ECONOMIC AND SOCIAL COMMITTEE
OF THE EUROPEAN COMMUNITIES

ECONOMIC POINTERS FOR 1982

OPINION

Brussels 1981

The European Communities' Economic and Social Committee, chaired by Mr Tomàs ROSEINGRAVE, approved this opinion at its 189th Plenary Session, which was held from the 1st to the 3rd of July 1981.

The preliminary work was done by the Section for Economic and Financial Questions, having Mr Maurice ZINKIN as Rapporteur.

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FOREWORD

by

THE PRESIDENT OF THE ECONOMIC AND SOCIAL COMMITTEE

Tomàs Roseingrave

Are urgent measures to reduce unemployment compatible with policies aimed at reducing rates of inflation in the Member States? Are steps proposed to reduce working time relevant to the present economic situation in which the social partners are calling for measures to be taken to encourage investments and increase Member States' competitiveness?

These and other questions are directly faced up to by the Economic and Social Committee in the following Opinion which it gave on 2 July 1981.

The Committee states unequivocally that in these times of high unemployment, more solidarity than ever is necessary to reduce this high rate of unemployment and mitigate its adverse effects on society. In publishing this Opinion the Committee wishes to testify to the sense of solidarity its Members have in relation to anti-inflationary policies, working hours, investment, relations with the developing countries, and many other economic policy measures.

In this period of difficulty and hardship for many, when people feel powerless and frustrated, they are more likely to be searching for answers to the basic question namely, what has gone wrong. It cannot be said that advice on how a national or a global economy should get out of the recession is lacking — quite the contrary — and the voice of the Economic and Social Committee on this subject is but one more among many eminent and perhaps more specialised authorities.

However, the special interest of this Opinion lies perhaps not so much in its analysis which is brief, clear and expressed in simple language, but in three underlying elements. The first two stem from the very nature of the Economic and Social Committee of the European Communities, which is a parliamentary-type assembly of representatives of the interest groups in the ten member states: employers, trade unions, small and medium enterprises, agriculture, consumers and the professions. It thus expresses the European dimension and secondly, the broad range of the often conflicting views of the sectorial interest groups.

The third significant element of this Opinion is that the members of this assembly have almost unanimously voted in its favour despite the well-known differences among the members in their approach to the fundamental problems which beset our societies. This means that it has the full support of the two sides of industry and of the other interest groups represented in the Committee.

There is, of course, still a long way to go between recommendation for action and action itself. Nonetheless, the power to bring about change, and changes in attitudes, lies not only with Community institutions or governments. It also lies in part in the hands of ordinary people, through the organisations which represent their interest.

It is therefore also to these organisations that this Opinion is addressed - that in formulating their policies, their action programmes, their political platforms, they should carefully take into account what their representatives undertook to achieve by means of the Opinion which is presented here.

I

OWN-INITIATIVE OPINION OF THE ECONOMIC AND SOCIAL COMMITTEE ON THE ECONOMIC SITUATION IN THE COMMUNITY (MID 1981)

1. The 1981 Situation

One of the few points on which everybody is agreed in the present crisis is that 1981 is going to be a bad year. The Commission's latest Communication to the Council on the Economic and Social Situation in the Community (Doc. COM(81) 95 final of 6 March 1981) sees a decline in Community GNP of 0.6 %, an increase in unemployment of nearly 1 %, to 7.5 %, and a large deficit in the balance of payments; however, it also believes that there will be a reduction in inflation and some limited recovery towards the end of the year.

The Committee has accepted these forecasts of the Commission as the basis for its discussion and for its consideration of possible policies.

2. The Nature of the Crisis

There is a series of disturbing aspects to the present depression: there is a cyclical recession; there are major structural problems; there is a high rate of inflation, combined with a high rate of unemployment. There is a demand by developing countries that there should be a change in the economic order. There are fluctuations in exchange rates of exceptional magnitude. Interest rates in the world's leading economy, the USA, are at a level never before known, even in times of war. There is in most Member States a very low level of profitability. All these aspects, moreover, interact on each other. None can be solved in isolation, yet their co-existence makes solving any of them much more difficult.

The co-existence of so many problems is unprecedented and this means that there is less guidance from history on what should be done than we had for the relatively limited problems of the 1950s and 1960s. Everybody, whether governments, economists or the electorate, is uncertain of the consequences of any particular remedy, and this uncertainty has a paralysing effect on the will to act. Governments in particular hesitate because in considerable measure they have lost faith in their capacity to control events, and when they do act, their actions sometimes have quite unexpected consequences.

In addition, the traditional cures have become more difficult to apply. Reliance purely on the market has been made more difficult by the rigidities which have crept into its mechanism and by the effect on entrepreneurial confidence of uncertainty about the future. Reliance on Keynesian remedies, is made more difficult by the extent to which in some Member States budget deficits are already very large and the percentage of the national income taken by the state through taxation or social security is already felt by a large part of the population, rightly or wrongly, to be excessive; it is indeed higher than in Japan or in the United States.

Even when Governments believe they know the cure, the economies of the Member States are reacting very slowly to the remedies applied. Inflation, for instance, is proving to be very deep-rooted. In the past, inflation sometimes provided its own cure because it produced high rates of profit and therefore every incentive to increase supply. That is mainly because of the money illusion. Now that illusion has almost disappeared. Because of the way in which tax works and because painful experience has given the workers a much greater consciousness of their real rate of wages, inflation tends to reduce real profitability and therefore to worsen the supply situation. Moreover, inflation is made worse by the existence of large masses of liquid capital, much of it belonging to states, especially the OPEC states, often placed on the shortest of short terms, and always liable to be switched from one financial centre to another.

The economies, particularly the developed countries, have now become so inter-dependent that no national government can find a solution in isolation. None of the attempts to find a concerted answer has yet proved fully adequate.

There are superposed on the present cyclical recession some major problems of structural adjustment, and these interact. The recession worsens the structural problems. However, curing the structural problems may involve a reduction of capacity, which increases unemployment in the sector concerned, and makes the vital objective of full employment more difficult to achieve.

The structural problems stem from various causes. Most important of all in the short term is our delay in adapting the economy to the problems resulting from the enormous increase in energy prices and the rapid pace of technological change. Then there are the increased competition from the newly industrialized countries, the growing threat from Japan in such industries as cars and consumer electronics, the greater value attached to the environment which can both destroy employment in some industries and create it in others, the over-investment in certain industries as a result of the euphoric atmosphere of the years immediately before 1973, the increased competitiveness of the USA because of the decline in the value of the dollar over the last decade and high rates of interest which discourage investments of long gestation. Moreover, the search for remedies is made more complicated by the severe monetary instability of recent years. These sharp shifts in the relative values of the main trading currencies greatly alter the conditions of competition over quite short periods of time.

The increase in energy prices has upset many previous price relativities. The growth industries of Europe were largely those which benefited from the declining real prices of energy in the 1950s and 1960s. Air travel, artificial fibres, steel and automobiles are all examples. All of a sudden, these industries find themselves in a much more unfavourable world, and a considerable part of the present recession can be explained by the check to their growth or even some temporary decline.

On the other hand, new investment in the industries which benefit from the changes in relative prices has been lower than might have been expected, for various reasons.

Firstly, in addition to the legal or political difficulties which often stand in the way of new investment, it takes time for investors to indentify a new trend and to work out the best way to meet it. For example, before a boiler is converted from oil-burning to coal-burning, the firm has to be convinced that coal will in all probability stay cheaper than oil, it has to investigate the costs and alternative methods of conversion, it has to design the details of the change and it has to order the work to be done.

Secondly, when profitability is low, industry may have difficulty in obtaining the resources for new investment; retained profits are inadequate and it may be hard to borrow because low profitability and high rates of interest often make the provision of adequate cover for debt interest difficult. This will particularly reduce innovative investments which are inevitably risky.

Thirdly, management whether public or private, is made more hesitant by all these experiences — especially about entering on ground of which they have no knowledge.

Europe's steadily changing relations with the third world require adjustments that go beyond the consequences of the widening of the GSP or the success in exports of countries like Hong Kong and Taiwan. The Group of 77 has formulated demands for a whole new international economic order. Some of these demands have already been acted upon, sometimes by international agreement, e.g. Lomé II, and sometimes by the unilateral decision of the developing countries. Others are likely to be so in the future. Each time Europe has to adjust to the loss of an old position. If the prosperity of the third world is thereby increased, European exports will increase too, but these are likely to be of new products, which are not likely to come from the firms that have suffered from the change unless they adapt themselves to the new markets.

Most subtly of all, investment depends on confidence; confidence in some measure of political stability, confidence in the economic policies being pursued, confidence that there will be a market for the goods and services the investment produces. At times of uncertainty like the present there is a general decline in confidence, but this decline is much greater in some sectors than in others.

Structural problems are not only material. They are also human. The decline of old industries can make skills obsolete which have taken a lifetime to build up, can leave quite considerable regions semi-derelict, and can leave the young unskilled or women who cannot move home, with little hope of a job. Yet at the same time other skills may be in short supply and other areas may find it hard to find the labour they need.

Adjustment to these situations can be harsh. It involves many people in changing jobs, learning new skills, perhaps losing seniority and income. It may involve people in changing homes and the social circle in which they have lived all their lives. Naturally, there is resistance. So the state finds itself under pressure to postpone adjustment by subsidies. In the extreme case of shipbuilding, it is calculated that all the wages and salaries of shipbuilding in the Community are covered by state subsidies. Such subsidies may be justified when the decline is temporary and the chance of recovery is strong, but the temptation to provide them generally is powerful.

Furthermore, before the Community can afford to let any industrial sector die, it has to consider whether it does not need to keep some strategic minimum of that sector, whether it can afford to become totally dependent on the outside world. Shipbuilding is again an example. On the other hand, before a new industry can develop, the research has to be done, pilot plants have to be created, factories have to be built, and new skills have to be created. Moreover, a considerable number of the new industries, like telematics and biogenetics, are either capital-intensive, or skill-intensive. They will not automatically provide jobs for the very people who lose their jobs in industries like clothing or steel. Indeed, there is no guarantee that their growth will occur in the Community, in some of them Japan and the United States are already ahead. The development of a new industry may also, as often with energy, require the adoption of a firm governmental policy, and these policies often take a long time to adopt, if only because what is the best policy is so frequently not clear.

Finally, where problems are structural, immediate solutions are rarely possible. But even solutions which will work only in the medium-term require action to be taken now.

3. Constraints

In taking action, whether to provide a recovery or to remedy a fault of structure, the Member States have to operate within more constraints than in, say, the 1960s. What each state can do to bring down interest rates is limited by rates elsewhere in the Community and above all in the US. Tight money brings down inflation but in the short run may make recession worse. A reduction in taxes or an increase in public sector expenditure stimulates demand, but often at the cost of higher interest rates or the crowding out of private sector borrowing. Where inflation is high, there is a reluctance to do anything which might make bringing it down more difficult; this has been a dominant influence in UK policy, for instance. Where public borrowing is as high as it is, say, in Ireland, any increase could well out-run the available savings. Where the balance-of-payments deficit is high, as in Germany, the need to compete with rates of interest in the outside world can produce a higher rate of interest than might be necessary for domestic reasons.

4. General Principles

It is impossible for the Committee to prescribe remedies which can be applied in the same degree in all the Member States. The reduction of unemployment and of inflation must be primary objectives for all, but inflation is less of a problem in Germany than it is in Greece and unemployment is not the scourge in Luxembourg that it is in Northern Ireland or the Mezzogiorno. One must, however, emphasize the importance of a coherent Community policy and of co-ordinated policies in the Member States which support and do not frustrate each other. Even if one cannot lay down the detail of these policies, one can enunciate certain objectives.

Some of the other objectives, like the sharing of burdens and sparing of the weak and the question of working time, are discussed in Section 7. More generally, social issues are considered at length in the Committee's Opinion on the Development of the Social Situation in the Community(1). Here the Committee only considers certain more strictly economic possibilities, remembering that the first priority of policy must be to reduce in a permanent way the present level of unemployment in the Community. The Committee shares the dismay expressed by the European Council in March at the prospect that in the short term unemployment is still liable to increase. In dealing with this threat, it is important that the Member States should not adopt incompatible policies. There is a need for a concerted Community policy to combat unemployment through the selective stimulus of the economy.

The Committee has already insisted on the importance of adopting policies which look forward to the medium-term. It is equally important to remember both that medium term policies have short- term effects and that policies adopted to meet short-term necessities have medium-term effects. It is never easy, given the pressures on governments, to make policy coherent, but it is never more important than in times of instability and uncertainty like the present.

Particularly, all policies should recognise the importance of the increase in profitable investment without which any return to growth is most unlikely. This increase will need to come from both the private and the public sectors. The development of new enterprises and the modernization of existing enterprises depends mainly on private enterprise, though nationalised industries are important in some Member States. Energy and the modernization of infrastructure are, in the Member States, mostly dependent on public investment, though the private sector has its contribution to make, for instance in the development of forms of energy which are not dependent on oil.

It is important, therefore, that the tendency of governments to cut expenditure on investment for purely budgetary reasons be reconsidered. There is no reason why borrowing should not be increased in order to provide for necessary infrastructure and profitable public investment in those countries where genuine savings are available to meet that borrowing, where private investment will not be crowded out, and where interest rates will not be unduly raised. Nationalised industries with monopoly power should not take advantage of their

(1) Doc. CES 772/81.

monopoly to raise charges excessively in order to avoid borrowing from the capital market for their investment requirements.

In some Member States measures have been taken to limit incomes. It is worth considering whether expenditure should not be limited by the heavier taxation of luxury or superfluous goods, thus freeing resources for more investment expenditure.

For private investment, a key requirement is a reduction of the uncertainties of the world. The investor needs to see a demand for his product before he will invest in making it; he is very worried about political risks; he does not like to borrow at high nominal rates of interest, even if the real rates are low or negative, in case inflation declines and leaves him with a high real rate too. When the level of uncertainty makes the risk exceptionally high, the investor needs the possibility of a higher rate of return in order to induce him to bear this higher risk, but he may then feel that if this higher return is in fact achieved it will be largely taken away from him by higher taxation. Anything, therefore, that by reducing uncertainty reduces the investor's perspective of risk, will increase investment, and that is why it is important to try and make the world more predictable, whether one is talking of the rate of inflation, of monetary and taxation policy, or of the Community's commercial policy.

Even if a greater feeling of confidence can be induced in industry, it will still not invest unless it has both the resources to do so and the minimum of equity capital required to carry the risks. For both purposes a reasonable level of profitability is, therefore, essential. Here again circumstances differ between Member States. Table 1 in the Appendix shows how much more unfavourable the trend has been in the UK and Germany than in the USA. In the UK the rate of return in 1980 dropped further to something of the order of 2%. Profitability in Belgium and in the Netherlands is also exceptionally low. There has been some restoration of profitability in France alone although even there levels are still low(1). However, it must be emphasized that although profitability is a necessary condition of further private investment, it is not a sufficient condition. Unless the entrepreneur sees an expanding market for his products he may be induced to embark upon labour-saving investment in order to improve their competi-

(1) The figures on profitability are incomplete and the Committee would plead with the Commission for the publication of figures on a properly comparable basis for pre and post-tax profits and for profits after interest as a percentage of the equity.

tiveness — and this obviously reduces the number of jobs he can offer, at least in the short term.

5. The productivity of People and Capital

Whatever measures are taken must have in mind the need to restore the competitiveness of the Community's economies which has fallen seriously in recent years, though in different degrees in different Member States and different sectors within them. Much of this is the result of the way exchange rates have changed. In the last few months, the position has improved somewhat as against Japan and the United States because of the rise in the yen and the dollar, but it still gives cause for disquiet, especially for those countries like the United Kingdom whose position has worsened even against their Community partners.

What needs to be done varies from Member State to Member State, but some general objectives can be stated. We need lower burdens on enterprises, more flexible response to changing conditions, more and better training, conditions which make mobility easier for workers, adequate resources for investment; and overall there has to be an acceptable social climate.

Of more specific measures, a reduction in the rate of interest, where it can be achieved without worsening inflation, would be particularly helpful. It would make investment more attractive since a high nominal rate of interest presents the borrower with problems of finding that interest from his cash flow in the early years of the debt, and of keeping sufficient cover for it in his profits to allay the fears of his creditors, even though inflation may mean that the real burden of debt is diminishing at a rate a which makes the real rate of interest negative, especially after tax. A low rate of interest would encourage an addition to stocks; in some Member States the present recession has been made much worse by de-stocking.

Competitiveness further requires a level of profitability which makes investment attractive and permits a large part of the resources for it to come from within the firm, and this in turn depends partly on the level of demand. Any unnecessary reduction in demand reduces competitiveness twice over. It inhibits investment, and it may well put up unit costs.

Some sectors are unlikely to be able to face the competition of the rest of the world without a measure of State aid, though this aid should not be used to provide those who work in them with a remuneration higher than unaided sectors can afford. This will sometimes be true of the new advanced technologies where risks are high; the State may need to share them if these industries are to get off the ground. The Committee has already expressed its approval for a Community telematics policy, for example[1]. It is sometimes true, too, of declining industries, or those which have been hard hit by the rise in the price of energy, where the poor prospects which make restructuring essential make it difficult to raise the necessary resources. But care must be taken that short-term worries do not get in the way of the action needed in the longer term.

In both cases, however, it is important that there should be the maximum possible Community coordination of what is done. The Member States acting separately could easily between them keep in being far too much capacity in a declining industry for any possible market. Competitive state-aided modernization in an industry like steel, unless limited to some reasonable measure of the amount the Community can expect to sell, could place ruinous burdens on the taxpayer. Even worse is the risk that if Member States begin to outdo each other in the aids they give, the Common Market itself will cease to be common. The Committee strongly supports the European Council's exhortation to Member States to "refrain from a competitive escalation of aid". All aids must be strictly within the provisions of the Treaty of Rome and according to clearly defined rules (particularly temporary character, transparency, subordination to the efforts at restructuring of the enterprises themselves). Member States should not distort competition by outbidding each other in the assistance they give to ensure that they, and the Community, are fully represented in the new industries on which the future so largely depends. What they do should be limited to what is necessary to compete effectively with the outside world, and especially with the United States and Japan[2].

6. International Considerations

Competitiveness is always relative. If the Community becomes more competitive, the rest of the world to that extent becomes less so. It is, therefore, important that the contest be confined to the desirable weapons of lower costs or better products, and its terms should not be falsified by disorderly exchange rates or concealed protection.

The Community, therefore, not only needs some stability in exchange rates between its Members. In this the European Monetary System has

(1) Official Journal C 353 of 31 December 1980.
(2) The Committee has adopted a separate Opinion on Relations with Japan (Doc. CES 768/81 of 1 July 1981).

been of great help, though sterling, which is outside the system, has risen too much for the comfort of British industry. It also requires some attempt to manage relations with the dollar and the yen. Fixed exchange rates in the world of high and volatile inflation, sharply changing interest rates, and sudden, sharp shocks to the system like the oil price rises or the Iran/Iraq war are probably not possible. But it may at least be possible to limit the violence of free fluctuation. When the yen can move by more than 25 % against the DM in a matter of some 10 months without any great change in the underlying economic situation, all rational calculation for the sectors of industry affected by foreign trade becomes impossible.

Equally, experience has shown that in an open world it is impossible for any one country to operate on its interest rates without regard to rates elsewhere. If American interest rates are high, German interest rates have to be relatively high even if, for the general good of the German economy, it would be desirable to lower them. In what is done about interest rates, therefore, it is important that Governments and central banks should show more consideration for the effects on others than they have sometimes done hitherto, though the extent to which they can do so is limited by the fact that high interest rates are largely an inevitable consequence of high inflation; the saver cannot be expected to lend at a loss, especially since taxation, unfortunately, does not take account of the capital loss caused by inflation, but only of the high nominal income from the high rates of interest it produces.

The Community must work against behaviour which denies it a fair opportunity to trade whether it be the concealed subsidies provided by certain countries through artificially low energy prices, or the artificial barriers to entry into the market as in Japan, or the refusal to provide reasonable reciprocity for the concessions made by the Community, as with some of the newly industrializing countries. Any widespread return to protection would be dangerous for the Community, which is the world's largest international trader, but for that very reason it is important for it to make sure that apart from the concessions made deliberately to developing countries, it has similar opportunities in third countries to those it offers them.

7. Social Consensus

Economic policy is not made in a vacuum. Its eventual purpose is not only to make people better off, though that is important. It is also to contribute to a happier and more united society. Improving the quality of life, even the increase of the pleasure people take in their work are just as legitimate ends of economic policy as an increase in the GNP.

In the choice of policy, therefore, one should try, difficult though it may be, to ensure that no considerable section of the population should feel itself severely discriminated against, that the community's sense of social justice should be respected, that the measures taken should not only be fair but be seen to be fair. What can be done will of course always be imperfect. Perceptions of fairness and justice vary from person to person and social group to social group. Moreover, in the individual Member States, these perceptions are often differently conditioned by their different histories and the need for economic efficiency will sometimes enforce acceptance of measures not everybody regards as equitable. Consensus makes implementation of any policy easier. It does not, of course, of itself guarantee the policy's success.

Despite all these caveats, some practical suggestions can be made.

Firstly, the Community cannot avoid the loss in real income ([1]) caused by worsening of its terms of trade largely as a result of the rise in the price of energy; the initial impact of this rise falls mainly on those who pay the higher prices for energy, but it will often be right to find some way of compensating the poorer members of the population for these higher prices. Equally, since the unemployed inevitably bear a large part of the cost of structural adjustment, everything possible should be done to ease the burden on them, especially when those in work get better off as the economy turns up again.

Secondly, policies are much more likely to be successful if they are supported by the widest possible measure of agreement. The Committee, therefore, supports the plea of the European Council of 23/24 March and of the Joint Council for Economic, Financial and Social Affairs of 11 June 1981 for the widest possible consultation with the social partners. The genuine disagreement on the course to be pursued makes this more urgent as well as more difficult. Moderation is more effective if it is the result of a free decision of those concerned, made as a contribution to a general compromise, than if it is enforced by law.

Thirdly, though in the final analysis it is always the individuals who are well off or badly off, there are regions and sections of the population where the number of individuals who have been hard hit by the recession is particularly high. Some of the peripheral areas of the Community and even some parts of its central areas have much higher levels of unemployment than other areas. Unemployment is also very

([1]) Calculated by the Commission at 2%.

much higher among the young than among the middle-aged, in nearly all Member States among women than among men, and among the unskilled than the skilled. As the Committee has pointed out on other occasions, the regional and social funds need very much larger resources if they are to make their proper contribution towards correcting these imbalances and towards expressing the fellow feeling the more prosperous sections of the Community have for those who have been hardest hit.

Fourthly, in times of high unemployment, more solidarity than usual is necessary to mitigate this unemployment. The Community should, therefore, pursue vigorously ways of spreading the available work more widely without reducing the capacity or competitiveness of industry, recognizing that for this to be achieved may require certain sacrifices from those at present in work, which their extra leisure is likely only partially to compensate.

This solidarity may need to be extended beyond the bounds of the Community. It is urgent therefore that aid should be increased as soon as possible to the 0.7% of GNP to which all the Member States have pledged themselves. This would make it easier for the developing countries who have not got oil, and particularly for the poorest of them, to survive their present difficulties without severe cuts in their already low standard of life and would at the same time make it easier for them not to reduce, or even to increase, their purchases from Community exporters.

It is one of the distinguishing features of the present situation that consensus on what should be done is exceptionally hard to achieve — not because there is less goodwill than in the past, but because there is much less agreement on what the solutions should be.

8. A Community Lead

The Committee has pointed out on several occasions in this Opinion that there is much which can only be done by the Member States. Nevertheless, it would emphasize as the Committee has done on previous occasions that in many directions there is an urgent need for a real lead from the Community. If the crisis is to be met, there needs to be more movement towards economic and monetary union, more use of Community funds and of its loan facilities for useful and employment-creating investment, a stronger line from the Community in the North-South dialogue and in reducing disparities between Member States. Moreover, only the Community can provide many of the conditions for a proper functioning of the economy; to take some very specific examples: anti-dumping, the removal of technical barriers, state aids to industry, the transparency of the assistance given to nationalized industries, all come under Community jurisdiction. Furthermore, if Community energy resources are to be fully developed, and Member States are to give each other adequate assistance in any sudden crisis, Community initiatives are required. Finally, the forthcoming consultation with the USA and Japan on interest rates and exchange-rate policy should be tackled by the Community as a unit, on the basis of a common policy — to be defined as a matter of priority — regarding the dollar and the yen.

The depth and seriousness of the recession makes a European policy dealing fundamentally and coherently with the Community's structural and cyclical problems vitally necessary. The Commission of the European Communities should propose to the Community institutions such a policy. It would aim at achieving a satisfactory level of growth, a better quality of life, and closer relationships with the developing countries.

Such a policy should embrace:

— urgent measures to reduce unemployment; Community policy should favour a reduction in working time while respecting the methods and practices for a collective bargaining in the individual Member States;

— a systematic drive to promote energy-conserving production processes and, by the same token, the establishment of a common industrial and energy policy;

— selective measures including financial instruments to encourage investments which create jobs, increase international competitiveness or promote innovation;

— protection of the poorest against the consequences of the recession;

— a proper priority for certain forms of collective consumption, notably public transport and low cost housing;

— the restoration of profitability;

— a reduction in rates of interest;

— some agreement on limits for charges on industry.

Such a policy would require a proper balance between the fight against inflation on the one hand, and the need for an increase in investment and the expansion of employment on the other. It should not assume that the recession is attributable exclusively to wage pressures and the increased oil bill; there are also many and deep-seated structural causes.

Were such a total Community policy formulated, it would give Europe a chance of returning to full employment combined with social progress and a closer solidarity with the developing countries.

APPENDIX

TABLE 1:

% Pre-tax Return on Capital Employed After Inflation Adjustments-Manufacturing Industry

	UK	*Germany*	*USA*
1956-59	17	27	26
1960-63	15	22	31
1964-67	14	19	38
1968-71	11	22	26
1972-75	7	16	22
1976-78	5	16([1])	24

Sources: T.P. HILL, OECD 1979 updated by UK Department of Industry in "British Business", 29 August 1980. The profit figures have been adjusted for stock appreciation and capital consumption on a replacement cost basis.

([1]) 1976

II

EXTRACTS FROM THE DEBATE

The debate at the 189th Plenary Session on the Economic and Social Situation in the Community was attended by Mr. Ivor Richard, member of the Commission responsible for Employment and Social Affairs, who outlined the results of the recent Joint Council of Ministers and the Commissions's intentions in this field.

Many Committee members took part in the debate but for reasons of space we reproduce here only the statements of Mr. Staratzke, President of Group I (Employers), Mr. Vanni, for Group II (Workers) and Messrs. Rollinger, Hilkens and Rainero, for Group III (Various Interests). They give an overall idea of the different attitudes expressed in the debate.

STATEMENT BY Mr. STARATZKE, CHAIRMAN OF THE EMPLOYERS' GROUP

Economic policy and social policy should be viewed together. In principle I agree with the Commission's assessment of the situation. I should, however, like to make a number of points. We are faced not just with increased unemployment and high inflation rates. All the Member States also have large current account deficits and public sector borrowing requirements, although their form may differ from country to country.

All this has led to a really explosive situation.

It is, however, important to note that this crisis is due not only to external factors but also to internal processes.

There are of course differences between the individual Member States; it is therefore not easy to prescribe remedies that will be applicable to all. It is certainly very commendable that the Rapporteur and the Study Group should nevertheless have attempted to work out targets for the Community as a whole.

It is possible that those in positions of responsibility are not yet all aware of the difficulty of the phase before us. This applies not only to the crisis phenomena mentioned but also, and above all, to the conflicts concerning the distribution of national income, which are becoming increasingly severe with the lack of growth. These conflicts must be resolved in the interests of all.

Let me turn now to what is mainly the task of the Community. By and large I would say that the Community must ensure coherent Community policies. The Council summit in Luxembourg a few days ago called for coordinated action against inflation and unemployment. The measures, which will of course be implemented by the national governments, will be made more effective through Community coordination.

The Community must, however, continue to create the basic conditions, and provide incentives, for investment and innovation, particularly in the energy sector and in the sectors which create jobs. I reiterate: investment and innovation are the only ways to increase the Community's international competitiveness, which has declined sharply in recent years. Increased competitiveness is a vital precondition for an improvement in the employment situation. This was also reflected in the Luxembourg statement. On the occasion of Mr Thorn's visit to the ESC I drew attention to the various kinds of trade barrier that still exist in the Community and to something that is quite incomprehensible, namely the fact new barriers and impediments are constantly arising in domestic trade. In conclusion, it can be said that we are all to some degree united in our assessment of the situation. There are of course differences of emphasis in the proposed remedies according to country and approach. This will be reflected in the two reports on the economic situation and the social situation in mid 1981.

STATEMENT MADE BY MR. RAFFAELE VANNI, ON BEHALF OF THE WORKERS' REPRESENTATIVES

Mr. Chairman. Our debate on the economic and social situation in the Community comes only a few days after the Luxembourg summit, the Jumbo Council, and on the eve of the summit of industrialized nations. The Commission has sent the Council its ideas for policy in the 80's. We, the Economic and Social Committee, will discuss the Commission's proposals at a forthcoming Plenary Session. The Workers' Group, whose spokesman I am, is convinced that we must take full advantage of every opportunity open to us to achieve real changes in policies in the Community and Member States. This line was taken by the European Trade Union Confederation on 29 June in Luxembourg. We are convinced that pressure must be exerted on governments, the

Council and the Commission to mobilize public opinion in order to achieve a real change in economic policies at both Community and national level.

It is now obvious that the monetary and social welfare policies on which our strategy was based in recent years is not only incapable of curbing inflation, but will definitely not reflate the economy. To hope for spontaneous growth is clearly futile. Today we are faced with an intolerable rate of unemployment, which will increase if policies are not changed. Commissioner Richard is in agreement with this diagnosis, and has even admitted with regret that the Commission in recent years has pursued a monetarist strategy and indeed accepted that a measure of recession would be the price to pay.

I am very pleased to hear that there is to be a new approach to economic policy, but we must obviously get down to brass tacks. It is not enough to concede that certain policies have not paid off as expected, and that they must therefore be changed. We must look at how to change them. A start must be made at Community and national level on planning a new type of development which is not based only on spontaneous development of growth, but which offers alternatives. We must try to mobilize all possible resources, both private and public, to this end. We can no longer operate only blanket support policies such as those which have been used to date. We must identify selective policies which combat inflation, work against the recession and unemployment, and enable us to hammer out a common approach on the points to be submitted to the Commission and the Council.

I heard recently that the responsibility for changes in economic policy lay squarely on the shoulders of individual States, and that there was a resultant need for Community-level discussions. At the same time, we must not harbour any illusions on this point. It is true that some economies are stronger than others, but I do not believe that stimulating competition within the Community would save the economy of any Member State. It is more likely to lead to the destruction of the European economy. Consequently, there should be a medium-term blueprint for at least the fundamental aspects of national policies. Above all we must prevent an upsurge in nationalism. If we want to put unemployment at the top of the list, (as we are all in agreement that the success of employment policy — a social policy — is contingent on suitable economic policies), we must adopt a Community strategy to the structural problems to be faced, and we must implement common energy and industrial policies. Obviously, up to the present, the Community has had no industrial policy. The most it has done is implement some policies in the "lame-duck" sectors. The crux of the matter is not whether there can be a policy to assist the steel or shipbuilding industries, but whether fundamental industrial policy choices can be made in the sectors which are lagging behind. We are waiting for the Commission to make detailed proposals to the Council. This will allow us to gauge the degree of responsibility which each State is ready to assume. Progress with this European blue-print is contingent on real and credible inter-State consultation, and on convincing the Member States that they must pursue a clear energy policy, and a clear industrial policy and that they must be prepared for a change in agricultural policy. We must establish new relations with developing and oil-producing countries. We must be able to stand up to America and Japan. Labour must now be shared out internationally on the basis of growth and not unemployment. Of course the resources must be found to implement this policy. Sacrifices may be necessary, but these must be contingent on a redistribution of income and the adoption of a clear line on which areas of consumption are to be sheltered and which areas to be pruned. The top priority is to ensure that any action is taken with the consent of the workers concerned. This presupposes a consensus strategy based on full information of workers. We are confident that progress has been made in this area recently, even if certain aspects of the current debate and certain amendments to the Reports on the economic and social situations create the impression that we are not telling the whole truth or at least that we have deep-seated reservations when we say that we agree about the diagnosis but not about the treatment. I hope that this debate will clarify the situation and enable us hammer out a common approach on the points to be submitted to the Commission and the Council.

STATEMENT BY Mr. RAYMOND ROLLINGER ON BEHALF OF REPRESENTATIVES OF THE SMALL BUSINESS SECTOR (SMEs)

Since I do not have very long to speak, I shall have to concentrate on one or two points which representatives of SMEs would like to bring to the attention of Mr. Richard and his colleagues.

First of all, the small business sector is pleased with the two Opinions for stating that top priority should be given to concerted Community action to fight unemployment. Efforts made so far, however, have failed. The Opinion on the social situation rightly stresses the need to work out a new approach rather than continue along well-tried lines.

The small-business sector agrees with the general thrust of the Opinions on the economic and social situation respectively and considers that flexibility, mobility and initiative should be encouraged.

It is better to do this than to expand all sorts of welfare and regulatory schemes. The Social Section's Opinion is right in recommending that men and women should be trained to be more adaptable through linked work and training systems, and continuing education schemes.

The catastrophic effects of the structural crisis have given the general public the chance to discover how useful SMEs are in the fight against unemployment and in the battle for a more energetic employment policy. If the aim is really to fully exploit the latent capacity of SMEs for taking on new staff, it is not enough to give firms access to easier credit and ensure that revenue-producing and social security schemes are compatible with the economic and financial difficulties besetting them; what needs to be done even more is to abolish hindrances and obstacles resulting from administrative, legal and other constraints.

We must have the courage to look reality in the face and must remember that the manager of a SME is not a capitalist seeking to maximize yield from capital investments but is generally speaking a skilled worker who has opted for a more independent and dynamic working life, and who is ready to assume normal business risks as well as reap the legitimate rewards. But how can we expect such a man to take on the extra staff justified by business trends if he is no longer able to evaluate the risks and burdens of a large payroll in an uncertain economic climate because of existing legislation (or legislation in preparation) that makes it more and more difficult and onerous for firms to adjust their capacity to future market requirements?

Finally, the Commission should give prior attention to examining this aspect of the fight against unemployment so that present and future social provisions can be adjusted to economic and social realities.

STATEMENT BY Mr. G.H.E. HILKENS ON BEHALF OF THE CONSUMERS

In our countries' treatment of economic and social issues pride of place is given to the economy. Although production is a *sine qua non* for prosperity, the prime objective of the economy may be said to be social insofar as it is aimed at the well-being of all citizens. The purpose of social policy is to let everybody enjoy the fruits of economic progress.

We are in the midst of a particularly severe economic crisis, which has made the pursuit of social policy particularly difficult, too. It should be made clear that the course being taken by the economy has a particularly strong structural bias. Hence the need, in my opinion, for a structural approach to the problems at hand and for a new strategy of the type referred to by the Rapporteur in his document. One factor which I would like to mention is that we should not forget to concentrate on the quality of life. Despite the difficult economic situation, social goals must not be neglected when structural adjustments are made.

I should like to draw attention today to one point which appears for the first time in an ESC document and has to do with family policy. This policy must create conditions in various areas to ensure the optimum well-being of man in his primary social surroundings, which in most cases means the family.

When structural adjustments are made to the economy, it will be absolutely necessary for the sake of social goals to devise an economic model in which the needs of social units, such as the family, occupy a central place.

I therefore applaud Mr. Burnel's initiative and call on the Commission to embark without delay on the proposed study of family policies in the Member States.

STATEMENT BY Mr. GIOVANNI RAINERO, ON BEHALF OF FARMERS

Mr. Chairman. I agree that the Commissioner's declaration and the two reports have considerable merits. But I feel that although the assessments of the situation are extremely interesting, practical action is lacking. And it is here that the difficulties lie. The lack of action causes the widespread indifference to — I would even say mistrust of — the Community. This is very dangerous, and the recent opinion poll should alert us to the dangers. There is much discussion at all levels, declarations of intent are made, but nothing is actually done. I therefore feel that more attention should be paid to three points: creation of a determination to act in concert, creation of policies which are not exclusively economic but have a social component, reactivation of development in the depressed areas which are probably capable of revitalizing the Community economy.

I feel that one possibility would be a determined drive to align incomes and living conditions in the regions, and narrow disparities between urban areas and the countryside. There is a continuing exodus from most rural areas, where family earnings are half of those in towns. And EEC support has been non-selective and in practice has favoured the areas which are already developed, and the businesses which have already attained acceptable production and working conditions. This situation bears out my argument that it is vital to tackle the above-mentioned three points; if this is done in a spirit of a genuine determination to pursue common policies, it will contribute to improvement of social conditions and the balance in depressed areas, it will help to reactivate economic development in those areas and to offset natural and social disparities. Mr. Chairman, this is my personal opinion, but I feel that the course I am proposing is feasible, and that greater attention should be paid to these aspects. Thank you.

European Communities - Economic and Social Committee

"Economic Situation in the Community (Mid 1981)"

)wn-Initiative Opinion of the Economic and Social Committee

Brussels: General Secretariat of the Economic and Social Committee

1981 - 32 pages

DA, DE, EN, FR, GR, IT, NL

In a noteworthy show of agreement, representatives of employers, trade unions and various interests from the ten Member States of the European Community have called for greater solidarity to mitigate unemployment and proposed a total Community policy to restore economic growth.

In its Opinion on the economic situation, adopted on 2 July in Brussels, the Economic and Social Committee of the European Communities also stressed the fact that only the Community can provide all the conditions for the proper functioning of the economy, citing some examples: anti-dumping, the removal of technical barriers, and state aids to industry.

It calls for the Commission to come forward with a coherent policy whose principal objectives would include a satisfactory level of economic growth compatible with an improved quality of life, whilst at the same time permitting the Community to establish even closer relationships with the developing countries.

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