by economic policy measures, because the authorities, rightly or wrongly, were more concerned with the inflationary impact of the oil price increase. The resulting demand gaps within the countries were further aggravated by the interdependence of the economies affected. The resulting decline in demand and the deterioration in corporate profits led to severe stock depletion and this in turn meant lower output and investment and higher unemployment.

7. This combination of national and international factors is unlikely to occur again, but the component factors of the present situation have lost none of their severity, either at national or at international level. At both levels, a defensive attitude has since developed. In the relations between the social partners, in the relations between them and the government, in the relations between the industrialized countries among themselves and in those between the industrialized countries and the developing countries, each protagonist is far more concerned with his own share of the available "cake" than with the possible size of the future "cake" itself. Unless there is a profound change in this attitude, a further aggravation of the struggle for income shares must be expected in the second half of the 'seventies, entailing more inflation and more unemployment. Such a development could well prove too much for our democratic forces.

III. Restoring full employment while ensuring stability

8. It is clear that in the present situation full employment must be given highest priority; what is not so clear is the contribution which a higher growth rate can make to solving the employment problem and whether a higher growth rate can be attained without undermining stability.

9. It is widely believed that even after a sharp economic upswing, unemployment in the Community will remain appreciably higher than what it was at the beginning of the 'seventies, since,

- industry has kept a good many workers on its books who at present are not fully employed - this would in fact allow of a vigorous expansion of production without the firms being compelled to take on more workers;
- since production is becoming more capital-intensive and structural changes are accelerating, more jobs are being eliminated than are being created;
- more young people are joining the labour force than old people are leaving it.

There is no doubt that in coming years these factors will tend to work against an increase in the volume of employment or will tend to increase unemployment.

10. On the other hand, it is also clear that full employment cannot be achieved without vigorous economic growth. Therefore, a GNP growth rate must be aimed for going beyond that which is presently regarded as feasible for the years up to 1980 (about 4.5 % on the average for the Community as a whole). However, a higher growth rate will boost employment only after a substantial time-lag and will not automatically restore full employment. Therefore, direct employment policy measures must be deployed to ensure that at least the cyclical component of unemployment is eliminated as rapidly as possible, and that the structural disequilibrium on the labour market is coped with in a way which does not jeopardize the future scope for action.

A high level of demand is not a sufficient condition to restore full employment; it is also necessary to have adequate flexibility on the supply side. In certain member countries, supply factors have been relatively flexible and employment has adapted rapidly to changes in demand. In other member countries, however, reactions have been slower, leading to persistent structural problems and lower overall rates of productivity growth.

The obstacles are not just technical or financial - it is also a question of resistance to change. Greater efforts must be made to understand the fears and misunderstandings that produce such resistance and to promote discussions and forge closer links between economic and social policies to resolve the conflicts.

This implies a more careful approach in the development of social policy to make it compatible with available resources; it also requires that the pattern of economic growth takes fuller account of concerns about qualitative aspects of employment and working conditions. Without these precautions, economic policy will continue to meet the difficulties it has encountered in the last 10 years.

11. A higher growth rate will be easier to achieve if it is made part of a Community strategy. For one thing, the Member States account for about half of their external trade among themselves. Secondly, the Community produces about a third of the national product of the Western industrialized countries and thus more than a fifth of world GNP. A concerted growth policy in the Community would thus provide vigorous support for each individual Member State and for the world economy, whereas an expansion policy pursued by individual countries alone would be bound sooner or later to run up against the limits set by the requirements of external economic equilibrium. This should make it easier for the individual Member States to decide to work for a more vigorous exploitation of the scope for growth.

12. If the authorities should none the less hesitate to embark on a more ambitious growth policy, the main reason for this would be their fear that such a policy would boost inflation. Inflation is still running in most Member States far above the levels which in the medium term, in the interests of internal and external equilibrium, can be considered tolerable. The price increases of recent years have robbed potential investors of the stable conditions they need to take their decisions, and have also had a disturbing impact on consumers, and country-to-country differences between inflation rates have led to severe strain within the Community. If these trends were to continue, the competitive situation of the Community vis-à-vis non-member countries would suffer.

Considering the dependence of the Community on basic imports from third countries, it is absolutely essential to preserve its overall competitive position. It would be illusory to imagine that the Community could solve its employment problems by having recourse to protectionist measures, which, on the contrary, might ultimately result in even more unemployment, both at home and abroad.

13. On the other hand, we have seen in recent years that there is no close positive correlation between growth rates and the rate at which money declines in value; if anything, it seems that, under present conditions, money depreciation rates tend to climb all the higher, the smaller the growth being achieved. This paradoxical situation can be avoided in the future only if more restraint is exercised by the

social partners, when taking their decisions with regard to prices and wages, and by the authorities in their decisions with regard to public expenditure and revenue. This will be all the easier to achieve the more those concerned are certain that the corresponding burdens are being fairly distributed and that the total real income will in fact be larger. The goal should be to scale down price increase rates gradually in all Member States to a figure of 4 to 5 % per year at most; at the present time this goal may seem ambitious, but it is in fact only the same as what was achieved in the second half of the 'sixties.

- 14. It will be all the easier to achieve more growth and more stability the more confidence investors, consumers and governments have when taking their planning decisions. In this connection, the national economic policies, particularly in the monetary and tax areas, must be set on a steadier course and must be more fully concerted. In general terms, a valuable contribution will be made to the restoration of confidence with regard to planning if a consensus were achieved on the main social and economic policy goals and if all those concerned would focus their attention more on medium-term interests

IV. A Community ^{strategy} ~~alliance~~ for full employment and stability

- 15. The restoration of full employment while ensuring stability is not a chimera but a political necessity. It will be achieved only if all the democratic forces in the various areas of economic life, in government, and in society as a whole join in an alliance for full employment and stability. The goal of full employment against a background of stability has always been a challenge to our social and economic system, but the challenge has never been greater than it will be in the near future.

In the historically short period from the middle of 1976 to the end of 1977 or the middle of 1978, we must set the economies of the Community countries back onto the medium-term growth course from which they have drifted and progress must be made toward the objective of regionally and sectorally balanced growth, free of inflation, with a high level of employment. Since the social and economic structures differ between Member States, the economic and social policy instruments to be used for the achievement of this goal cannot be the same in each country.

In the following sections, consequently, only examples are put up for discussion of how the common goal could be achieved. As to the essential principles of the development to be sought, agreement between unions and managements, and between unions and managements on the one hand and the authorities on the other must, however, be achieved at the European level.

Such an agreement should extend to three areas :

- an attempt to restore rapidly the general economic conditions for an optimal growth;
- a reappraisal of the role of labour market policies, to enable them to move towards a forward looking and active part in the overall policies of Member States;
- a move towards a better assessment of the consequences of growth, so as to influence its content, in a medium-term prospect, towards more acceptable norms.

The following sections will be focused on the first of these areas which is the most urgent. Its lasting success will however depend on the steps taken towards the two other areas, which imply a new task to be developed in the medium term.

16. Those aspects of economic policy which can make the greatest contribution to the rapid restoration of full employment, with the maintenance of stability, are the following : employment policy itself, investment policy, incomes policy, price and competition policy, finance and monetary policy. Their specific contributions are dealt with in the following sections individually, but the effectiveness of the individual measures will be largely determined by the other measures adopted at the same time, i.e. the individual measures cannot be replaced by others, if full employment and stability are to be achieved.

Moreover, alongside short-term measures, other action, which will take full effect only in the medium term, is needed. Such action must in particular tackle the structural problems and imbalances which the Community and more specifically some of its member countries face in many respects (lack of capacity to adjust, rigidities of the labour market, existence of declining industries, regional imbalances).

V. Direct measures to promote employment

17. In the short term, it would be a mistake to expect that a reduction in the supply of labour would make any early and substantial contribution to the solution of the unemployment problem : this is true in respect of any general reduction in the retirement age or raising of the school-leaving age, just as it applies in respect of a shortening of working hours. Even where such measures may seem desirable for social policy reasons, their implementation raises so many severe economic, financial or political problems that they can be contemplated only for the medium term.

However, there is scope for limited actions toward a better sharing of work; they should be considered by social partners and governments in specific sectors or for specific categories. The following measures are submitted for discussion :

- easier access to retirement for elderly workers who have been out of work at least 12 months;

- encouraging the recruitment of additional personnel rather than extension of overtime : because of extra costs of additional recruitment, restrictive legislations concerning lay-off of workers and uncertainties as to the medium-term demand prospects, firms may often be more inclined in the recovery to extend overtime rather than to take on additional workers. Wherever technically and economically feasible, unions and employers should be encouraged to limit the expansion of overtime in the months ahead and thus contribute to a more even sharing of available work. Financial incentives in the form of temporary employment premiums may help in this respect.
- the limitation on the recruitment of additional labour from non-member countries existing since 1973/74 in the member states should continue in any case until the end of 1977.

18. The emphasis must however be on positive measures for the rapid reduction of unemployment, and on an active employment policy. Therefore it is proposed to discuss measures such as employment premiums to be granted temporarily for additional recruitments, and actions to increase employment among young people.

The case for considering temporary employment premiums as an alternative to the payment of unemployment compensation is based on the following :

- In 1975 public expenditure of the member countries for the 4,6 million registered unemployed amounted to 10,400 millions EUA or 2,260 EUA per unemployed.

If one adds to these direct expenditures the loss in government revenues (direct taxes, indirect taxes, social security contributions), the average total cost per unemployed to the member countries' governments may be estimated to have been of the order of 3,500 EUA. This very substantial budgetary burden was not offset by any productive work.

- Up to the level of the direct and indirect costs of one unemployed person it is, in overall economic terms, better to pay the transfer payments not to the unemployed persons but to the firms, provided this generates additional employment.

- For the firms, employment premiums can be an incentive to increase the work force in at least two situations : in the first place, new recruitments become an attractive alternative to more overtime, if the authorities provisionally assume part of the costs; secondly, such premiums can induce firms to bring forward staff increases originally contemplated only for the medium term, i.e. to hire staff, so to speak, in advance, with government assistance, while the labour supply is still abundant and of good quality.

In parallel with the temporary employment premium, the following set of measures should be contemplated, their specific aim being the reduction of unemployment among young people; the actual content of the measures would have to be tailored to the organizational and educational arrangements specific to each country and to the specific nature of unemployment among young people in each country :

- Granting of recruitment premiums to private and public-sector firms which increase the supply of apprenticeships and traineeships, the premium to be substantially below the general employment premium but to be paid for a longer period.
- An increase in the supply of apprenticeships and traineeships by the public authorities (central and local administrations, railways, post offices, social security agencies, etc.).

- The provision of training and/or education subsidies for unskilled young people attending public or inter-firm vocational training agencies (including the basic vocational training year) and who would otherwise be out of work.
- Promotion of local initiatives of a labour intensive character to create new jobs, especially for young people, that would both increase motivation to work among young people and respond to specific local needs (e.g. urban renewal).

20. At the same time, the conditions must be created, through general labour market measures, to enable structural changes to take place smoothly.

In particular, more emphasis needs to be placed over the medium term on the expansion of existing employment policy instruments. These include :

- the development of the public job placement services which vary considerably in their effectiveness between countries.
- the expansion and improvement of aids for training, re-adaptation and mobility in order to better equip the labour force to cope with the changing patterns of employment.

21. The relationship between social policy and active employment policy also needs to be considered. In recent years, Member States have made major improvements in social provisions to reduce the hardship of unemployment and have taken extensive legislative actions to increase job security. These social protection measures must not be put in question. However, their future development must be closely related to the forward looking elements of active employment policy to ensure that social employment protection contributes to the process of economic change and does not become an obstacle to change.

VI. Investment policy

22. In 1974, gross fixed asset formation declined in the Community for the first time since the end of the war, and the trend worsened in 1975. Full employment cannot be restored in the Community unless there is, in the short and medium term, an above average increase in investment. The Community's policy must therefore be to boost capital spending. This applies particularly for those Member States and areas in which growth and the propensity to invest have already been weak in the past.
23. Private investment will not recover unless corporate profits improve. The decline in profits which has occurred in all the countries will be made good only when firms are once again operating nearer or at capacity. The improvement in the investment climate associated with this development would be decisively strengthened and the managements' investment "horizon" appreciably extended if the government authorities and the social partners could reach a joint agreement on a growth and stability policy for the coming years.

In addition, the following measures to stimulate investment are suggested :

- In areas with persisting high unemployment - e.g. regions in which unemployment has been 2% above the national average for at least two years - investment subsidies - geared directly to actual job creation - should be awarded for periods covering several years.
- For specific categories of investment the encouragement of which is in the interests of the general economy, special depreciation rules or subsidies should be granted temporarily, e.g. for the years 1977-79. Relevant investments here are building investments to save energy (heat insulation), investments to alleviate pollution of the water and the air, and investments to improve health and safety at the work place.

24. Another way of helping to develop a firmer investment trend, particularly in industries which are capital intensive and vulnerable to the business cycle, is an information system concerning current, agreed or intended investment programmes. Such a system would increase information available with regard to planned capacity expansion and in this way would contribute to forestalling investments likely to prove ill-conceived. In the coal and steel industry the investment reporting procedure has been working well for twenty years. Since 1973 investment reports for the energy field have also been used. Consideration should therefore be given to the idea of applying this procedure at Community level along similar lines in other industries, particularly in those where the periodic emergence of excess capacity is particularly common.

25. Since public investment accounts for nearly a fifth of gross fixed asset formation in the Community, it is clear that this category of capital spending is of crucial importance to the control of the investment trend, in particular in the building industry. A further advantage for the purposes of policy implementation is that the timing of investments carried out by public and semi-public undertakings is subject to control. In the recession years 1974/75, the scope for countercyclical public-sector investment policy was not as fully used in some Member States as should have been the case, given the severity of the decline in economic activity.

For coming years, the Community should base its action on the following principles in the field of public investment :

- The share of public investment in government expenditure should be raised and the shares accounted for by public consumption and transfer payments reduced. Many public investment programmes have a directly discernible impact on economic growth or on the quality of life in the Community and the subsequent operating costs they entail for the authorities are relatively low. Relevant projects here would be in particular infrastructure schemes for public transport and for the municipalities.

- All Member States and local authorities should prepare contingency budgets for 1977-79. These would be implemented if and when certain macro-economic thresholds were reached (mainly, the unemployment rate). This measure should be regarded as a concrete application of the undertaking given by the Member States to prepare five-year public investment programmes (Article 6 of Directive n° 74/121).

- In considering public investment projects as well as in assessing public subsidies, greater attention should be paid to the direct and indirect employment effects, e.g. in terms of the location and quality of the jobs created; it may be necessary to develop new methods to measure such effects.

VII. Incomes and asset ownership policy

26. An essential part of the alliance for full employment and stability is an acceptance of the need for concerted action and collective self-discipline regarding increases in incomes and prices.

With regard to incomes policy, a considerable contribution to a practical discussion of the problem would be made if clear distinctions were made between real and money income trends and between short-term and longer-term requirements.

27. With regard to money wage trends, the principle must be observed that the money depreciation rate regarded as unavoidable must be fully accounted for in wage agreements and that any price increases going beyond this must be accounted for subsequently in wages paid, for if this is not done the workers would lose part of their fair share of national income. Where price increases are due to official measures (e.g. to an increase in indirect taxes), this should, however, be taken into account in the formulation of wage policy, to avoid an acceleration of the upward price movement as a result of the process of simply passing higher prices in the form of higher wages. National systems of wage indexation would have to make allowance for this event as well as the event, discussed below, of a deterioration in the terms of trade.

28. As for the real wage trend, in the longer term the growth of productivity in the overall economy is the key parameter. Deviations from this yardstick will, however, be necessary, for example, if the terms of trade were to deteriorate (oil prices),

because in these circumstances for each import unit relatively more export units would have to be made available, i.e. only some, and in certain circumstances none at all, of the productivity gains achieved would actually accrue to the domestic economy.

In the short term, the social partners must also bear in mind that as a result of the 1974/75 recession there has been a steep increase in the ratio of wages and salaries to the national product. The improved utilization of existing capacity will be accompanied during the present upswing by an above-average increase in labour productivity, but this will be no more than the reflection of the below-average increase in productivity during the recession. If the relationship between consumption and investment is to revert to normal, the trend of real wages must for a time lag behind the trend of productivity. Wage discipline, which will thus be required of the workers during the upswing, must, however, also be honoured by price discipline on the part of the firms.

29. An alliance aiming at more stability will be extremely difficult unless the social partners can be certain that wage or price restraint will not entail a deterioration in the respective share of national income. In the present conjunctural constellation it is particularly uncertain how the factors which have the greatest impact, in the medium term, on the trend of nominal wages, i.e. prices and productivity, will develop. Should prices or productivity increase faster than was assumed when the wage contracts were concluded, the result could be a profit explosion which would be inexorably followed by a wages explosion. A greater elasticity of collective bargaining agreements could help to avoid such a course of events. Consideration might be given to the possibility of including in wage contracts provisions dealing with unforeseen economic developments. Such clauses would also facilitate the conclusion of longer-term collective agreements, which would in turn reduce uncertainty for the planning decisions of the firm.

30. It is possible that an incomes policy aiming at more stability is, in political terms, easier to establish if a larger proportion of the increase in wages is distributed in the form of an equal absolute wage increase (instead of an equal relative wage increase). Such a policy would promote distributional justice since the inflation of recent years has probably hit workers at the lower end of the wages pyramid harder than those receiving higher incomes. In addition, this policy is particularly attractive in countries where taxation policy contributes little to a more even distribution of incomes. Conversely, a lighter tax burden for the low income categories could help appreciably to encourage wage moderation.
31. One should also bear in mind that pressures for wage increases have often been the reflection of other sources of dissatisfaction : working conditions, for instance have tended to lag behind improvements in living standards and expectations. It can be better to negotiate improvements in working conditions rather than compensate for the lack of such improvements by excessive wage increases.
32. The promotion of asset ownership as a contribution to a wealth redistribution policy has already been under keen discussion for some time in certain member countries. But without further initiatives in this field it is to be feared that as in the past only a small share of the overall growth in wealth in coming years, will accrue to the workers. The main measures that should be studied are of the following type :
- direct participation of the workers in business profits (e.g. through the distribution of employees' shares at preference prices);
 - the payment of investment wage bonuses, i.e. wage bonuses allocated solely to the formation of productive assets;
 - promotion of worker saving through statutory savings bonuses, etc., this being also justified by the losses due to inflation which small savers have suffered in all the member countries because of the low nominal interest rates payable.

Further initiatives with regard to asset ownership policy could also help to counter the danger that a sharp upsurge in profits could then lead to a wage explosion. It is up to the social partners and the governments to create the conditions, by the right collective bargaining agreements and legal arrangements, to prevent this happening.

33. A valuable contribution to the objective pursuit of the debate concerning the fair distribution of income and wealth would be made if there was fuller understanding of income and asset distribution and the trends in these variables. In most of the member countries, there is still very little in the way of reliable statistical information on this subject, and this is a problem that should be cleared up as quickly as possible.
34. Parallel to this exercise, the debate on worker participation in company decisions must be intensified at the Community level. In this respect, special attention is drawn to the Commission's Green Paper on worker participation and the structure of companies.

VIII. Price Policy

35. Direct price policies are already pursued in most of the member countries, although with varying degrees of success. Although there is evidence to believe that interference of this kind in price formation can lead to inefficient distribution of resources in the medium term, there is no denying that at least temporary use of this instrument in exceptional situations is worthwhile and in certain circumstances is indeed unavoidable (e.g. temporary price controls to curb inflationary upward price movements, reporting requirements for "spectacular" price increases). If a "social compromise" is to be achieved in certain member countries, it will still be necessary to use direct price policy instruments to attempt to control the rate at which money depreciates, not only controlling the prices of goods and services, but also rents, interest and dividends. For the next eighteen to twenty-four months, however, it is the firms which should provide the main contribution to price policy, since they will be in a position to practise price discipline as unit costs tend to decline in the course of the upswing. Such discipline would be the proper reflection of wage restraint shown by the workers, which is always urged by the employers, and it would create - according to the motto "small profit, large turnover" - the conditions enabling a "quantity boom" to take the place of the "price boom" which has prevailed in the last few years.

36. The medium-term trend of publicly administered prices (e.g. postal rates, transport rates, electricity charges) will be decisively influenced by the development of overall prices and costs in the economy; for as long as public services are to be provided at rates covering costs, the state will be unable to break free from the general cost and price trends. In the short term, there is however, some room for manoeuvre in decision-making, which can be used for the purposes of promoting stability. For example, the public authorities could undertake to avoid the imposition of official price increases at the same time as the private sector is increasing prices and to delay increases in charges which, though justified, may trigger off widespread private sector increases.

There is also some room for manoeuvre with regard to farm prices policy, although here too, with the maintenance of the present system, it is true that in the medium term farm prices will be all the more stable the more stable the general price level.

IX. Competition Policy

37. Although competition policy cannot be used directly as an instrument to reach medium-term economic policy objectives, an effective policy against pricing agreements and cartels organising quota systems, against restrictions of free competition and behaviour which endangers the unity of the Common Market and leads to artificial separation of markets and against power concentrations in the economy remains one of the essential conditions for an effective solution to the existing economic and socio-economic problems in the Community. The continuing process of concentration has led to important sectors of the economy becoming increasingly independent of the market laws and thus also independent of measures of competition policy. An always growing share of economic production is concentrated in an ever diminishing number of businesses, both national and multinational firms.

38. The European rules of competition in their present form enable the Commission to intervene against the abuse of an already existing market-dominant firm. Experience shows, however, that structural changes, in the sense of an extension of the power of large businesses which restrict the working of the free market, can only be prevented in a few individual cases. In order to have an effective European competition policy, to prevent damaging structural changes, it is therefore essential to provide the Commission with an instrument to systematically control mergers. In this way the creation of dominant market positions could be forbidden. A proposal to this end has been before the Council since July 1973.
39. Additional incentives for the protection and promotion of free competition in the Community would also be provided by a stricter national competition policy in the Member States. A precondition for this is, however, that the Member States which do not have their own competition laws create these first.
40. Finally, measures which led to an increase in the transparency of the market could contribute to the reduction of the still large price differences for the same products or services which exist between the different Member States. In this respect consideration should be given to price surveys for selected products or services which would be made by the Commission in close cooperation with the Member States, and the result of which would be published. Through this measure traders and consumers would be informed of all the essential price differences and could exploit them.

X. Finance policy

41. In almost all Member States, government budgets have expanded in the last five years far more than would, for the medium term, be in line with stability requirements. These medium-term tendencies have, as a result of the recession in the last two years, grown even stronger. In 1974/75, expenditure, mainly because of the sharp increase in income transfers, grew faster, while revenues, because of the recession, fell woefully short of the growth in expenditures. This left all the Member States with deficits of quite

The deterioration of the public finance situation follows on a long-term tendency for the public sector share to increase. This is the result of a steady increase in the relative costs of the tasks traditionally carried out by the public administrations, of the extension of the existing system of public services and of the assumption of new tasks by the government authorities.

42. Deficits on the present scale cannot be maintained in the medium term. Part of the deficits will automatically disappear when the recovery gets properly under way. The elimination of the remaining structural deficits must not be carried out too hastily; it must be properly related to the further progress of the economy and should be concerted within the Community. This general guideline will be all the easier to implement the greater the readiness shown to help, by Community measures, those countries in which there is most need for consolidation but in which consolidation will be most difficult to achieve.
43. How high the structural deficits in the last resort will be depends on how high or how low the medium-term GNP growth rates prove to be; more growth therefore means also more scope for covering public needs. Conversely, if unemployment persists, the time will come, sooner or later, when in terms of stabilisation policy it will be no longer responsible policy to finance on a monetary basis, as in 1974/76, the additional expenditure needed to secure employment and incomes. Tax increases would then be unavoidable unless private saving left enough scope for additional public indebtedness.

44. However the government budgets are mainly consolidated - whether through retrenchment or tax increases - it will in any case be important to avoid provoking reactions with regard to wages and price policy liable to conflict with the aim of stability. This means that there must be prior concertation with the unions and employers. The need for concertation will be particularly marked where, for example, for the purpose of combating unemployment, measures are contemplated leading directly to a permanent increase in public expenditure (e.g. reduction in the statutory retirement age).

45. Public expenditure and revenue have reached very high levels in all member countries; more success in establishing steadier public finance policy would therefore make it appreciably easier to put the economy on a steady medium-term growth path. This cannot be done without the introduction or the extension of public finance plans covering several years, and these plans should have more binding force than is the case at present. The main lines of these plans should also be concerted within the Community.

XI. Monetary policy

46. If the unions and managements on the one hand and the authorities on the other can agree on the principles of a policy for full employment and stability, monetary policy will assume a new role. Instead of, as in the past, either passively financing the inflation process or through abrupt restraint measures starving those sectors of the economy which are particularly sensitive to changes in interest rates, monetary policy could well be used as an instrument to ensure more steadiness in the medium term. The aim should be an expansion in monetary supply concerted within the Community and related to the medium-term scope for growth of the GNP and to the rate of inflation regarded as unavoidable in the individual Member States.

47. A policy of publicly announcing in advance the degree of expansion of the money supply would provide clear indicators for the unions and managements and for the government authorities; at the present time this is done only by one central bank.

An argument in favour of such a policy is that in the medium term there is a relatively close correlation between the expansion of the money supply and the growth of overall expenditure in the economy, although in the short term the relationship can be considerably distorted by fluctuations in the velocity of circulation of money. Therefore such a policy should be introduced as soon as possible in all the member countries and should be concerted at Community level.

If short- and medium-term coordination of monetary and finance policy within the Community were achieved an important precondition would be fulfilled enabling cost and price trends in the member countries to be brought gradually closer together and exchange rates within the Community to be stabilized.