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REPORT

drawn up on behalf of the Committee on Economic and Monetary Affairs and Industrial Policy

on the proposal from the Commission of the European Communities to the Council (Doc. C 2-118/85 - COM(85) 570 final) for a decision adopting the annual report on the economic situation in the Community and laying down economic guidelines for 1985-1986

Rapporteur: Mr B. VISSER

WG(VS)2678E

PE 100.862/fin.

By letter of 29 October 1985 the Council of the European Communities requested the European Parliament, pursuant to Article 4 of the Council Decision of 18 February 1974 on the attainment of a high degree of convergence of the economic policies of the Member States of the European Economic Community, to deliver an opinion on the proposal from the Commission to the Council for a decision adopting the annual report on the economic situation in the Community and laying down the economic guidelines for 1986.

On 11 November 1985 the President of the European Parliament referred this proposal to the Committee on Economic and Monetary Affairs and Industrial Policy.

At its meeting of 26 March 1985 the Committee on Economic and Monetary Affairs and Industrial Policy appointed Mr Visser rapporteur.

At its sitting of 15 April 1985 the European Parliament referred the motion for a resolution tabled by Mr Papoutsis (Doc. B 2-34/85), pursuant to Rule 47 of the Rules of Procedure, to the Committee on Economic and Monetary Affairs and Industrial Policy as the committee responsible and to the Committee on Regional Policy and Regional Planning for its opinion.

At its meeting of 22 April 1985 the Committee on Economic and Monetary Affairs and Industrial Policy decided not to draw up a separate report on this motion for a resolution but to consider it in its report on the economic situation in the Community.

At its meeting of 23/24 May 1985 the Committee on Regional Policy and Regional Planning decided not to deliver an opinion.

The Committee on Economic and Monetary Affairs and Industrial Policy considered the proposal and the draft report at its meetings of 26/27 June 1985, 15/16 October 1985 and 29/31 October 1985.

At the last meeting it adopted the Commission proposal and the motion for a resolution as whole by 18 votes to 4 with 8 abstentions.

The following took part in the vote: Mr SEAL, chairman; Mr VISSER (deputizing for Mr WAGNER), rapporteur, Mr von BISMARCK and Mr BEAZLEY, vice-chairmen; Mr BESSE, Mr BEUMER, Mr BONACCINI, Mrs BRAUN-MOSER (deputizing for Mr CHIUSANO), Mr CASSIDY, Sir Fred CATHERWOOD (deputizing for Mr Basil de FERRANTI), Mr CHANTERIE (deputizing for Mr ABELIN), Mr CRYER (deputizing for Mr FALCONER), Mr DE VRIES, Mr FILINIS, Mr I. FRIEDRICH, Mrs VAN HEMELDONCK, Mr HERMAN; Mr MARTIN (deputizing for Mr GAUTIER), Mr MERTENS, Mr METTEN (deputizing for Mrs GREDAL), Mr NOVELLI, Mrs OPPENHEIM, Mr PATTERSON, Mr PFENNIG (deputizing for Mr FRANZ), Mr RAFTERY, Mr ROGALLA, Mr SMITH (deputizing for Mr MAVROS), Mr STARITA, Mr STAUFFENBERG (deputizing for Mr WEDEKIND) and Mr WETTIG (deputizing for Mr MIHR).

The report was tabled on 31 October 1985.

The deadline for tabling amendments to this report will be indicated in the draft agenda for the part-session at which it will be debated.

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The Committee on Economic and Monetary Affairs and Industrial Policy hereby submits to the European Parliament the following motion for a resolution together with explanatory statement:

A
MOTION FOR A RESOLUTION

closing the procedure for consultation of the European Parliament on the proposal from the Commission of the European Communities to the Council for a decision adopting the annual report on the economic situation in the Community and laying down the economic guidelines for 1985-1986

The European Parliament,

- having regard to the proposal from the Commission to the Council (COM(85)570 final),
- having been consulted by the Council pursuant to Article 4 of the Council Decision of 18 February 1974 on the attainment of a high degree of convergence of the economic policies of the Member States of the European Economic Community (Doc.C 2-118/85),
- having regard to the report of the Committee on Economic and Monetary Affairs and Industrial Policy (Doc. A 2-142/85),
- having regard to the result of the vote on the Commission's proposal,

ECONOMIC STRATEGY AIMED AT EMPLOYMENT

1. Notes that the various economic indicators in the Community show some improvement but that the rapid growth of the world economy in 1984 has now levelled off; observes that unemployment, which at 11.1% hardly shows any improvement, is at a socially unacceptable high level; takes the view, therefore, that action to combat unemployment must be a priority for economic policy; to this end, considers that efforts must be made in the years ahead to achieve faster economic growth in the Community than the 2.5% anticipated at present;
2. Stresses, however, that a lasting improvement in the employment situation is only possible when the results achieved with regard to price stability, equilibrium in the balance of payments, budgetary equilibrium and monetary stability are consolidated and, if possible, improved; considers that the economic situation in individual Member States differs considerably and that some Member States are still in a very vulnerable position; takes the view that policy in these countries must be geared chiefly towards a more balanced economic development and greater convergence;
3. Shares the Commission's view that continuing present policies in the medium term will not bring about an appreciable fall in unemployment and that, to this end, the economic growth strategy described above should be pursued; considers that, in view of the present high degree of use of production capacity, such growth in the medium term can only be maintained on the basis of a considerable increase in investment and a positive employment policy aimed at more labour-intensive production processes than in the past;

4. Takes the view that such a strategy for growth towards full employment can only succeed if there is consensus between employers, employees and the authorities at both national and European level; stresses that the various parties must make a fair contribution if this strategy is to be sustained in the long term; this means in particular that:
 - employees must improve the profitability of undertakings and the ratio of labour to capital costs by continuing wage moderation, thus allowing more labour-intensive investment;
 - employers must guarantee the necessary labour-intensive investments on the basis of their higher profits and the improved labour capital costs ratio;
 - government must help by means of measures to increase demand and by adapting its policies, to create the necessary climate for labour-intensive growth both at national level and through cooperation at European level (e.g. completion of the internal market);
5. Takes the view that, in its annual report, the Commission does not consider the various possible hypotheses adequately, as its proposed strategy is based solely on the dubious hypothesis of slower but steady growth in the United States of + 2.5%; points out that an unexpectedly sharp fall in the dollar and an economic recession in the United States are also possibilities; considers that, in view of the impact the latter would have on the European economy clear policy alternatives would need to have been formulated to cover such a hypothesis, including measures to compensate for the further reductions in external demand and methods of optimising the positive effects for the European economy;
6. Points out that despite greater convergence of the economic development of the various Member States they still show divergent results with regard to price stability, budgetary equilibrium, equilibrium in the balance of payments and monetary stability; stresses that, depending on the degree of economic balance achieved, the Member States have various possibilities for carrying out the proposed growth strategy, which necessarily implies a differentiated national economic policy; stresses, furthermore, that a growth strategy geared to employment should consist of a package of compatible measures, the emphasis, strength and timing of which will be extremely important;
7. Draws attention to the previously very low level of investment which was, moreover, not aimed at expanding capacity but at cutting jobs; stresses that, to achieve growth geared to employment, a sharp rise in investment is needed which aims to increase capacity and is labour-intensive;
8. Takes the view that, in order to achieve such an increase in labour-intensive investments, adequate profitability of the undertakings and a better rate between labour and capital costs are needed;
9. Considers it very important, furthermore, that an economic structural policy should be pursued in order to reduce the large regional differences that exist within the Community; considers that, at the same time, priority should be given to measures to bring about economic recovery in industrial regions that are in economic crisis and have high unemployment rates; to this end the resources of the Regional Fund and the Social Fund should be considerably increased and utilized to optimum effect;

10. Takes the view that special attention should be paid to combating unemployment among young people, women and the long-term unemployed; considers that special programmes are needed for such groups in the form of apprenticeships, positive measures for women, increased subsidies for education and training and temporary start-up subsidies for job creation;

INTERNAL MARKET - NEW TECHNOLOGIES

11. Draws attention to the enormous potential for the Community, whose market will comprise 320 million inhabitants after enlargement, as regards increasing sales and profits, competitiveness and stimulating investments; considers it unacceptable that up to now this key factor has not been fully utilized because of a lack of political will; calls on governments to transform the fine declarations of intent on completion of the internal market by 1992 into the necessary practical decisions without delay;
12. Takes the view that completion of the internal market is only desirable and possible in social terms when it is combined with sufficiently comprehensive social and regional accompanying measures;
13. Stresses the importance of new technological developments as the driving force for economic development; considers that completion of the internal market is vital for competitiveness in the advanced technology sectors; considers therefore that the market for public contracts should be opened up;
14. Points out that the new technologies can have a beneficial effect on employment when they are produced to an increasing degree by European industry;
15. Takes the view furthermore that successful introduction of new technologies must be based on social consensus;

WAGE MODERATION

16. Notes that in the past the increase in real labour costs has affected the profitability of undertakings and investment and, moreover, that the ratio of labour to capital costs has developed to the detriment of labour costs, leading to investment aimed at cutting jobs; favours, therefore, curbing labour costs by moderating the rise in real wages and reducing social charges (see para. 27); takes the view that the efforts in various countries in recent years to achieve wage moderation have improved the profitability of undertakings; takes note of the Committee on Economic Policy's view that in the majority of Member States profitability is still too low to generate adequate investment and employment; advocates, therefore, a continuation of wage moderation in order to create the scope for labour intensive investments and adjustment of working time;
17. Takes the view, furthermore, that in order to optimize wages and thus final demand without affecting the profitability of undertakings, flexibility on real wages is advisable, based on what is feasible in each branch of industry or undertaking and achieved within the framework of collective agreements;

18. Points out furthermore that wage moderation without the government adopting accompanying measures would produce a relatively lower demand in the short term which would have an adverse effect on the propensity of undertakings to invest; considers it necessary, therefore, as part of the cooperative growth strategy for government to take steps to support demand in particular as the impetus provided by external demand will be reduced;
19. Takes the view that such a policy can only bear fruit if it has the workers' agreement and workers participate fully in the decision-making bodies;

GOVERNMENT MEASURES TO STIMULATE DEMAND

20. Is aware of the Member States' limited room for manoeuvre in supporting demand, given that such support should not produce unacceptable budget deficits; advocates, therefore, a differentiated policy, where Member States with a relatively large budget deficit restrict themselves to adjusting their budget structure while Member States with a relatively small budget deficit can use the greater opportunities available for stimulating demand; subscribes to the differentiation recommended by the committee;
21. Considers, in the light of the strategy for growth, that harmonization of the budgetary and fiscal policy of the various Member States and, where necessary, also monetary policy is required; takes the view that budget revenue and expenditure and possible measures to stimulate supply and demand should be considered;
22. Takes the view that budget expenditure must be assessed on its economic and social benefits, meaning that payments that are very effective in social terms should be maintained and the principles of the European welfare system that offers protection to the disadvantaged in society should not be affected; however the effectiveness of services provided by government should be optimized;
23. Advocates, on the basis of these criteria, the following priorities for public spending;
 - infrastructure projects which stimulate production potential, the competitiveness of the economy and demand;
 - education and training;
 - technology research and its industrial applications;
24. Takes the view that infrastructure projects should not be restricted to national level, but that certain projects should be at Community level as they are of a transfrontier nature and of great importance for the smooth functioning of the internal market; calls on the Council to reach agreement forthwith on the principle of a European infrastructure programme and its financing;
25. Stresses that, in order to curb unemployment, an education and training system geared to technological developments and providing the required professional qualifications is extremely important;

26. Emphasizes that better cooperation at European level is needed to improve the efficiency of research; considers, furthermore, that in order to achieve rapid commercial exploitation of the results of basic research, cooperation between industry, the financial sector, education and government should be improved;
27. Agrees with the Commission that in order to improve the ratio between labour and capital costs, with a view to increasing employment, public subsidies that intensify capital and cut jobs should be halted; considers that the government resources thus released could help to reduce labour costs for example by reducing income tax or social charges and thus improving the profitability of undertakings;
28. Draws attention to the contribution of small and medium-sized undertakings to the creation of new jobs; hopes therefore that everything possible will be done to encourage such undertakings; advocates, inter alia, measures to meet the need of small and medium-sized undertakings for venture capital and for the reduction of interest rates during the start up stage; awaits with interest the communication from the Commission on revision of the rules governing undertakings and measures to encourage a dynamic small and medium-sized undertakings sector;

REORGANIZATION AND REDUCTION OF WORKING TIME

29. Points out that the problem of unemployment cannot be solved completely either in the short or long term, and advocates therefore measures to improve the functioning of the labour market and to reorganize and reduce working time; stresses however that reorganization of working time can only have a favourable effect on employment if it does not result in higher labour costs, so that the competitiveness of the economy is not affected;
30. Takes the view that reduction of working hours can be financed partly through an increase in labour productivity, and where possible by increasing operating hours;
31. Takes the view that reduction of working time should be based on a constructive dialogue between the social partners, coordinated at European level;

MONETARY POLICY

32. Takes the view that continuation and further improvement of monetary stability and cooperation are required if the growth strategy aimed at employment is to succeed; calls urgently on the Council, therefore, to take the necessary decisions to strengthen further the EMS and the ECU, in line with Parliament's views on this matter;
33. Takes the view that the weakening of the dollar could have favourable effects on further monetary integration, reduction in real interest rates and liberalization of the European capital market if a coordinated European policy geared towards stability is pursued;
34. Calls on the Commission to make proposals in the near future for a strategy to reduce real interest rates in order to stimulate investment and thus employment;

EXTERNAL ECONOMIC RELATIONS

35. Advocates further liberalization of world trade, with particular attention being paid to the situation of developing countries; stresses that import restrictions to benefit certain sectors of industry can only be temporary and should result in the necessary restructuring; emphasises, however, that liberalization of world trade should be based on reciprocity and that where this does not occur counter-measures, in accordance with GATT rules, are justified;
36. Considers that the meeting of Finance Ministers of several industrial countries in New York on 22 September indicates the willingness of the United States to discuss its own financial and economic situation; warns, however, that this meeting should not be used by the United States as an alibi for allowing free rein to protectionism if the fall in the dollar exchange rate is insufficient;

ECONOMIC CONVERGENCE

37. Stresses, finally, that the economic policy pursued by the Member States can only be effective if it is coordinated at Community level; calls on the Commission, therefore, to make greater use of its option under the Council's convergence decision of 18 February 1974 to make recommendations to a Member State, paying particular attention to publicity;
38. Takes the view that in order to ensure implementation of this growth strategy aimed at employment, publicity and comprehensive social consultation must be used to convince the general public and the social partners must be convinced by means of so that they bring the necessary pressure to bear on their governments to pursue this strategy.

B
EXPLANATORY STATEMENT

I. INTRODUCTION

A. Indicators of economic trends

1. According to the Commission, the real growth rate of GDP in 1985 will be 2.3% and will increase slightly to 2.5% in 1986 by comparison with just over 2% in 1984. For 1985 and 1986 a growth rate of 9.7% and 4.5% respectively is projected for the volume of total world imports (excluding those of the Community), which is considerably lower than the 10% growth rate achieved in 1984. In view of the weakening of the American economy, a drop in real exports from the Community is forecast amounting to 4.8% compared with 6.4% in 1985; however, imports will increase slightly from 5% to 5.3%. The expected improvement in the terms of trade may however make it possible to increase the surplus of balance of payments on current account from 0.5% to 0.6% of GDP, i.e. \$18 billion. Inflation is expected to fall from 6.2% in 1984 to 5.2% in 1985 and to 3.9% in 1986. These various economic indicators point to further improvement of the economic situation although employment trends are less encouraging. Despite a slight rise in employment opportunities for 1985 and 1986 of 0.4 and 0.5% respectively, this is hardly sufficient to create new jobs for the growing working population so that, following a further rise in unemployment in 1985 to 11.2%, hardly any fall can be expected for the next year, for which unemployment is estimated at 11.1%. This is a socially unacceptable high level.

2. The economic situation thus shows some improvement except in the employment sector. There is therefore a general consensus that economic policy must now give priority to a lasting reduction of unemployment. This does not mean, however, that the other economic factors should be neglected when outlining the policy to be pursued. A lasting improvement in the employment situation can only be achieved when the progress towards price stability, equilibrium of the balance of payments, stable exchange rates and budgetary equilibrium is consolidated. Indeed measures which inevitably lead to inflation, deterioration in the balance of payments etc. would halt economic recovery and thus in the long term actually exacerbate the employment situation. However, measures that do not necessarily have an inflationary effect should not be discarded automatically, on the basis of an orthodoxy that wishes to exclude even a minimal risk of inflation.

B. Economic trends in the United States

1. Before considering the economic policy to be pursued, it should be noted that the Commission bases its forecast of economic trends on the assumption that the fall in the dollar will be gradual rather than abrupt, that in 1986 the United States will not end up in an economic recession and that real growth will remain at about 2.5%. As the Commission itself has said, this hypothesis is doubtful and if this minimum level was not achieved economic trends in Europe would be adversely affected. Since it would be short-sighted to draw up a policy based solely on the realization of such a doubtful hypothesis, the Commission must also formulate clear alternative policies to cover a situation where the dollar exchange rate and economic trends in the United States are less favourable. This again highlights the dependence of Europe's economy on economic trends in the United States. The close links between the world's economies, given current technological development, are an unalterable fact. However, the dependence of our economies on that of the United States should be limited as far as possible. Without considering this area further at this stage, it is clear that an immediate step lies in as

great a degree of economic and monetary integration as possible and convergence at Community level.

C. Comparison of trends in the European Communities with those in the United States and Japan

4. Europe's economic problems often lead to comparisons with the United States and Japan, which have achieved better results, for example with regard to employment. There is therefore always the temptation to try to solve European problems by copying policies pursued in the United States and Japan. However, a comparison of developments in the United States and Japan with those in the Community clearly indicates, as shown in the annexes, that this is neither possible nor desirable.

II. ECONOMIC STRATEGY AIMED AT EMPLOYMENT

5. This section deals briefly with the various aspects of the economic policy to be pursued. Not all Member States can pursue the same policy since their basic economic position differs, even though there has been some progress recently towards economic convergence. It is clear, given the delicate balance between the various, sometimes contradictory, objectives, namely employment, equilibrium in the balance of payments, curbing budgetary deficits and price stability, that there is only a limited margin for manoeuvre. It is therefore impossible to take abrupt and radical measures; the emphasis, strength and timing of the various policy measures should be selected to ensure that they will gradually redirect the trend towards the desired economic and social objectives. The policy should also pay particular attention to the groups hardest hit by unemployment: unemployed young people, women, and the long-term unemployed. Measures to promote employment for young people and women are socially necessary. These groups need special programmes, for example apprenticeships, increased grants for education and training and temporary start-up grants for creating jobs.

6. Current economic growth is insufficient to create the new jobs needed to reduce unemployment. Economic strategy should therefore be geared towards faster economic growth than the planned 2.3% and should be more labour-intensive than in the past. The level of investment must be increased in order to allow more rapid growth otherwise, there will soon be problems with regard to the degree of utilization of equipment and hence bottlenecks which, in their turn, would result in price increases and a deterioration in the balance of payments. A lasting rise in employment therefore requires an expansion of production capacity.

7. For 1985 gross investment is expected to increase during the first half by 3% and during the second half by 2.2%, by comparison with 2.3% last year. For 1986 an increase of 2.9% in gross investment is expected. Although an increase in gross investment is mentioned, this is inadequate for real economic recovery and is minimal by comparison with the estimates for the United States (5%) and Japan (5.8%). The level of investment in the Community is too low to bridge the gap that has developed and it is very questionable whether provision has been made for replacing written-off productive capacity.

8. Past experience has shown, however, that encouraging investment is not sufficient to solve the problem of unemployment. Investment in the Community since the 1970s has been concerned more to cut than to create jobs, which has increased capital intensity (capital per employee). Contrary to what might be expected, however, this has not been accompanied by the incorporation of

technical innovation in production equipment on the same scale as in other industrialized countries. This trend must be reversed: investment should be more labour-intensive and technical developments should be assimilated more quickly. The ratio between labour and capital costs plays an important role here, which is considered in greater detail later in the report. Investment in rationalization of course also remains essential if competitiveness is to be maintained.

9. What will help to stimulate investment trends? Profit and potential profit are key factors in the decision to invest. After the economic depression of 1980-81, the gradually improving profit margin was used initially to improve the financial structure of undertakings which had increasingly been relying on loans and drawing on their capital during the recession. The improvement of profit margins therefore only resulted in a gradual resumption of investment. There are now various signs that the structure of assets and liabilities and the capital position of undertakings has improved. It is obvious that the results achieved in this area vary in the different Member States and also in the different sectors. A climate of confidence in economic developments is needed to encourage undertakings to invest in Europe.

10. The climate of confidence derives from potential profitability, which is partly determined by cost, price and marketing potential. Policy must be geared to a large extent towards consolidating the improved economic results and expectations with regard to a balanced economic recovery. Efforts must continue to improve price stability, exchange rate stability, external equilibrium and curbs on budgetary deficits. Willingness to invest is determined by profitability and potential profit. A climate of confidence in economic development is crucial for investment. The relationship between labour and capital costs plays an important part in encouraging investment that will create jobs, and the government should encourage such investment, whether by individuals or the state.

11. Investors' confidence has gradually improved recently. However, the uncertainties surrounding economic trends in the United States threaten to destroy this climate of confidence once again as investors' fears of the ensuing deflation would once again reduce their willingness to invest. The Community should therefore draw up supplementary economic recovery measures to cover the possibility of the United States ending up in economic recession.

A. Internal market

12. The Community has the extremely important advantage of access to a large market which will comprise 320 million inhabitants after enlargement; however, it has been neglected in the past because of short-sighted national policies. Since the Community was set up in 1958 only slow progress has been made towards integrating the various national markets into a single common market: the proportion of intra-Community trade has hardly increased since 1974. The common market remains divided into individual national markets.

13. The establishment of a real internal market would provide an enormous stimulus for the Community's economy. The continuance of frontiers within the Community causes considerable additional costs for undertakings, estimated by the Commission at 5-10% of the value of goods, and this only relates to the direct costs resulting from crossing frontiers. In addition, the undertakings are continually hampered by the fact that they cannot gear their organization to a single large European economic and legal area but must deal with ten

separate national markets. This inevitably affects the competitiveness of European undertakings. Large-scale investment is also severely hampered in the Community and sometimes a different location is chosen for this reason. If the undertakings could rely on a European internal market these investments would be made in Europe. This is particularly important in terms of stimulating investment in branches of industry concentrating on new and fast-growing technologies.

New technologies

14. The new technologies are crucial for future economic development and employment in the Community. First of all, undertakings must adapt to the new technologies and make the necessary investment to maintain their competitive position on the world market (and thus the employment they provide). It has already been noted that in the past technical advances have not been incorporated satisfactorily into European industry despite high capital intensity. How can this high capital intensity be coupled with such low general economic efficiency of investment? Perhaps the lack of an internal market provides some explanation for this discrepancy.

15. The supply side of the European economic structure must also adjust to the new technologies. The branches of industry that produce the new technologies are major job creators, and it is therefore extremely important for employment in the Community that competitiveness in these sectors should be strengthened and the trend reversed whereby the Community is starting to fall behind in some of these areas by comparison with the leading countries in the world. At present some of these technologies are, to a large extent, imported from outside the Community. The Community must therefore strengthen its competitive position so that a growing proportion of its own needs is met from its own production and so that exports are also increased. New jobs would thus be created in these advanced technology sectors which could compensate for the possible loss of jobs in other industrial sectors and if this occurred the new technologies would not lead to job losses but would create employment.

16. To enable them to improve their competitive position the advanced technology sectors should have access to a large unrestricted internal market. The market for public contracts should be opened up as governments represent one of the most important customers for such technologies.

17. Introduction of these new technologies should however be monitored and appropriate legal provisions are needed on which agreement must be reached with the social partners. As differing provisions in the various Member States would cause distortion, cross-frontier cooperation is needed. The principles to be taken into account when introducing new technologies should be established.

White paper on completion of the internal market

18. The stimulus that would be provided by completion of the internal market cannot be disputed. Parliament has repeatedly stressed its importance and a broad consensus has gradually developed on the need to achieve an internal market, which is one of the pillars of the Commission's policy for gradual economic recovery. After the European Council in Dublin, the European Council in Brussels in March 1985 advocated 'action to achieve a single large market by 1992, thereby creating a more favourable environment for stimulating enterprise, competition and trade'. The Commission was called upon to draw up a detailed programme with a specific timetable. In response to this request

the Commission submitted the white paper on completion of the internal market. The European Council in Milan reacted positively, but was still equivocal and had some reservations. However, various aspects were referred to the different Councils and the Commission was asked to submit proposals forthwith. Hence the point should be made that it is not enough to reach agreement within the European Council on general objectives and priorities, without making progress on the practical decisions needed to achieve these objectives. The Council should therefore be urged to translate its fine declarations of intent into the actual decisions needed to complete the internal market by 1992. This is vital to the economic future of the Community.

19. Alongside the measures to achieve the internal market, the necessary accompanying social and regional measures should be adopted to counteract possible adverse social and regional effects of the large market. The Commission's White Paper makes no mention of such measures. During Parliament's June 1985 part-session Mr Delors, however, confirmed the Commission's intention to take action in this area. The Commission should therefore submit the necessary accompanying measures alongside the proposals with regard to the internal market. For example, the non-quota section of the Regional Fund could be expanded and the financial resources for the regional and social funds must certainly be increased.

20. In the past all efforts to achieve an internal market were concentrated on the movement of goods and the services sector was barely considered. There should now be pressure, as part of the programme for completion of the internal market by 1992, for complete freedom of movement of services within the Community.

Higher priority should be given to the services sector in view of the opportunities for job creation in this sector.

B. Profitability of undertakings - Wage moderation

21. The level of investment in undertakings is largely determined by their profitability and financial position and these factors are closely linked to wage costs. In recent years wage moderation has therefore been a crucial factor in the improvement of industrial results and renewed investment. As current investment is still insufficient to create the employment needed it must be increased. Wage moderation must be continued, since it is particularly important in order to encourage more labour-intensive investment. The ratio between capital and labour costs must be improved so that investment does not again become concentrated on labour-saving aspects, as in the past. As soon as labour becomes relatively more expensive, investment to cut rather than to create jobs will once again take precedence.

22. With regard to wage moderation, it must first be established whether the current earned income quota can be maintained, or whether it must be reduced in order to encourage the necessary investment. The situation in this area, and therefore the policy to be pursued, varies in the different Member States. If the functional distribution of income can be maintained the absolute ceiling for the increase of total real wages remains the percentage increase in per capita productivity. If this ceiling is not respected the profitability of undertakings will once again come under pressure. However, this does not mean that the rise in per capita productivity can be wholly devoted to real wages; part of it will doubtless have to be devoted to reducing working hours.

23. The margin available for increasing real wage costs thus depends initially on adequate recovery of business profitability so that the investment needed to improve employment opportunities is made. However, wage moderation should not be tighter than that actually required to ensure adequate profitability. There is a risk that stricter wage moderation than necessary may have a deflatory effect, because of the shortfall in demand which will ensue.

24. In view of the interaction between real wages, demand and business profitability, it is extremely important to establish a fair relationship between profitability and wage levels. As the situation and opportunities differ in the various Member States, sectors and undertakings, a differentiated approach is needed. If a single, global approach is used, wage trends will be determined by the countries, sectors or undertakings where strict discipline is required, with the result that wage increases, which would be possible elsewhere, could not be awarded. Total real wages would thus be unnecessarily limited, which would have repercussions on total final demand. Flexibility in respect of real wages, depending on the possibilities in each sector, is needed in order to avoid this situation. Linking part of wages to results and to business profitability would also seem to be a suitable solution. An advantage would be that increases in real wages on this basis would not affect the profit potential of the undertaking. It is clear that such wage flexibility is only possible when negotiations in the framework of collective labour agreements produce a social consensus.

C. Reorganization of working time

25. Growth rates in the short term are not expected to be such that the problem of unemployment will be completely solved and measures are therefore also needed to improve labour flexibility and to bring about a reorganization of working time. This will not automatically produce more employment; certain conditions must first be satisfied. Reduction of working hours and reorganization of work only stimulate employment if steps are taken to ensure that there is no increase in (direct or indirect) wage costs, so that the competitiveness of undertakings is not affected. Reduction of working hours leads to increased costs, in particular in the services sector, mainly because of increased organizational costs. This is not so marked in certain sectors, particularly when it is linked to longer production periods. As reduction of working time must be utilized to reduce unemployment, it can be financed by: using part of the increased productivity, forgoing some indexation (if possible) and increasing operating time in the undertaking where possible. Reorganization of working time can take various forms: weekly working hours, holidays, pensionable age, greater use of part-time work or flexible working hours. For completely new areas of employment, a 32-hour working week could be considered where possible.

26. The possibilities for and costs of implementing certain forms of reorganization of working time vary in the different undertakings and sectors. For example, undertakings operating a shift system could employ an extra shift when working time is reduced and thus maintain, or even increase, their total production time. However, for undertakings that do not operate a shift system, the reduction in weekly working time restricts the production capacity available to them. Flexible and decentralized provisions are therefore needed which should be settled within the framework of collective labour agreements. As stated in point 25, to create more employment efforts should be made to concentrate the margin available for wage increases on a reduction of working time. As already mentioned in point 22, the ceilings on wage increases should also be borne in mind.

27. The Community must coordinate the adjustment of working time, so that divergent policy in the various Member States does not cause distortion of competition. Constructive dialogue between the social partners, under the conditions outlined above, should provide the basis for a 35-hour working week to be achieved gradually within a few years.

28. In order to increase the opportunities for reorganization of working time and to limit the cost, it is important that legal provisions, in particular those relating to social security and social contributions, should be adjusted so that there is no discrimination against certain types of labour arrangements. In some countries, for example, social contributions are proportionally higher for part-time work. Such rigidity in national legislation, which hampers certain types of reorganization of labour, should be eliminated as quickly as possible.

D. GOVERNMENT MEASURES TO SUPPORT DEMAND

29. As already stated, renewed investment is crucial if lasting growth is to be achieved and employment created. However, improved investment also requires adequate potential demand, and wage moderation to improve profitability leads initially to a reduction in the growth of demand. High external demand can compensate for a shortfall in domestic demand, but given current world economic trends characterized by the sluggish economic development of the United States, no strong external stimulus can be expected. A general shortfall in demand would seriously threaten the lasting nature of recovery and appropriate steps should therefore be taken to support demand. Wage moderation should be linked to appropriate budgetary fiscal and monetary policy to prevent recovery slowing down as a result of a general shortfall in demand.

30. National governments, however, only have limited room for manoeuvre as a lasting economic recovery requires the budget deficits accumulated in the past to be reduced gradually to an acceptable level. The current situation with regard to public deficits varies depending on the Member State. Some have already achieved a reasonable budgetary equilibrium whilst other countries still have a worrying budgetary situation and must continue the measures to reorganize public finances, whatever the cost. Those Member States that have already achieved satisfactory results with regard to budgetary equilibrium naturally have greater opportunity to support demand through public revenue and spending. Possible government measures that could stimulate demand are also restricted by the continuing need to maintain stability of prices and external equilibrium. A monetary policy that presented a renewed threat to price stability would have an adverse effect on the balance of payments and the competitive position and thus on the growth of employment. Member States with a limited budget deficit, low inflation and a balance of payments surplus thus have greater opportunity to stimulate demand than the other Member States. To ensure that a lack of demand does not threaten economic recovery a differentiated policy must be adopted allowing each Member State to stimulate demand in the best way possible.

31. As the Commission states in its Communication on the economic outlook for 1986 and the Member States' fiscal policies (COM(85) 336 final) of 1 July 1985, countries which have the necessary margin for manoeuvre can accept an increase in the public deficit. The initial deterioration of the budgetary situation will, over the years, be compensated for by the favourable effect on the budget of more rapid growth and the rise in employment. In those Member States, however, that must continue with measures to reorganize public

finances, the budgetary measures that can be applied are limited to an adjustment of the structure of public spending. The structure of both budgetary revenue and expenditure must be adjusted so that the impetus given has a more positive effect on employment.

a. Public spending

32. If public spending is to stimulate demand, then it must be concentrated, more than in the past, on spending to assist the growth of the economy's production potential. Spending must be assessed for its economic and social performance, which must be optimized. The efficiency of the services supplied by government must be improved; however, the principles of the welfare system that has been built up in Europe must not be affected. When payments are reviewed the main criterion must be their effectiveness in social terms. The disadvantaged in society must continue to be protected, but ineffective expenditure should be discontinued, so as to halt the explosive increase in cost of the social security system.

33. Current public spending with low economic and social effectiveness should be curbed whilst public spending aimed at restoring production potential should be increased. In order to boost the productive capacity of their economies, national governments should concentrate their expenditure on three categories: investment in infrastructure, expenditure on education and training and expenditure on basic technological research.

Infrastructure

34. A broadly based programme of infrastructure projects selected on the basis of economic and social performance will contribute to production potential and the competitiveness of the economy and will also stimulate demand. Appropriate infrastructure projects could be in the fields of transport, telecommunications, new technologies, environmental protection, alternative sources of energy, city renovation projects etc.

35. Certain infrastructure projects could, moreover, be implemented more effectively at Community level than at national level, partly because of their impact on the realization and smooth functioning of the internal market. In addition to national infrastructure programmes there should therefore be a European infrastructure programme. When the Commission started its new term of office this year it included the realization of a medium-term programme of major infrastructure projects as a priority in its 1985 programme. This was coolly received by the Council, although implementation of a European infrastructure programme is extremely important for the economy and everything possible should be done to provide the necessary resources. To this end the Community's loan facilities could be used and expanded and the appropriations in the Community budget for such projects could be increased.

36. In the interests of stimulating productive investment in the Community and the proposed European infrastructure projects, it has now been decided to extend European loan facilities by increasing the capital of the European Investment Bank. EIB activities should also be extended to providing risk capital. Particular attention should be paid here to small and medium-sized undertakings which are often hampered in developing new initiatives by the problems they encounter in obtaining risk capital. Without wishing to anticipate the opinion to be delivered by Parliament on this subject, the proposal submitted recently by the Commission for the New Community Instrument, NCI IV, providing specific loan facilities to stimulate investment

projects in small and medium-sized undertakings, is a step in the right direction. However, efforts must also be made to meet the risk capital needs of small and medium-sized undertakings more satisfactorily.

Education and training

37. Government action to set up and encourage appropriate education and training programmes is crucial for employment opportunities. The training system and the opportunities for additional training for the unemployed are vital to help assimilate young people into the production process and thus to limit unemployment among young people. The educational system should in any case be adapted to the new technologies. Government should also provide appropriate retraining schemes to ensure the necessary job mobility so that employees affected by restructuring can find work in other sectors.

Technology research and industrial applications

38. Given current technological developments, the competitiveness of our industry is to a large extent determined by its technological basis; basic technological research, in which both universities and government have an important role to play, is therefore a key factor. A study is needed of the extent to which this research activity could be carried out more effectively at national level. To prevent overlap and to ensure that research is carried out on a sufficiently large scale, certain research projects should be organized or coordinated at European level, thus optimizing their effectiveness.

39. Although basic technological research is essential it does not automatically produce results that benefit the economy; this requires the research to be applied rapidly in industry. When a comparison is made of the extent to which basic research is applied in industry in the various industrial powers, it is clear that other countries obtain far better results in this area than Europe. With a view to economic recovery, Europe must improve its performance. If commercial exploitation is to be more rapid in Europe, better cooperation is essential between industry, the financial sector, the educational system and government. The fact that the results of basic research carried out in Europe sometimes ultimately benefit other industrial powers should give pause for thought. Policy, cooperation and financing possibilities should be coordinated so that research conducted in Europe benefits European industry to the full.

40. The Commission naturally has an important role to play in ensuring the necessary coordination at European level. The only broadly based Community-level research programme on new technologies is the ESPRIT programme. A proposal has now been submitted for a telecommunications research programme: the RACE programme. Despite the much greater efficiency of such research initiatives at European level, the Member States are very unwilling to transfer appropriations for such research from their national budgets to the European budget. Little attention is paid to initiatives from the Commission and Parliament geared towards investment and research at European level.

Government subsidies

41. With a view to reorganizing public finances, subsidies should be limited and selective and should no longer be geared to maintaining uneconomic undertakings. Operating subsidies to uneconomic undertakings should be halted. Preference should be given to measures which reduce the burden on

undertakings, thus improving their profitability and stimulating investments. For example, wage costs could be cut back by reducing the burden of social costs.

42. Certain priority sectors might still need subsidies as part of a selective and specific policy. Sectors or undertakings involved in a restructuring exercise might need temporary subsidies to restore their profitability. Creation of the necessary production potential in future-oriented sectors could also be stimulated by appropriate subsidies. When granting investment subsidies the key factor must be the extent to which investments will create employment, otherwise such subsidies could distort the ratio of labour to capital costs, to the detriment of employment, and this would not be acceptable given current levels of unemployment.

43. Under certain circumstances an interest-rate subsidy could encourage investment and with high real interest rates this could be a means of encouraging new enterprises. Entrepreneurs are severely hampered by the initial low profit potential which is squeezed during the start-up phase by the burden of loans. An interest-rate subsidy could improve the profit potential, thus facilitating the decision to start up a new project. In this respect interest-rate subsidies are perhaps not an appropriate form of aid for existing undertakings and they cannot be a general measure but should be restricted to priorities set at national and European level. When determining priorities the effect on employment should be the crucial factor. Such interest-rate subsidies could provide an important stimulus for small and medium-sized undertakings.

b. Budget revenue

44. Government can use budget revenue to stimulate demand, both by easing the burden on undertakings and by cutting income taxes. Easing the burden on undertakings increases their profitability and thus stimulates investment and can take the form of a cut in taxes or a reduction in social costs. The advantage of a reduction in social costs is that the total labour costs for undertakings are reduced and employment prospects enhanced. This reduction improves the ratio of labour to capital costs, unlike other subsidies to undertakings which benefit capital costs. In the past government aid was geared almost exclusively to capital formation which helped to further the high capital intensity of European industry. Given current levels of unemployment, however, government aid should be geared more towards employment than towards capital formation. The ratio of labour to capital costs should be improved by increasing government subsidies for labour costs (via social security charges) and reducing investment subsidies to undertakings. The criteria and priorities to be applied in respect of subsidies to be granted to undertakings were considered in point 41.

45. A reduction in social security costs would also have the advantage of reducing the gap between gross and net wages and thus counteracting the tendency towards moonlighting.

46. As economic recovery depended on the improved profitability of undertakings, the resources available for tax relief had to be used primarily to benefit undertakings. However, profitability has now improved somewhat and the key question is whether this restoration of profitability is sufficient to stimulate economic growth, investment and employment. The government's margin for manoeuvre should be used both for further reductions in the burdens on undertakings, and cuts in taxes to benefit households. As steps must be taken

to ensure that economic recovery is not interrupted by a shortfall in demand, when the profitability of undertakings is sufficiently restored it is important that part of the available margin is used to reduce taxes to benefit households. This will increase their purchasing power and thus stimulate final demand.

47. There is a subtle balance here and the strength and timing of measures are very important. As the situation varies in the different Member States, as does the margin available for easing taxation, policy in this field should be different for each Member State. Depending on the situation in the Member States, reductions in taxes could be financed by reduced expenditure, changes in the tax structure or deficits.

III. CONDITIONS FOR THE SUCCESS OF ECONOMIC STRATEGY

A. Social consensus at national and European level

48. The strategy for economic growth and employment outlined above can only be implemented if it is based on a consensus between the social partners: employers, unions and government. As the (proposed) strategy must be supranational if it is to be effective, social dialogue should not be limited to national level and the broadest possible agreement should be achieved at Community level. Implementation of this strategy at European level requires close cooperation and agreement between the social partners and the Community's institutions. In his statement to the Committee on Economic and Monetary Affairs and Industrial Policy on 25 June 1985, Mr Pfeiffer stated that the Commission considered an intensive dialogue between the main parties concerned to be essential. When preparing its annual economic report the Commission also attempts, as far as possible, to consult all those concerned. Coherence of the various national measures can only be guaranteed on the basis of social consensus at Community level on the economic policy to be pursued.

49. To ensure that the economic strategy advocated by the Commission and Parliament is pursued by the Member States, the Commission should do all in its power to convince the social partners. Governments would thus be placed under pressure by the social partners to establish the desired economic policy. In its efforts to win the social partners over to its policy, the Commission should pay more attention to publicizing its annual economic report. It should ensure that the coverage of its report reaches and convinces large sections of the general population so that, in the social dialogue, their representatives can count on sufficient support to advocate the economic strategy put forward by the Commission and to exert pressure on their governments.

B. Coordination and convergence of the economic policy of the Member States

50. If the national policies conducted in the various Member States are to be appropriate they must be coordinated with the policies of the other Community Member States. A coordinated and convergent economic policy in the various Member States within the framework of the Community will have a multiplier effect and conversely, if there is no coordination, the effect of national measures may be nullified by the policy conducted by other Member States. In order to achieve optimum results with a minimum of effort and with the limited room for manoeuvre it is essential that action should be united at European level and that Member States' economic policy should be coordinated more than in the past.

51. The Community, however, has only limited means available to persuade the Member States to pursue a convergent economic policy. Under the terms of the Council Decision of 18 February 1974 on the attainment of a high degree of convergence of the economic policies of the Member States of the European Economic Community, the Commission can draw up recommendations, but it cannot impose penalties when a Member State does not follow them. In the past the Commission has seldom used its option of making a recommendation to a Member State on the policy pursued. The Commission should make greater use of the only instrument open to it in order to promote convergence. Parliament has repeatedly pressed for this course of action and has devoted a specific report to this problem (resolution of 29 March 1984 on the state of convergence, rapporteur: Mr von Bismarck). The Commission should pay particular attention to coverage of these recommendations so that public opinion and the social partners exert the necessary pressure on their governments to follow them up.

52. Parliament's programme for economic recovery in Europe proposed the introduction of a convergence indicator which, on the basis of a range of factors such as the inflation rate, money supply, competitiveness, investment etc. would establish the degree of convergence of a Member State's economic and monetary policy and give an indication of whether it differed markedly from the Community average. The Commission should study the introduction of such a convergence indicator as a matter of urgency and make the necessary proposals for its implementation.

IV. INTEGRATION OF THE EUROPEAN CAPITAL MARKET - MONETARY COOPERATION

A. Provision of capital

53. Adequate provision of capital is essential to ensure that the necessary productive investment is made for increasing employment. At present the provision of capital within the Community is mainly hampered by two factors: high interest rates and the outflow of European capital to third countries. Europe has little control over these two factors and efforts should be made to improve this situation through better international cooperation. This will be considered later in the report. Current developments in the economic situation in the United States, however, offer Europe the opportunity to control these factors better in future. The United States' capacity to finance its budget deficits with capital borrowed elsewhere in the world is coming to an end. Europe should, by means of an appropriate policy, use this opportunity to reduce its interest rates and make them more independent of those in the United States, and to keep more money on the European capital market.

54. The fall in the dollar exchange rate, whether or not it is gradual, means that European interest rates that are more independent of the United States become possible. In any case it will produce a slight reduction in interest rates, although real interest rates still remain too high. Nevertheless, as already stated, interest-rate subsidies should only be considered in a limited number of priority cases. Member States should therefore do all in their power to bring about a further drop in real interest rates on the basis of a coordinated interest rate policy. This requires adequate monetary stability and to this end the EMS must be strengthened. The Commission should make an analysis and submit proposals on the policy needed for a reduction in real interest rates.

55. If Europe wishes to take advantage of the weakened American position in order to attract more capital for itself, investors must have sufficient confidence in Europe's economic development. The economic strategy of growth and employment described above must therefore be implemented with conviction. The fragmentation of the European capital market into national capital markets which cannot provide an alternative to the Euro-dollar market, must be halted and this requires the creation of a real European capital market. Only if the European capital market is liberalized rapidly will it be sufficiently attractive to European savers for them to keep some of their previous investments on the Euro-dollar market in Europe. With regard to the measures to be taken on integration of the European capital market, relevant documents are the European Parliament's earlier report on the creation of a European capital market (Doc. 1-1266/83) and the report on financial integration in the Community (Doc. 1-1237/83), both of which were adopted on 17 February 1984. Measures for the gradual creation of a Community capital market should of course be linked to the necessary accompanying structural and regional measures. Measures to liberalize the European capital market will be feasible and will attract more capital in particular when they are backed up by monetary stability, and the EMS and ECU should therefore be strengthened. Only a strengthened ECU can provide an alternative to the dollar.

B. Strengthening the EMS and ECU

56. Adequate monetary stability must be assured both to achieve integration of the European capital market and for completion of the internal market. Monetary stability can only be lasting if it is based on convergent economic development and European monetary cooperation and the ECU should be strengthened to safeguard it. Specific measures will not be considered here as Parliament commented on the various measures to be taken in this field last year in its resolution of 16 February 1984 on the basis of the report by Mr Herman, and as a new report is in preparation with Mr Bonaccini as rapporteur. However, action should be taken a step at a time as no political consensus will be reached on steps that are too large and they will therefore be doomed to failure. The Commission should be asked when it will submit its package of proposals.

V. EXTERNAL ECONOMIC RELATIONS

A. International consultation on budgetary and monetary policy

57. The extreme dependence of our economic development on the budgetary and monetary policy conducted by the other industrialized countries and in particular by the United States has been noted repeatedly. In order to limit our dependence, and to have greater control over the situation, efforts should again be made in international negotiations to gain greater control over the consequences of the policy conducted by the other industrialized countries.

B. Liberalization of world trade

58. Our policy should be based on continuing our efforts to liberalize world trade as protectionism would harm our own interests, given that our own economic situation is strongly influenced by our export opportunities. Negotiations within GATT on further liberalization of world trade should therefore be continued. Recognition of the principle of free world trade should, however, be based on reciprocity and Japan must make greater efforts to open its market to European products. In the short term checks should be made on whether the list of measures announced by Japan to open up its markets

are really proving effective or whether the intention was merely to create the illusion that the market had been opened up.

The United States' protectionist measures should also be brought to an end. The recent meeting in New York of finance ministers of the major industrialized countries gives an indication of the United States' intention to stem protectionism. The United States should not use this meeting as an alibi to give free rein to protectionism if the fall in the dollar exchange rate is insufficient.

59. Problems and distortions in international trade should be solved as far as possible by the application of GATT rules. Shielding the market by means of protectionist measures does not provide a solution and in time may threaten the competitiveness of a country's own industry. Exceptions should, however, be made for those branches of industry which require temporary protection to enable restructuring to take effect. Care is needed to ensure that such protection is only temporary and the necessary restructuring is in fact implemented during the period concerned.

Nevertheless, in the case of dumping by other countries counter-measures are justified, for example by imposing quotas or temporary increases in import duties in accordance with GATT rules. Instead of importing products from abroad it would be better to stimulate foreign production units to start up in the Community. Joint ventures also offer useful possibilities.

C. Developing countries

60. The Community should pay special attention to its relations with the developing countries. This is not merely altruistic, but also a matter of self-interest as ultimately these countries are also customers for our products. The debt burden of the developing countries which has increased considerably because of the rise in the dollar and in interest rates is hampering their economic development severely and the international banking system is also threatened. The industrialized countries must therefore reach agreement on the strategy for internal adjustment and rescheduling of these countries' debts.

COMPARISON: EUROPEAN COMMUNITY - UNITED STATES

When general social and economic policy is discussed in Europe, the United States' 'successes' are often mentioned. This comparison frequently leads people to conclude that, given the current social and economic situation in Europe, the American policy should be imitated. Many people see the United States as an example of dynamism, mobility and flexibility.

However, there are a number of differences between the United States and the Community which hinder such a comparison and also a number of drawbacks which make it undesirable to imitate the American policy.

Firstly, there are a number of important differences:

- There is not much greater mobility in the United States than in Europe as is often asserted. In Western Europe few new jobs have been created since 1973 whilst in the United States between 1973 and 1981 15 million new jobs were created.

The reason for this difference is not that European workers are unwilling to move but the difference between labour and capital costs in Europe and the United States. In Europe labour has been replaced by machines over the last twenty years, which has made productivity higher than in the United States. In New England, an area experiencing economic resurgence, it has recently been denied that mobility is a reason for the economic recovery.

In Europe consideration should be given to making subsidies to undertakings for investment in labour financially more attractive.

- In the United States a significant number of fixed-term employment contracts are used as there are few legal obstacles to dismissals. In Europe there is greater rigidity in this area which makes the employment of labour less attractive.
- The new jobs in the United States have been found mainly in the low wage sector. Well-paid jobs in industry are on the decline, whilst badly paid work in the services sector has increased.
- Total unemployment in the United States is now as high as during the recession in the 1970s and hovers around 7%.
- In the United States the entrepreneur (the person taking the initiative in a small high-risk undertaking) receives greater encouragement than in Europe. The United States accepts the creative chaos of small high-risk undertakings which provide a catalyst for technological development (e.g. Silicon Valley) and if an undertaking fails a new one is simply established. In Europe there is a general unwillingness to invest and a dearth of such high-risk undertakings as the fear of failure and the social consequences of failure (being branded as a failure) are too great.

- Financing such undertakings using venture capital is also much easier in the United States. There is a large market providing venture capital, whilst in Europe only the UK has a reasonable venture capital market.
- In the United States there are close links between industry and research. Stanford played a large part in making Silicon Valley possible and MIT and Harvard played a major role in transforming an economically weak textiles sector into a flourishing high-tech area.
At European level the ESPRIT programme has attempted to establish such an infrastructure linking industry and research. At present the research network is far too fragmented.
- The United States occupies a very special position in the world economy which cannot be compared with that of any other country and American budgetary and monetary policy affects the whole world economy. Thus American budget deficits, partly caused by a sharp rise in the defence budget, have placed major demands on the international capital markets resulting in high interest rates and a high dollar exchange rate. The import surge which followed (and which benefits exports from other countries) produced calls for protectionism in the United States that have found some degree of acceptance.
It is also quite clear that the United States' debt position (as a net debtor) has very adverse effects on the debt position of developing countries.
- An additional disadvantage for Europe is the continuing absence of an internal market. Industry needs economies of scale and these are not easily achieved in Europe, whilst the American market benefits from them.
- American society is marked by a split which Europe generally tries to avoid by means of the welfare network. In the United States the division between rich and poor is seen as normal and natural.
A report by Harvard University in April this year indicated that 15.2% of the total American population (35.3 million people) live below the poverty line, representing an income per household of \$10 609.
Diseases such as kwashiorkor and marasmus, which are associated with malnutrition and are normally found in the famine areas of Africa, also occur in the United States. In recent years poverty in the United States has increased.

ASSESSMENT

- (a) Europe does not want the social consequences of American policy, namely great poverty and a divided society.
- (b) Mobility in the United States is not greater than in Europe. Geographical factors mask economic realities. The legal position of workers in Europe is better protected than in the United States. If a more flexible approach in legal terms led to the employment of more people in Europe (fixed-term contracts and an apprenticeship system) then it should not be rejected out of hand.
The worst legal position is to be unemployed, as people are then at the mercy of 'budget cutters'.

- (c) In the new jobs created in the services sector highly qualified jobs are exchanged for badly paid ones. Hourly wages in the American services sector are far lower. For example, the average hourly wage is \$9.5 in industry and \$6 in the services sector. The economic revival is thus not exactly an improvement. In particular in the old sectors employees are losing their jobs without finding work in a new sector.
- (d) As a whole, unemployment in the United States is just as high as during the recession in the 1970s and some commentators suggest that recovery is only superficial:
 - unemployment is just as high;
 - new jobs are badly paid and the better jobs are disappearing;
 - poverty is increasing.
- (e) Europe does need to change its attitude with regard to small high-risk undertakings. Tax incentives should be given for setting up such undertakings and the capital market should be geared more to venture capital. The failure of such a venture should be viewed as 'bad luck' and not as 'a disgrace', so that the entrepreneur is encouraged to try again. In Europe at present people shelter too much behind vested interests and security which, for lack of initiative and creativity, may rapidly result in no interests and unemployment.
- (f) In the research sector Europe, just as the United States, needs a closely linked network of industry, research and finance and the ESPRIT programme represents a first step. Without such an infrastructure each person works for themselves and opportunities are lost.
- (g) Europe needs an internal market so that undertakings can establish economies of scale. At present the market is too fragmented.
- (h) The American budgetary and monetary policy should not be imitated in Europe, partly in view of the very unstable exchange rate situation in the world and the adverse effects for the Third World.

When the present US Administration took office in 1980, three objectives were to be realized in the economic field. Five years later these objectives can be assessed in the light of the actual situation.

1. The public sector was to be reorganized and public spending reduced. The Reagan Administration was to wield a sharp knife on 'big government' in line with the wishes of the general public. In the past years public spending has in fact increased; this year the public deficit reached a record high of about \$200 billion when estimates had been for \$166 billion. Economies affected mainly social expenditure and social programmes were cut, as demonstrated by the increase in poverty. Traditional deficit spending has been achieved by reduced taxation and a sharp rise in defence expenditure.
2. The United States was to shoulder responsibility in the monetary sector; however, the main concern here was to combat inflation. Budgetary and monetary policy (large government deficits with stringent monetary policies) has led to high interest rates, a high dollar exchange rate and protectionist measures in the United States.
3. The US Administration wanted to call a halt to public debt. Reagan's supporters viewed public debt as a sin. In fact, public debt has

increased and at present the United States is a net debtor partly because of the large public deficits. This trend has had very adverse effects for the Third World as higher market interest rates, caused by the demands imposed by the US on the capital market, have made their debt burden even greater. The IMF habitually lectures developing countries about monetary and budgetary policy but has spared the United States from criticism.

COMPARISON: EUROPEAN COMMUNITY - JAPAN

If Japan's social and economic policy is compared with that of Europe major structural differences are discovered which make a real comparison impossible.

- Firstly, the great differences in character between the Japanese and Europeans hamper a comparison. European individualism, which is even more marked in the United States, is diametrically opposed to the collective approach of the Japanese. In Japan the well-being and survival of the group or clan (family relations, undertaking, club or Japan as a nation) is of paramount importance. In Japanese society everything takes place, therefore, through, with and for the group to which one belongs. Anyone who moves outside the group becomes an outcast, which is the worst possible social status. Economic relations and relationships are determined in the first place by group loyalty. A job can mean a life contract with an undertaking and a person's total well-being depends on the undertaking and if the situation deteriorates pay reductions can be expected. In this situation trade unions are company unions and play the role of a staff association and not a countervailing power as in Europe. Working conditions, social security and old-age pensions are settled through the group (undertaking). This situation, which is the picture people in Europe have of Japan, only applies to regular employees in large undertakings, i.e. about 20% of the working population. Non-regular workers (daily and seasonal workers, women) are employed in smaller undertakings and work longer hours for less money and less social security. The Japanese labour market therefore has a gap between regular and non-regular workers and the former are a privileged group.
- Since many things are settled through the group, the government has a completely different task from that of a government in Europe. It does not act as the regulator or manager of a welfare state, but as the coordinator of the various groups which draws up the general lines of policy.

Japanese government has much in common with the 19th century 'watchdog' state in Europe. Moreover, defence does not weigh heavily on the national budget as it accounts for only 1%.

- Like the Japanese labour market, the economic structure is divided between the modern and traditional sectors. The modern sector is dominant and is supported by government; the other sector of small and medium-sized undertakings is subordinate to it. The Zaibatsu and Keiretsu predominate in the modern sector (Zaibatsu are conglomerates of banks, industrial undertakings, trading companies and marketing bureaux; Keiretsu are loose associations of undertakings, each supported by one of the major banks). The second sector is made up of the many thousands of small undertakings and shops which are mostly dependent on one of the large conglomerates. These sub-contractors provide the large conglomerates with a reservoir of low costs and low wages. It is a labour-intensive sector with low productivity which requires government protection against outside exporters. The decline in its economic structure coincides with that in the labour market.

- Japan's modern export sector is well-known. About 74% of Japanese exports consists of steel, motor vehicles, electronic consumer goods and industrial machine tools. The range of Japanese exports is much more limited than that of the United States or the Federal Republic.
- In the traditional sectors, in which the majority of people are employed and which are very service-oriented, labour productivity is lower than the OECD average. For example there are 4.6 million farms (2.4 million in the United States) and 1.7 million shops (the same number as in the US). These agricultural and services sectors offer an electoral basis to the ruling LDP, who provide them with protection.
- In research and development Japan as a 'group' is pre-eminent. Under the guidance of MITI Japanese undertakings set up joint R & D research projects, for example on fifth-generation computers and ceramics in the vehicle industry. When undertakings have finished the R & D project they enter into competition with each other on the Japanese market. If the strongest undertakings have used economies of scale, an export drive can be started at relatively low cost prices. Much of Japan's research is in the area of applied R & D and less is geared towards basic research. Japanese undertakings manufacture many of their goods on the basis of licences and patents deriving from foreign R & D. Japan has recently begun to give greater support to basic research and development so that it can start to adopt an innovative role. Europe does not have a similar R & D effort; R & D is fragmented and there is no internal market.
- So that its own market can use economies of scale, the Japanese authorities protect the market as a whole. Although customs tariffs do not form a real problem exporters mainly face problems in the areas of bureaucratic procedures and an impenetrable distribution system - the many small shops. There are only a very small number of supermarkets in Japan. Exporters need considerable amounts of time and money in order to break into the Japanese market and it is often only possible to do so via one of the trading conglomerates (Mitsubishi, Marubeni, Sumitomo) which, in another part of the conglomerate are in competition with the exporter. Because of the high costs, producing a sales price sometimes three times as high as that in the country of origin, only articles with 'snob appeal' remain of interest. In total 65% of Japanese imports are made through this 'sogo sosha' system. Another possibility is for an undertaking to set up its own distribution network, as did BMW, or to embark on local production via a joint venture with a Japanese undertaking, such as that started by Philips and the Matsushita Electric Corporation. However, the possibilities for penetrating the Japanese market certainly do not equal the opportunities open to Japanese undertakings in Europe.
- The Japanese financial market is also heavily protected, despite some cosmetic measures taken by the Japanese. Financing a presence on the Japanese market is extremely difficult and costly.
- The official unemployment figure in Japan is 2.8%, but in the traditional sectors, in particular the services sector, there is considerable hidden unemployment. The so-called 'madogiawazoko' (marginal workers) mask the real unemployment figures.
- Japan is even more dependent than Europe on imports of raw materials. This has given rise in the 'Japanese clan' to a self-sufficiency syndrome which forms the psychological background to the export drive.

20 March 1985

SERIES B

DOCUMENT B 2-0034/85

MOTION FOR A RESOLUTION
tabled by Mr PAPOUTSIS
pursuant to Rule 47 of the Rules of Procedure
on the convergence of the Member States' economies

The European Parliament

- A. having regard to the endeavours of the Community institutions to achieve convergence in the economic policies of the Member States,
- B. having regard to the importance attached to its policies aimed at integrating the internal market and promoting free competition,
- C. having regard to the forthcoming enlargement of the Community through the accession of Spain and Portugal,
- D. whereas implementation of the abovementioned policies is severely handicapped by the existing regional and structural inequalities in the Community economy,
- E. whereas the structural policies to date have not produced the expected results,
 - 1. Considers that convergence in the economies of the Member States of the Community is a precondition of the convergence of economic policies and the implementation of the policy to integrate the internal market;
 - 2. Calls on the Commission and the Council to step up the policies and measures relating to structural intervention in the Community;
 - 3. Considers that a substantial portion of the anticipated increase in the Community's own resources should be earmarked for financing the development of regional and structural policies as major instruments for achieving convergence in the Member States' economies;
 - 4. Instructs its President to forward this resolution to the Commission, the Council and the Governments of the Member States.

MANLIH