

**Commission of  
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**Directorate-  
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1974**

**The economic situation  
in the Community**

Quarterly survey

**Commission of the European Communities  
Directorate-General for Economic and Financial Affairs  
Directorate for National Economies and Economic Trends  
Rue de la Loi 200, 1040 Brussels**

**EUROPEAN COMMUNITIES**

**COMMISSION**

**The Economic Situation  
in the Community**

**MARCH 1974**

*This issue contains the text of the communication to the Council by the Commission of the European Communities, of 29 March 1974, setting out the adaptation of the economic policy guidelines for 1974.*

Brussels, 27 March 1974

**Communication from the Commission  
to the Council concerning the adjustment  
of the economic policy  
guidelines for 1974**

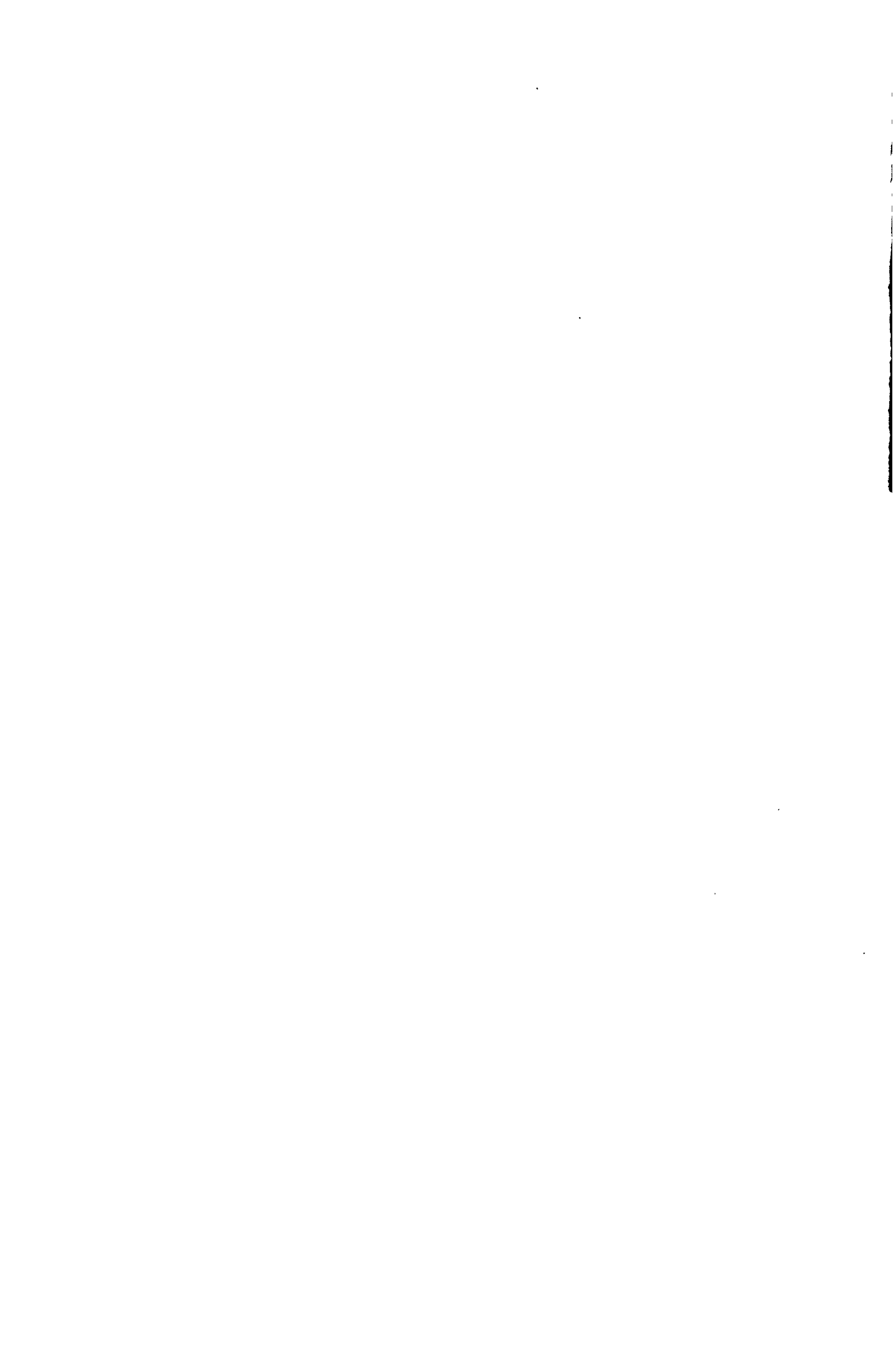
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## **FOREWORD**

Under Article 2 of the Council Decision of 18 February 1974 concerning the achievement of a high degree of convergence of the economic policies pursued by the Member States, the Council must, in the first quarter, adapt the economic policy guidelines for the current year to the new requirements of the economic situation.

To this end, and pursuant to Article 1 of the same Decision, the Commission hereby transmits this communication to the Council, setting out the economic policy guidelines which should be adopted by the Member States in 1974. These guidelines, which have been fitted into the medium-term outlook as it emerges in the wake of the oil crisis, can be adjusted where necessary to the economic outlook for 1975 when the Council undertakes the second examination of the economic situation in the Community during the second quarter of 1974.





## I. ECONOMIC OUTLOOK AND PROBLEMS

### *Disappointing results of economic policy*

In 1973, the policies implemented in the Community proved very inadequate. Certainly the Member States took steps to implement the guidelines for short-term economic policy set out by the Council in the course of the year. Yet expansionist measures have been taken not only in those countries where such a policy was justified but in other member countries as well<sup>1</sup>. The growth of the money supply and of near-money has only slowed down in Belgium, Denmark, the Federal Republic of Germany and France ; in the other countries it has accelerated<sup>2</sup>. At the end of 1973 the rate of growth varied between 13 % (Denmark) and 28 % (United Kingdom). Furthermore, in most of those countries which do not participate in the system of limited exchange-rate margins, the rate of currency depreciation has contributed to inflation and to a worsening of the current balance of payments, while the monetary authorities have had to intervene to a considerable extent on the exchange markets. Finally, despite the prices and incomes policies adopted in most countries, demands for higher nominal incomes have continued throughout the Community.

The energy crisis has aggravated the problems which member countries were already facing in 1963.

### *The acceleration of inflation*

The price outlook for 1974 has seriously worsened. The rate of increase of wages and salaries currently being forecast ranges from 12.5 % to 17 % depending on the country. Taking the average for the year, consumer prices could increase by between 9 % and 15 %.

### *Worsening of the foreign balance*

Major difficulties lie ahead in regard to the balance of payments. The marked deterioration in the balance of goods and services which is expected in the member countries in 1974, mainly because of the worsening of the terms of trade, could culminate in a deficit of some \$ 22,000 million. The deficit on current account, which also includes transfers, might be much heavier still. This trend will affect the member countries to very different degrees ; while Germany and the Benelux countries will record a surplus or will be roughly in balance, the other Community countries will have heavy deficits.

### *Disturbances in world trade*

At world level the explosion in the price of oil will begin even in the short term to alter the pattern of international trade and the development prospects of the major economic areas. The petrol producing countries receiving this considerable extra revenue will increase their imports, but not sufficiently to moderate appreciably the deterioration in the payments balances of the oil-importing countries.

<sup>1</sup> See the report of the Budgetary Policy Committee to the Council and to the Commission on the application of the Council resolution of 14 September 1973 in the area of public finance (31 January 1974).

<sup>2</sup> See the report of the Committee of Governors of the Central Banks on the results obtained in the area of monetary policy in the application of the resolution of 14 September 1973 concerning complementary measures in the struggle against inflation (2 January 1974).

Furthermore, the share in world trade of the oil-importing developing countries will fall very markedly, unless large capital transfers in their favour are quickly arranged.

In the industrialized countries which are not members of the Community, the effects of the energy crisis are at present combined with a spontaneous slowing down of activity which is appreciably sharper than was thought likely last autumn. Thus Japan could be in for a period of very low growth and the United States for virtual stagnation.

Although the world economic situation could well improve in the second half of 1974, after increasing in terms of volume by 13 % in 1973, world trade will be distinctly less buoyant in 1974. In such conditions one might question whether the Community's competitive position in terms of production costs, and in particular wage costs, will not hinder the growth of its exports (see table annexed).

*Moderate rate of growth in 1974*

Taking into account the improvement in the business climate in recent weeks, the gross Community product in real terms could grow by some 2.5 % in 1974. This rate considerably exceeds that which was forecast in most of the member countries immediately after the crisis broke. Employment should not change much from its 1973 level. However, unemployment might tend to grow nearly everywhere between now and the end of the year ; this could well add to the difficulties of young people in search of their first job and of female workers.

*The weakening of solidarity in the Community*

Community solidarity on economic and financial policy has been seriously undermined in recent months. It is quite clear that the oil crisis and the acceleration of inflation have raised further obstacles to the laborious process of bringing the economic development and the economic policy of the various Community countries onto converging paths. The Member States have increasingly taken to adopting policy measures without prior consultation at the Community level.

For some time now, inflation rates have differed from one country to another. Now, the size of the deterioration in the balance of payments on current account facing each of the member countries varies greatly from one country to another, and each country must set about dealing with this problem in conditions which are less favourable in some than in others. The member countries which will have the heaviest external burden to bear are precisely those whose growth needs were already the most pressing, either in order to absorb excessive unemployment or to bring new sections of the labour force into the production process. But it is precisely in these countries, where the sacrifices in terms of higher living standards should be the greatest, that the social situation is the least favourable for concluding a general agreement on the size of the burdens and the way in which they should be divided among the various social and occupational groups.

*Risks of returning to national perspectives*

In the new situation there are grave dangers of a reappearance of protectionist measures or of the disorganization of world trade. A return to national-scale economic policies would considerably increase the danger of « beggar my neighbour » attitudes being adopted, with the Member States either allowing their currencies to depreciate in order to gain a competitive edge in world trade, or for the same reason pursuing a policy of competitive deflation. In either case, the partner countries would probably take protective countermeasures sooner or later, with the result that in the end all the countries concerned would see their employment level go down and unemployment increase. The resulting climate of uncertainty would undoubtedly affect business investment, which in the past has been largely deter-

mined by the expansion of the market, and would further depress employment. In this way, the improved living standards which have been made possible in the last sixteen years by the building up of the Common Market and the liberalisation of world trade could be seriously endangered.

A reorientation of policies appears indispensable. It is even more urgent that clear results should be seen before 1975.

## II. GUIDELINES FOR ECONOMIC POLICY

### a) General guidelines

#### *Priority objectives*

The current situation requires that Member States' short-term economic policies aim at the following objectives :

- restructuring their economies to adapt them to the changes in the external situation ;
- stepping up the fight against inflation in order to preserve purchasing power ;
- in the case of those countries whose external situation had deteriorated appreciably even before the crisis, achieving a substantial reduction in the balance of payments deficit.

The fulfilment of these requirements may in certain cases endanger full employment. Although this is also a priority objective it is necessary to stress that in the current situation it cannot be achieved by a stimulation of nominal internal demand, but only by means of specific actions.

#### *Necessity for a medium-term strategy*

In order to realize all these objectives, some means of regulation of overall demand is indispensable, but it must, necessarily and especially in present circumstance, be incorporated into a longer-term view. The changes to be brought about are of such size that they imply action in depth which needs to be undertaken forthwith in order to achieve results in a reasonable period of time. The sacrifices they will require will be the more acceptable the better they are distributed over time and between the different socio-economic groups.

#### *Moderation of the expansion of private expenditure*

The essential problem posed for the coming year is the maintenance of a substantially lower rhythm of growth of private expenditure than that of gross national product. Only in this way will it be possible to free the necessary resources to enable the additional investment and export effort to be made. To this end the expansion of all money incomes must be slowed down, in order to avoid adding to inflation and the disequilibrium of the balance of payments. This objective will not be easy to attain, particularly where the social partners do not indulge in a constructive dialogue.

#### *Active social policy*

A possible way of reaching agreement between them might be if income restraint was accompanied by parallel action in the social field and in the development of public infrastructure. Various steps can be envisaged, according to the specific situation of each member country. A special effort should be made to bring all the various forms of wealth, in particular housing, within reach of all sections of the population. Such a move could well strengthen the propensity to save of households.

The number of workers in danger of having to change their jobs will be noticeably higher than in the past. The aim should be to safeguard employment by improving the flexibility of the labour market, rather than preserving jobs which are no longer productive. To this end, the infrastructure can be considerably strengthened, as well as expenditure on retraining of labour. It is above all during the period of readaptation that the worker should be guaranteed a level of income not too far below that which he previously enjoyed.

This highlights the importance of schemes for maintaining income during retraining. At a time, like this when the level of training and retraining required is expected to increase, Member States should be prepared to commit correspondingly greater resources to the Social Fund.

In the member countries, where unemployment benefits only represent a small fraction of money incomes, the amount available for this purpose will have to be improved. In any case, community solidarity must help to prevent a flow of labour back to Italy and Ireland, where the employment problem is already at its most acute.

*Encouragement  
of structural reform*

A movement towards the necessary restructuring of production will come about spontaneously, and it should moreover be encouraged and not resisted. All the actions to be taken should thus be designed to encourage investment in the energy sector and the other priority areas.

Special efforts are necessary, as regards research and investment, with a view to achieving a more rational use of energy and developing sources of energy capable of guaranteeing the Community a certain degree of autonomy in the longer term, at a reasonable cost. It would thus be possible to soften the impact of the higher price of oil on the balances of payments and real incomes. In order to speed up the process of substitution and to save energy, the rise in the price of oil will have to be reflected in the structure of domestic prices.

The far-reaching transformations which must be made in the Community's energy patterns require considerable investments which, in some cases, are far from certain to prove a success. On a Community scale, more possibilities exist for research into new schemes and at the same time the burden would be less. The Community owes it to itself to exploit fully the advantage offered by its size, as much by pooling part of the expenditure on diversifying sources of energy, as by undertaking a systematic exchange of information.

The measures proposed here will contribute towards the absorption within a reasonable period of disequilibria in the balance of payments position. However, this can only be done by a gradual process of adjustment, more especially as the reestablishment of a general balance to be achieved at the world economy level. In the meantime, the solidarity of the member countries must enable those with the largest deficits to obtain, by means of Community machinery already existing or to be created, at least part of the means of financing necessary.

*Differentiation  
of conjunctural  
policy*

A differentiation of actions is certainly necessary, as regards conjunctural policy. Against a background of close coordination this must take account of the initial situation and the outlook in each member country. Inside the Community one can,

indeed, distinguish two groups of countries according to their external payments situation and their inflationary tendencies. The first group comprises Germany and the Benelux countries, whose current accounts in 1974 will be in surplus or close to equilibrium, despite a sharp deterioration. The second group comprises the other countries (Italy, the United Kingdom, Ireland, Denmark and, to a lesser degree, France), which will have to cope with heavy deficits on their external balances and very rapid price increases.

*... between those countries with a relatively favourable balance of payments situation...*

In the countries included in the first group, especially Germany, the authorities responsible for economic policy must make sure that the recovery expected between now and the end of 1974 culminates, towards the end of the year, in a trend which, while not exceeding the growth of productive capacity, can nevertheless be regarded as distinctly upward. It is desirable for the growth in real gross national product in these countries to reach a trend rate of 3 to 4 % by the end of 1974. The resulting deterioration in the balance of payments on current account would have to be accepted. It would help to reduce the inflationary tendencies in these countries while assisting the countries with large deficits in their efforts to improve their balance of payments situation.

Economic policy in the first group of countries will have to be, if necessary, so contrived as to act on the growth of demand principally by applying budgetary measures. Should the expected budgetary stimulus not be sufficient to sustain growth, an easing of the burden of direct taxation or additional expenditure should be considered, especially with a view to providing extra incentives for investment in the energy sector. A relaxation of the monetary restrictions would, however, not seem advisable at present.

*and the countries with high deficits*

In the second group of countries the constraints imposed by the balance of payments situation and by the vigorous upsurge in costs and prices rule out any expansionary policy. They rather call for policies to restructure demand aimed, in the medium term, at improving the external balance. To stimulate exports, the economic policy of these countries will have to aim at reducing by the end of 1974, the growth of domestic demand to a rate distinctly below the expansion of productive capacity.

An important part will have to be played in these countries by monetary policy in order to help make the adjustments necessitated by the deterioration in the balances of payments on current account noted even before the oil crisis began. The restrictive line of monetary policy must therefore be maintained or even tightened. The reduction in domestic liquidity as a result of the deficits on current account will help in this respect. Interest rates should be maintained at high levels, as much to ensure an adequate level of real rates as to maintain a sufficient margin over the rates obtaining in the main foreign markets. This expected deterioration in the budgetary positions will have to be curbed either by cutting back the growth of expenditure or by increasing taxes. In this connection the stepping up of exports and investment in the energy sector are to be considered as priority aims at the expense of consumption expenditure by the public authorities and households. With regard to the fight against the rises in costs and prices a stabilisation of exchange rates would appear desirable.

The economic policy described above will have both more rapid and more effective results if the main trading partners in the Community act in parallel. As for the Community, it should work in this direction within the framework of international cooperation.

## **b) Guidelines for the individual countries**

In *Denmark* the main features of the economic situation in the period up to the end of 1974 could be a slowdown in economic activity, an increase in inflationary tendencies and a deterioration in the balance of payments on current account which already showed a heavy deficit in 1973.

Economic policy should aim more at restoring equilibrium in the balance of payments and curbing rising prices and costs. If this objective is to be achieved, private consumers' demand must be reduced and the increase in government spending checked. The resources freed in this way should then be directed towards exports. The measures adopted recently by the Government, which include in particular a reduction in public spending and the introduction of compulsory private saving, are a first step in this direction. They could, however, prove inadequate to bring about the desired reduction in the growth of domestic demand in money terms. Should this be the case, it would be necessary to supplement these measures by further cuts in public spending, which, if the aid provided for in the budget to compensate firms for wage increases is disregarded, would bring the budget surplus nearer to the level laid down in the guidelines for the 1974-75 financial year in the third annual report on the economic situation in the Community. Furthermore, specific measures might seem advisable in the energy sector.

In the monetary field a distinct slowdown in the expansion of domestic liquidity has been observed since last autumn. Care should be taken to see that this tendency is maintained. The authorities should continue to concentrate particularly on curbing consumer credit as part of a policy for restricting bank lending.

After the slowdown recorded in the second half of 1973, economic activity in *Germany* remained at a relatively high level at the beginning of 1974. Despite the oil crisis a certain recovery in expansion seems probable in the coming months. The rise in prices is likely to remain rapid.

The authorities meanwhile, find themselves with the particularly delicate task of supporting the tendency towards an improvement in the level of economic activity and at the same time reducing inflationary pressures. In this respect the development of the balance of payments does not impose any appreciable constraints ; on the contrary, a rise in imports could contribute to an improvement in internal equilibrium. Should it become clear during the coming months that the effects of the lifting of the tax restrictions introduced in May 1973 combined with the expansionary pressures resulting from the deficits in the Federal and Länder budgets are insufficient to bring about a 3 to 4 % growth rate in the economy towards the end of the year, the Government should cautiously go about stimulating the economy further, essentially to encourage investment.

The acceleration in budgetary expenditure compared to the initial forecasts, chiefly as a result of the steeper rises in wages and prices, the selective measures in favour of specific industries and certain regions, and the lifting of the tax restrictions, will mean that in 1974, the Federal Government and the Länder together will have a net borrowing requirement of DM 11,000 to 13,000 million, instead of the slight surplus forecast in the third annual report. The deficit in the Federal Government and Länder budgets should be financed primarily through the capital market and

only to a lesser degree by drawing on the « counter-cyclical reserves » at present frozen with the Bundesbank.

The policy on liquidity should continue along the present lines.

In *France*, economic expansion will probably remain appreciable although somewhat slower compared to last year. The strains which affected production capacities in 1973 will probably slacken. The situation on the labour market should gradually become easier during the year. The increase in the prices of imported basic products and in particular of energy products, coming on top of the expected slowdown in the growth of exports, will probably give rise to a large external deficit. Furthermore, domestic prices are likely to continue to rise at an increasing rate.

The economic policy to be implemented in 1974 must aim primarily—as part of a medium-term strategy—at gradually absorbing the external deficit. It would be advisable, above all, to facilitate and encourage the re-adjustment of productive capacity in order to achieve a distinct improvement in the position on external account in 1975. At the same time, the increase in domestic costs should be curbed in order to safeguard the country's competitive position and to ensure the stabilization of the exchange rate.

In the field of public finance, recent tendencies indicate that there will be a budget surplus in 1974 which will exceed the level of 2,000 million francs fixed in the guidelines laid down in the third annual report. Budgetary management in the course of the first half of 1974 will have a distinctly restrictive character. If the trend towards a slowdown in growth should become too pronounced the introduction of fiscal measures to encourage investment in priority sectors should be considered.

The restrictive bias which has progressively been given to credit policy will have to be maintained ; nevertheless, certain modifications could be made with a view to promoting capital expenditure on adjustments made necessary by the energy crisis. Consumer credit and credit granted for investment in non-priority sectors, on the other hand, should continue to be kept strictly curbed.

In *Ireland* the expansion of activity could slow down in the period up to the end of the year and the situation on the labour market become less favourable. Prices will no doubt continue to rise briskly. The balance of payments on current account should show an appreciable deterioration.

Ireland's economic policy should therefore be aimed at restoring more satisfactory conditions of equilibrium, in particular by holding down increases in money incomes, without at the same time prejudicing the longer-term need for an improvement in the economic structures and in the level of employment. Budgetary policy should therefore be aimed at encouraging the investments necessary for the expansion of exports. On the other hand, a cut in other public expenditure should be considered. A change in the structure of direct taxation would also seem appropriate ; in order to spread the tax burden more fairly between the various social classes, recourse could be had to taxing certain incomes or assets which are at present exempt from taxation. It should thus be possible to restrict the increase in the government's net borrowing requirement, in accordance with the guidelines for the financial year



1974-1975 laid down in the annual report ; on current trends this increase could exceed the forecast.

During the second half of 1973 the growth of domestic liquidity accelerated. A tighter control over this increase is called for ; such control should be accompanied by selective measures to promote the grant of credit for the most productive investments. In this connection, the task of the monetary authorities would be made easier by less reliance on monetary means for the financing of the budget deficit.

In *Italy*, last year's strong recovery in demand should make continued economic growth possible in 1974 ; however, in spite of a faster expansion of exports, its pace may slow down appreciably as a result of the oil crisis. Little change should occur in the labour market situation. The most pressing problems will concern the overall equilibrium of the economy ; in this respect, it is to be feared that the increase in prices, already rapid in 1973, will accelerate further and that the deficit on current account of the balance of payments will increase considerably. The apparently excessive depreciation of the lira has increased the inflationary pressures without alleviating the difficult current account position.

In these circumstances, the emphasis of economic policy should be on eliminating the disequilibrating factors. Given the high level of Italy's external indebtedness, a distinct improvement in the balance of payments current account will have to be achieved in the second half of the year and during 1975. As the depreciation of the lira since February 1973 will have its greatest effect on the volume of exports next year, economic policy must aim at reducing the total balance of payments current deficit in 1975 to not more than Lit. 2,500,000 millions. In this respect, it is appropriate to recall that, within the deficit of Lit 4,800,000 millions forecast for 1974, approximately Lit 2,000,000 millions are the result of the increase in oil prices. From now on, strict control of the growth of domestic demand as well as some moderation of internally-originated cost pressures, are necessary. In this connection, urgent action is required not only to stabilize the exchange rate of the lira, but also to use the instruments of demand management in such a way as to divert resources into productive investment and, above all, into exports.

With respect to budgetary policy, a strong effort should be made to restrict less urgent forms of expenditure, especially those directly linked to consumption. At the same time, it would be advisable to support, either directly or indirectly, priority investment expenditure, especially where linked to exporting activities and infrastructure improvements. Taking into account the supplementary expenditure decided upon since last autumn, the Government's net cash deficit will amount to Lit. 9,200,000 million in 1974. Such a figure is a ceiling which should not be broken under any circumstances. To achieve this result, an increase in the fiscal burden seems inevitable. Incidentally, the deficit should be financed to a large extent by non-monetary means.

As regards monetary policy, the balance of payments deficit should contribute to mopping up excess liquidity. On the other hand, the growth in bank lending must be limited, whilst giving priority within such an overall framework to investments in those sectors clearly orientated towards exports and energy. The rise in interest rates which will result from these restrictions should tend to improve the balance of payments on capital account, mitigate import price rises by supporting the exchange rate of the lira, and stimulate saving.

In the *Netherlands*, the expansion of demand and production will be relatively moderate between now and the end of the year and the employment situation is liable to deteriorate. Prices will tend to rise more sharply. The external balance should deteriorate, whilst remaining in surplus.

The Government, anxious to maintain a satisfactory pace of economic activity, has already announced policy actions to support demand—especially in the budgetary field (deferment of the introduction of the investment tax in the country's western region, acceleration of the second stage of the anti-unemployment programme adopted last September)—and other measures were announced on 19 March, 1974 (a reduction of income tax with effect from 1 July 1974, an increase in tax allowances for investment, supplementary expenditure). In the event of such measures being adopted, the net borrowing requirement may be expected to exceed by Fl. 700 millions the figure of Fl. 1,500 million laid down in the third annual report. Any further budgetary measures—especially to increase investment—should involve a restructuring of public expenditure without further increasing the deficit.

The principal feature of the monetary situation up to now has been a substantial increase in secondary liquidity. The general stance of monetary policy requires no modification for the present.

The special powers act of 10 January 1974, which will remain in force until the end of the year, gave the Dutch authorities very wide powers in the field of incomes policy. In this connection, the imposition of temporary controls on prices and all incomes, accompanied by a reduction in direct taxation on small incomes seems appropriate insofar as it may help to curb the rise in wage costs.

In *Belgium*, the slackening of world demand and the rise in import prices resulting from the oil crisis will not fail to affect economic growth in 1974. Unemployment could well spread. The current account surplus of the balance of payments will be substantially reduced, though still in surplus. In these circumstances, it will be important to maintain cautiously the current level of activity during the coming months whilst, given the persistent price and cost increases, taking care to maintain it below productive potential.

In the budgetary field, it seems that the reduction in the deficit recommended in the third annual report and provided for in the budget presented by the Belgian Government will be maintained as the increase in prices is more likely to affect budgetary receipts more than expenditures. This nevertheless implies restrictions on additional expenditures given the structural nature of the budgetary deficit. The need for new investment in the energy field should be covered essentially by restructuring expenditure.

With regard to monetary policy, the present stance seems appropriate. International trends may, however, cause a rise in interest rates.

In order to prevent the higher cost of raw materials from leading to a persistent upward price-wage spiral, an active price policy should be maintained and the various social and occupational groups should be persuaded to moderate their claims for higher incomes. In this connection, increases in incomes in certain sectors must not be allowed to set the pace for other sectors.

In *Luxembourg*, a high level economic activity will probably be maintained during the coming months, especially in the iron and steel industry. The upward movement of consumer prices is likely to gather additional momentum if only because of the increase in the prices of petroleum products. The external balance should continue to show a substantial surplus.

The outlook for the employment situation is favourable, so economic problems appear less acute than in some other countries of the Community. Because inflation essentially originates abroad, it can only be curbed very moderately by internal measures. It does not seem necessary, therefore, to make any appreciable changes to the general guidelines for budgetary policy recommended by the Council in the third annual report. Nevertheless, a degree of caution appears necessary in allocating budgetary resources for new measures in connection with the law on economic expansion, and also in the implementation of the Government's social programme.

In the *United Kingdom*, economic trends will be strongly affected throughout the rest of the year by the repercussions of the temporary limitation of the working week to three days and of the miners' strike. Even assuming that production losses during the first quarter are partly made good later in the year, the gross national product in real terms will certainly be considerably reduced for the year as a whole. The trend of rising prices could increase sharply during the coming months. Prospects for the balance of payments on current account, already in very large deficit in 1973, continue to give cause for concern.

Thus, the need to bring the external account back onto a sound basis and to protect the foreign exchange reserves conflicts with the desire to avoid an excessively low level of economic activity and a deterioration in the employment situation. Thus, although the improvement of the position on current account is a priority objective, it should be placed within a strategy covering a period longer than the current year. In this respect, it is anticipated that the beneficial effects of the depreciation of the effective exchange rate of sterling, which has occurred since mid-1972, will become increasingly important. Judging from previous experience, the full effects on the current balance will be felt in 1975 and subsequent years. From now on, economic policy should have the objective of ensuring that the total current account deficit, in 1975, will be less than £ 2,000 million. This amount would correspond to that part of the deficit which, in 1974, is attributable to dearer oil. The achievement of such an objective requires an economic policy which will permit the release of the real resources necessary for a vigorous expansion of exports.

As for budgetary policy, measures to moderate domestic demand should be introduced following a return to normal economic activity. The budget for the fiscal year 1974/75 constitutes an important step in this direction. While providing for a reduction in the fiscal burden at the lowest income levels, where purchasing power has already been sharply eroded by inflation, and while introducing subsidies in order to contain the rise in food prices, the budget aims at restraining domestic demand both by a limitation in the growth of expenditure and by an increase in taxation. If during the coming months it appears that domestic demand in nominal terms is rising at a rate inconsistent with the required improvement in the current account of the balance of payments, additional measures will be necessary in the budgetary field. These should aim at preserving productive investment as much as possible.

In view of the rapid and continued increase in the principal monetary aggregates, fresh efforts should be made to slow down the expansion of the money supply in

1974. However, within the overall framework of such action, there are grounds for applying any restrictions on bank lending selectively, especially in relation to those small and medium-sized businesses which have been most affected by events at the beginning of the year, and also where exports are concerned. Moreover, the balance of payments situation calls for short-term interest rates to be maintained at a level appreciably higher than those prevailing on international monetary markets. This policy should contribute to the desirable stabilisation of the external value of sterling and to containing inflationary pressures which, in the recent past, have arisen from the depreciation of the currency.

### **III. CONCLUSION**

The Commission requests the Council to adopt the above guide-lines and to invite Member-States to comply with them in the implementation of their economic policies.

TABLE 1

*Indices of consumer prices*  
(Percentage increases, expressed as an annual rate)

	January 1973 May 1973	May 1973 September 1973	September 1973 January 1974	January 1973 January 1974
Denmark	12.9	9.3	19.2	14.4
Germany	7.8	3.0	10.8	7.4
France	7.2	9.6	12.9	10.3
Ireland <sup>1</sup>	12.0	9.6	11.2	12.7
Italy	14.4	8.1	12.0 <sup>3</sup>	12.5 <sup>4</sup>
Netherlands	11.4	5.1	7.5	8.2
Belgium	5.1	5.7	11.1	7.5
Luxembourg	9.3	0.9	9.3	6.6
United Kingdom <sup>2</sup>	11.7	6.3	16.5	11.9

<sup>1</sup> Periods are : February-May 1973; May-August 1973; August-November 1973; November 1972 - November 1973.

<sup>2</sup> Retail prices.

<sup>3</sup> Period from August 1973 - December 1973.

<sup>4</sup> Period from December 1973 - December 1974.

TABLE 2

*Wage costs in industry per unit of gross value added at constant prices*

	% change on preceding year						1969-1973 % changes in Eur
	Figures in national currency			Figures in Eur <sup>1</sup>			
	1971	1972	1973	1971	1972	1973	
Denmark	10.8	5.6	8.9	12.1	3.3	9	35
Germany	8.7	5.7	6	14.3	5.0	11	37
France	6.1	6.3	8	6.9	5.5	7.7	27
Ireland	10.6	8.6	5	12.3	2.3	- 6.3	41
Italy	12.2	5.5	13	13.5	3.0	3.2	53
Netherlands	6.5	4.6	7.5	10.2	3.9	8.8	26 ½
Belgium	9.0	5.4	8	12.2	5.2	7.5	25 ½
United Kingdom	5.9	9.8	5	7.9	3.6	- 6.1	35
United States	1.0	2.1	2.4	0.7	- 5.7	- 6.8	12
							- 6

<sup>1</sup> Calculated on the basis of figures in national currencies, adjusted for exchange rate variations in relation to the Eur.

TABLE 3

*Change in aggregate general government expenditure as a percentage of gross national product at market prices<sup>1</sup>*

Country	Average 1966-1971	1971	1972	1973 <sup>2</sup>
Germany	38.2	39.2	40.2	40.8
France	37.2	38.0	37.9	38.0
Italy	36.0	39.1	41.3	41.1
Netherlands	43.5	46.6	45.3	47.1
Belgium	36.0	39.7	41.5	41.7
Luxembourg	36.0	37.4	40.2	38.9
United Kingdom	. <sup>3</sup>	38.7	40.3	40.6
Denmark	36.2	41.5	41.6	41.1
Ireland	37.3	39.2	39.7	40.5

<sup>1</sup> Aggregate public expenditure : current expenditure, capital transfers, gross fixed asset formation

<sup>2</sup> Estimates by the Commission's departments.

<sup>3</sup> As a result of changes in statistical coverage, the average for 1966-1971 is no longer comparable with the earlier series.

Having regard to certain definitional differences, the data are not fully comparable as between one country and another; they indicate principally the situation within each country.

*Sources :*

Germany : Statistisches Bundesamt;  
 France : 1971 : SOEC, 1972/73 : Commission's departments;  
 Italy : SOEC, National accounts;  
 Netherlands : CBS and estimates by the Commission's departments;  
 Belgium : INS and estimates by the Commission's departments;  
 Luxembourg : 1971 : STATEC; 1972/73 : estimates by the Commission's departments;  
 United Kingdom : HM Treasury;  
 Denmark : Det Økonomiske Sekretariat;  
 Ireland : Department of Finance.



TABLE 4

## Recent trends in the stock of money and quasi-money (M1 and M2)

% increase on the same month of the previous year

Period	Belgium		Denmark		Germany		France		Ireland		Italy		Netherlands		United Kingdom	
	M1	M2	M1	M2	M1	M2	M1	M2	M1	M2	M1	M2	M1	M2	M1	M2
1971 December	9.6	12.8	10.0 <sup>1</sup>	9.6 <sup>1</sup>	12.2	14.4	11.8	18.2	— <sup>2</sup>	— <sup>2</sup>	18.8	17.1	15.0	9.0	— <sup>3</sup>	12.5
1972 March	11.2	14.1	14.2	12.0	14.9	13.3	12.1	18.0	—	—	19.0	18.9	19.0	10.3	—	12.3
June	14.5	16.3	16.1	13.2	14.3	13.9	13.1	19.2	14.7	14.7	17.7	18.5	18.5	12.6	—	21.1
September	11.4	15.1	13.4	12.8	14.0	15.6	15.2	20.2	17.2	16.7	16.7	17.8	20.8	12.1	—	24.1
December	14.2	17.5	17.1	15.1	14.4	16.9	14.9	18.6	18.2	16.0	17.3 <sup>4</sup>	18.2	17.6	11.9	13.7	25.4
1973 January	14.4	17.4	15.5	14.1	12.2	16.7	13.0	17.1	17.9	17.9	18.4	18.8	17.6	14.8	13.5	25.5
February	16.1	17.9	13.5	14.2	12.1	18.2	12.4	15.9	14.9	21.4	18.0	18.5	17.8	15.7	13.5	29.8
March	15.9	18.7	11.2	12.7	13.6	20.3	10.5	14.7	14.1	23.8	17.8	18.5	16.1	16.3	11.4	28.1
April	15.1	18.2	11.3	12.7	11.6	20.2	13.2	16.7	12.1	23.0	17.7	18.2	15.3	16.9	12.1	26.3
May	15.5	18.0	12.5	13.8	8.4	21.0	13.2	16.3	12.4	22.1	19.9	19.4	12.7	16.8	10.8	24.8
June	12.5	16.6	13.9	14.6	5.7	18.0	10.9	14.2	12.6	21.7	22.2	20.7	9.4	14.9	9.6	23.3
July	11.9	16.3	12.6	14.1	3.1	16.4	8.1	13.3	12.2	21.3	22.3	20.6	3.2	14.4	12.0	25.4
August	12.4	16.8	12.9	14.1	0.7	17.1	8.6	13.8	12.2	22.5	23.0	21.0	—	16.1	11.4	27.8
September	11.0	16.5	13.8	14.8	0.5	17.3	7.6*	13.1*	11.5	24.0	23.5	21.3	0.0	19.2	8.7	28.4
October	10.8	16.3	13.8	15.5	—	17.8	7.9*	13.1*	10.7	25.2	23.0	20.9	1.1	20.3	5.5	28.5
November	10.2	16.1*	10.0	13.0	—	16.5	5.2*	12.1*	8.2	26.1	22.7*	20.8*	0.6	19.7	6.7	29.2
December	7.8*	14.4*	10.0	12.6	1.8	13.8	9.7*	14.9*	7.1	25.7	21.8*	21.1*	—	22.0	4.3	28.5
1974 January				11.5	0.5*	13.8*			5.8	24.0					4.8	27.8

\* Provisional figures.

<sup>1</sup> Based on definitions of M1 and M2 differing slightly from those adopted for the following months.<sup>2</sup> Figures are either unavailable or not significant as a result of the bank strike in 1970.<sup>3</sup> Monthly figures for M1 are only available from October 1972 onwards.<sup>4</sup> Adjusted for the effects of the bank strikes.

**RESULTS OF THE BUSINESS SURVEY CARRIED OUT  
AMONG MANAGERMENTS IN THE COMMUNITY**

**ESTIMATE OF PRODUCTION  
TREND IN THE MONTHS  
AHEAD**

