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COMMISSION COMMUNICATION TO THE COUNCIL ON ECONOMIC POLICY TO BE FOLLOWED IN 1977 AND ON THE PREPARATION OF PUBLIC BUDGETS FOR 1978

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I. THE ECONOMIC SITUATION AND THE OUTLOOK FOR THE COMMUNITY

1. General economic situation and recent developments

1. The recovery is continuing in the Community at a moderate pace, but the level of unemployment and rates of inflation are still a source of concern. Balance of payments disequilibria are decreasing gradually in most Member States, but wide disparities persist from one country to another.

2. The upswing since 1975 has been anything but smooth; periods of slack growth have alternated with periods of rapid expansion. In the first stage of the upswing, the factors of expansion - underpinned by a range of short-term measures aims at strengthening the recovery - were particularly vigorous until the first quarter of 1976. Then followed a long period of calm during the summer, and the output of the economy as a whole accelerated once again only in the fourth quarter. In 1976, the annual average growth rate of gross domestic product in volume terms was over 4.5% in the Community. The key factors in the recovery have been a recovery of stockbuilding, steady progress in exports and a boom in sales of consumer durables - particularly cars - after a period where demand was deferred. At the same time, in nearly all the Member States, the situation on the labour market has shown little change or has even worsened. In 1976, the Community ran up a heavy current account deficit, of about $ 8 billion.

3. The growth rate had been speeding up to the final quarter of 1976, but in the early months of 1977 it slowed somewhat. The conjunctural indicators show that the rates of growth of demand and output are relatively low (see Table 1)(1). In the first quarter of 1977, gross domestic product in volume, calculated on an annual basis, increased by only $3\frac{1}{2}$ - 4% on the preceding quarter, as against 5.5% during the fourth quarter of 1976. Demand and output has probably continued to grow at a moderate pace during the second quarter.

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(1) This year conjunctural data are particularly difficult to interpret owing to modifications in the statistical methodology in the Federal Republic of Germany and Italy.

4. Since the beginning of the year industry has been in general still running well below capacity, the utilization rate being, on average, 79%. (A maximum rate of about 86% was observed in 1973 and a minimum rate of 72½% in 1975). Economic activity has not progressed fast enough to provide employment for the still large number of young people coming on to the labour market for the first time. Since last summer, the seasonally-adjusted number of wholly unemployed in the Community has remained virtually unchanged; in May some 5.4 million people, or approximately 5.1% of the working population were out of work (see Table 2). In most countries the proportion of unemployed less than 25 years old is as much as 40% or more. The number of vacancies has tended to decrease in almost all the Member States.

5. At the end of 1976, and during the first quarter of 1977, special factors - previous sizeable currency depreciations, rises in the prices of raw materials and increases in indirect tax rates and the prices of public goods - prevented further progress for a time, in most of the member countries, in the effort to reduce inflation rates. Since winter the trend in underlying inflation rates has improved slightly. Nonetheless in May, on a year-on-year basis the rate of increase in consumer prices has again accelerated to 18½% in Italy, to 17% in the United Kingdom and to 14% in Ireland. On the same basis rates of inflation are running at less than 4% in the Federal Republic of Germany, 7% in the Benelux countries and 9.5% in Denmark and France (see Table3). During the first five months of 1977, the increase for the Community as a whole, on an annual basis, was 13%. Prices therefore continued to rise fast, at least to consumers, although the pressure of wage costs remained moderate in many countries.

6. In most of the member countries, growth, until the autumn of 1976, was mainly export-led particularly because of the strength of intra-Community trade. Thereafter, demand from abroad weakened substantially, although exports to third countries remained relatively strong. As imports went on expanding for a time (petroleum products purchases from OPEC countries ahead of expected currency changes), the Community's deficit on trade and the balance of payments steadily worsened. During the fourth quarter of 1976, the trade deficit was more than

twice the figure for the first quarter. Nonetheless trade deficits have been gradually contracting since the beginning of the present year (see Table 4) due to to slacker import growth arising from the slowdown in production and relatively high stock levels.

2. Outlook for the Community in 1977

7. Growth potential may be expected to gain some strength in most of the member countries during the second half of 1977. The growth of world trade outside the Community is likely to accelerate a little. The expected lower inflation rates should allow a more rapid growth of disposable income. Private consumption could well then start making a more substantial contribution to growth. Private investment should continue to expand, although at a moderate pace, as long as sales and profit prospects improve, and confidence in the future of the economy is built up. The outlook for residential construction and public sector investment is still uncertain.

8. As compared with 1976, the annual average increase in the Community's gross domestic product in volume term in 1977 should be only about 3% (see Tables 5 and 7). This falls short of the 3.5% predicted in March(1) and the 4% objective fixed for 1977 by the Council in the Annual Report on the economic situation in the Community(2) and the economic policy programme(3). In 1977, gross domestic product in volume will probably not increase by more than 4 to 4.5% (instead of 5% forecast in March) in the Federal Republic of Germany(4) or by more than 3 to 3.5% (instead of 4.5%) in France. In Italy a growth rate higher than that forecast at the beginning of the year now seems likely. However, in most of the other Member States, annual average growth rates should be fairly close to the figures put forward in March 1977 (see Table 5). The increase in total output which is at present considered likely will probably fall short, in almost all the Member States, of what is needed for any improvement in the degree of capacity utilisation and in the labour market situation, even bearing in mind the specific measures that have been taken.

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(1) Council Decision (77/340/EEC) of 25 April 1977 concerning the adjustment of the economic policy guidelines for 1977, OJ 119, 12 May 1977.

(2) Council Decision (76/916/EEC), 22 November 1976, OJ L 358, 29 December 1976.

(3) Decision of the Council and representatives of the Governments of the Member States meeting within the Council (77/294/EEC) of 14 March 1977; OJ L 101, 25 April 1977.

(4) The estimated real GDP growth rate will be lower in the Federal Republic of Germany partly because the base year for calculating prices has been changed (from 1962 to 1970).

9. Foreseeable inflation rates are still cause for concern. Although according to the guidelines in the Annual Report they were to have been reduced to some 7 or 8% in the Community as a whole in 1977, they will probably in fact be around 9½% assuming some slowing down during the second half of the year. This is largely due to the effects of currency depreciations, and the rises in raw material prices. But exceptional increases in some taxes and public service charges in certain countries where the budgetary deficit required corrective action have also palyed a role. The effects of these various factors are likely to diminish in the coming months. However, the general deceleration of wage cost increases since 1975 will probably end in 1977. Overall the divergences in price and cost trends within the Community will remain substantial (see Table 8).

10. With regard to the balance of payments, some progress will be made in 1977. The tendency for the deficits to shrink which has just got under way and which will probably continue justifies the hope that the Community's current account may even balance out in 1977. This prediction is based in particular on the major improvement in the balance of payments situation in the United Kingdom, Italy and France. It should, however, be borne in mind that this result is only partly due to an improvement in competitivity, and that it can be attributed in particular to a slowing down of economic activity and British sales of North Sea oil. In the United Kingdom, the improvement in the external accounts for 1977 is already much greater than it was a few months ago.

3. The world scene and outlook

11. In 1976, real GDP in non-member industrialized countries increased more sharply than in the Community taken as a whole (5.5% as against 4.5%) (see Table 7). The growth rate of these countries together should reach about 4.5% in 1977 and 5% in 1978.

The volume of world trade, which was decelerating up to the beginning of 1977 may well expand more rapidly once again during the course of the year and play an important part in sustaining economic activity in member countries. However, the annual rate of increase of world trade (in volume terms) in 1977 will be appreciably slower than last year because a number of exceptional factors, such as restocking and anticipatory purchases of petroleum products, will have worked themselves out. In 1977, the total volume of imports by industrialized countries (excluding Community imports) should increase by some 8% compared with 12.5% in 1976; the total volume of world imports (including those of OPEC countries) by developing and State-trading countries should increase by 7½% compared with 9% in 1976 (see Table 7). The first forecasts of prospects for 1978 suggest rates of growth similar to those in 1977, providing that the world economic upturn is maintained and that tendencies towards protectionism are resisted.

12. Since autumn 1976, world market prices have climbed considerably. Only recently has there been a slackening of the sharp upward movement which involved in particular foodstuffs and animal feed and non-ferros metals, and which was caused by poor harvests and other scarcities(1). In May, the dollar-based HWWA index was more than 14% up on the level reached at the same period last year and more than 10% up on December 1976. It is expected that the prices of foodstuffs and raw materials will increase again. in the second half of 1977 and in 1978, though less rapidly.

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(1) For the first time in eight months, the overall index of the Hamburger Weltwirtschafts Archiv fell by 1.6% in May compared with the preceding month.

It should also be noted that the threat of a renewed upsurge in inflation has recently reappeared in a number of major non-member countries(1). This recent phenomenon exacerbates the difficulties of a return to price stability and the reduction of the balance of payments deficits of the Community.

13. Balance of payments disequilibria at the world level will continue to hinder the growth of international trade. In 1977, the OPEC countries' surplus on current account is likely to increase slightly to exceed US $ 40 000 million. As the non-oil-producing developing countries will probably avoid an increase in their overall deficit as a result of the rise in raw materials prices, the rest of the world's deficit will increase. The measures taken by the Community may enable it to erase its deficit in 1977. While Japan's surplus is likely to grow, the deficits in the smaller industrialized countries and the United States will worsen. The oil deficit of the United States could reach half the overall trade surplus of the OPEC countries.

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(1) Between January and May this year consumer prices in the United States have risen at nearby 10% in annual terms, while the increase of wholesale ices has been even greater.

4. The outlook for 1978 and the objectives of the fourth-medium-term economic policy programme

14. Despite the uncertainty prejudicing the conditions surrounding economic activity, a rough exposition of possible developments in the member countries in 1978 is desirable. The outline is based, of course, on developments implied by unchanged economic policies, taking into account the assumptions which can at present be made concerning external economic transactions and the thrust of current economic trends. Such a forecast, probabilistic in nature, should not be confused with feasible and desirable developments which could be achieved assuming changes in behaviour or the introduction of new economic policy measures.

15. On the basis of the above assumptions, the rate of growth of real GDP in the Community may be put at about 3.5 % for 1978. Compared with 1977, overall demand and output may expand slightly more rapidly, particularly in those member countries which have had to undertake restrictive economic policies. These stabilizing policies pursued in 1977, provided they result in a sufficient measure of success, will, however, bring about a loosening of external constraints; thus, growth prospects will be enhanced, particularly in the United Kingdom, Italy, Denmark and France. On the other hand, the prospects for growth in the surplus countries (the Federal Republic of Germany and the Netherlands) are at present rather poor. All in all, none of the rates of growth anticipated for the various Member States will be sufficient to cause any appreciable improvement in the labour market situation.

The prospects are somewhat less unfavourable for a reduction in the level of the average inflation rate in 1978 (to about 8% in the Community as a whole) and for a substantial narrowing of the range of inflation rates as between the Member States. This presupposes, however, that the increase in primary commodity prices, the rise in wage costs and the adjustment of exchange rates to account for differing rates of inflation do not exceed certain limits. Furthermore, it is probable that the balance of payments position of the Community as a whole will be in surplus. As a result of the persistence of moderate growth there is, however, reason to fear that the improved external position will not come about very quickly for the Community considered in total, and that excessive disparities between balance of payments situations in the various Member States will reamin.

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16. The lack of the anticipated progress in growth and employment remains extremely worrying.

Taking into account the probable rate of growth of GDP for 1977 and the assumed rate for 1978, the average annual rate of growth for the period 1976-1978 will be between 3.5% and 4% for the Community as a whole. GDP would have to increase annually by between 6% and 7% in 1979 and 1980, if the annual growth of between 4.5% and 5% sought in the fourth medium-term economic policy programme were to be achieved. It will be practically impossible between now and 1980, to recover the ground which has been lost, because in order to do so it would be necessary to overcome immediately the inflationary pressures in all the Member States.

17. The weakness of investment is an important cause of the slowness of the economic recovery. The share of investment in GDP, which had continuously increased throughout the Community during the 1950's, began to decline towards the end of the 1960's. The reversal of the trend became evident as from the beginning of the current decade and it has been amplified by the cyclical effects of the 1975 recession. Thus, the investment share has fallen from 23 % on average for the years 1970-1973 to 20.5 % in 1977. The principal change has been in business investment, but residential construction too has been affected by this development, while public investment has also been tending to weaken in certain countries.

The change which has occurred in the trend of private sector investment is explicable in terms of the combined action of numerous factors. Since the end of the 1960's, inflation rates in the main industrialised countries have both accelarated and diverged; meanwhile, the deepest and most prolonged post second-world-war recession began. While this conjunction of inflation and stagnation was developing, the price structure was changing at a very rapid rate; labour costs everywhere continued to increase, the share of profits in GDP declined, oil and primary commodity prices shot upwards and the progressive

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collapse of the fixed exchange rate system gave rise to changes in relative prices and incertainties between different countries. In this situation, entrepreneurs were no longer assured of market outlets nor of maintaining adequate profit margins. In sum, confidence in future profitability declined, thus bringing about a lower propensity to invest.

The falling-behind of investment calls, in the context of hesitant economic conditions, for swift corrective action. Gross fixed capital formation has an essential rôle in the strengthening of the economic recovery both in the provision of productive capacity and in the creation of the additional jobs which are required in the medium term. In most member countries, the average annual growth rate of investment should exceed substantially, in the medium term, that of GDP in real terms.

II. GUIDELINES FOR ECONOMIC POLICY IN THE COMMUNITY

1. General guidelines

18. An examination of the current situation and of the outlook for economic activity indicate that the growth and employment objectives adopted in the context of the economic policy guidelines established in March 1977 and in the fourth medium-term economic policy programme are hardly capable of achievement, for the Community as a whole. The economic policies conducted by the member countries having an external surplus and those of deficit member countries have not yet produced all of their expected results. The process of adjustment which has begun and the structural changes by which it is inevitably accompanied are occurring slowly and their magnitude has not yet, moreover, been fully appreciated. Nevertheless, impatience is no more appropriate than resignation or pessimism when it relates to the major distortions which have emerged, over a number of years, in the world economy under the influence, notably, of accelerated inflation and the oil crisis. These structural difficulties can only be overcome gradually by putting into action the policies foreseen in the fourth medium term economic policy programme of the Community.

19. It would then be a mistake to abandon efforts to control demand and to coordinate it at Community level on the grounds that, up to the present, the objectives sought have not always been fully attained. The disparity of economic situations within the Community implies, in order to maintain an adequate rate of growth in those Member States where the primary policy objective is to remove inflation and the external deficit, that expansion should continue, and probably accelerate, in those countries where the balance of payments is currently satisfactory. But, on the other hand, expansion in the latter countries is partly dependent upon the success of anti-inflationary policies in the former countries, since the persistence of sizeable divergences in the rate of price increases is likely to create new uncertainties especially about the medium-term development of export markets and therefore to influence the decisions of investors. It is more than ever required that a differentiated regulation of domestic demand,

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as between the surplus countries and the deficit countries, should be sustained, as provided for, indeed, in the guidelines of November 1976 and March 1977 for economic policy in the Community in 1977.

20. It is proper that all the member countries should try to re-establish or improve conditions conducive to a return to sustained and non-inflationary growth, encouraging, in particular, the propensity to invest of the private sector and assuring a high level of public investment. To achieve a healthy and lasting recovery in investment, the reduction in the rate of increase of wage costs, both direct and indirect, of the last few months needs to continue, but in general it must be associated with policies to reduce inequalities. At the same time, specific action, both at national and Community level, should be such as to favour the recovery in i vestment in the context of a Community structural policy. With this objective in mind, the Community is contributing by:

- strengthening of existing Community instruments which has a multiplier effect. Thus for example the capital of the E.I.B. has been increased and a better use of the functions of the Social Fund, a broadening and diversification of the activities of the Regional Fund and a mobilisation of financial instruments acquired in the energy sector can all be anticipated.
- the creation of a new Community borrowing mechanism, designed to finance investment of a structural character in line with priority Community objectives in the energy sector, in industries undergoing structural change and in the infrastructure[1].

21. Public intervention is not sufficient to overcome the difficulties of adaptation which will arise in coming years and to restore confidence in the medium-term outlook. A minimum economic and social concensus on objectives to be achieved and the instruments is more than ever necessary. Animosities can only narrow the scope for growth and frustrate individual measures. The third meeting between

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[1] Cf. the Communication from the Commission to the European Council "Investment and Borrowing in the Community", document COM(77)300 final.

the social partners, the governments of the Member States and the Commission held on 27 June 1977 confirmed the scale of the tasks to be carried out and of the difficulties to be solved (1). The measures which have already been taken in all the member countries in connection with employment and professional training, particularly that of young people and women (2), ought to be strengthened to the greatest extent possible.

(1) Cf. "Growth, Stability and Employment : stock-taking and prospects", COM(77)250 final, 23 May 1977.

(2) "Report to the European Council on Community Action in the Field of the Labour Market", COM(77)301 final, 15 June, 1977.

2. Monetary policy guidelines

22. Monetary policy has a major contribution to make in consolidating or strengthening the success achieved in the fight against inflation. The pursuit of a steady monetary policy and the publication of quantified norms for the relevant monetary aggregates in each member country will help to reduce inflationary expectations, to strengthen the confidence of management and private consumers and favour the development of a more stable pattern of exchange rates between the currencies of Member States. The Commission has already outlined, in its Annual Report on the economic situation in the Community (1), quantitative guidelines for monetary policy in the Member States for 1977, but target figures were indicated for some Member States only. According to the fourth medium-term economic policy programme for the Community (2), guidelines for internal monetary policy should be established at a Community level each year. The Commission will formulate quantitative monetary policy guidelines again in its forthcoming Annual Report on the economic situation in the Community. The quantitative guidelines will have to take account of fairly divergent economic situations and of the differing monetary instruments of member-States.

23. Data available for 1977 (covering, for most countries, only the first quarter) appear to indicate a slow deceleration of monetary growth, but special vigilance on the part of the monetary authorities is still required in certain Member States. This is especially true of Italy, where monetary expansion has been too vigorous and the quarterly norm fixed by the Community in connection with the Community loan for that country was exceeded in the first quarter of 1977 by Lit. 1,300,000 million (the norm was Lit. 6,600,000 million). It would also appear necessary to maintain the measures taken to limit the expansion of bank credit in Denmark, France and the Netherlands. On the other hand, in the United Kingdom, where monetary growth has fluctuated widely in the past, a steadier and more sustained expansion of the money supply seems feasible and desirable. In the Federal Republic of Germany, the trend of central bank money was largely consistent with the guidelines during the first four months of 1977.

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(1) Council decision of 22 November, 1976, approving the Annual Report on the economic situation in the Community and setting out the economic policy guidelines for 1977.

(2) Decision 77/294/EEC - O.J. L 101/1 of 15 April 1977, p. 6.

3. Budgetary and Financial policy guidelines

24. More use than in the past should now be made of budgetary policy as an instrument of growth policy. Some strengthening of measures taken to stimulate investment is necessary in order to make up lost ground as far as meeting medium-term targets is concerned and to accelerate the return to full employment. Some Member States have already adopted this approach.

25. As far as private investment is concerned, decisions might be made to:

- extend the conditions for valuing, for tax purposes, company liabilities and assets;
- increase subsidies for research and development;
- pay selective subsidies favouring investment designed to create new energy sources or to save energy (1), to improve the environment and to refurbish regional infrastructures.

To avoid creating distortions between the Member States, all investment-incentive programmes should be the subject of coordination at Community level.

26. An increase in direct investment by public authorities, whether central or local, is also recommended for most countries, within the limits of non-inflationary financing possibilities and taking account of the existing structure of interest rates. Such investment will have a different importance and impact as between one country and another, according to their different infrastructural needs and the degree of spare capacity existing in the construction industry. The specific programmes to be drawn up should take this into account.

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(1) Cf. the Communication from the Commission to the Council on the achievement of energy savings through the modernisation of existing buildings in the Community. Document COM(77)186 final, of 27 May, 1977.

At all events, in most of the Member States, planning should now begin to raise the volume of general government investment above that of the last five years without, however, raising the proportion of public expenditure in GDP. Consumption and transfer expenditures should then be restrained. The announcement of the implementation of new programmes could well strenthen confidence without producing undesirable "mechanical" effects if, as is the case in certain countries, unused production capacities are fairly substantial. Integrating such efforts into the five year public investment programmes, covered by the Council Directive 74/121/EEC (1), should increase the chances of achieving more stable long term growth.

27. Action taken to revive investment using the means described above implies a prolongation of efforts to reduce budget deficits in the surplus countries. Nevertheless, stimulatory action should not bring about, in the longer term, any lasting deterioration in the net borrowing requirement. Where the weakness of investment reflects general under-utilization of productive capacity and entails the risk of persistent reduction or obsolesence of capacity, a deterioration in the budget surplus or deficit would be acceptable. The favourable effects this should have on economic growth should in time engender additional tax revenue which in its turn should tend to reverse the effect on the budget deficit.

Those member countries where the balance of payments may still be precarious in 1978 or who require a current surplus in order to repay external debt should modulate very carefully the measures taken to stimulate investment, which should not, in any event, bring about a growth in budget deficits or of the monetary aggregates in excess of the limits agreed within the Community context or with the International Monetary Fund.

In those countries in which the budget deficit is being financed to a substantial degree by monetary means in 1977, action to get investment moving again should be carefully monitored to prevent the creation of new liquidity from strengthening inflationary expectations.

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(1) Directive of 18 February 1974, concerned with stability, growth and full employment in the Community.

4. Guidelines country by country

In Denmark, the economy has entered into a phase of very slow growth since the autumn of 1976 brought about by a restrictive policy made necessary by a deterioration in the current balance of payments. Private consumption has scarcely risen at all and total investment (construction and machinery) has experienced a quite marked decline. Industrial exports are the main element supporting activity which remains, however, insufficient to prevent an increase in unemployment. These trends should persist up to the end of 1977 and should permit, as a result of a fall in imports, a reduction in the current deficit.

The outlook for 1978 is for a certain pick up in the economy due to a modest recovery of investment and private consumption. Accordingly imports could be more dynamic and despite an appreciable performance of exports, the current balance should only improve slightly. Unemployment is likely to increase further. Due to the moderation of import prices and wage costs the inflation rate will be cut considerably.

Given the importance of the external deficit and the growing burden of external debt which reduces the room for manoeuvre of the authorities, economic policy should as a priority be geared towards creating lasting conditions for a return to external equilibrium without which the employment situation can only grow worse.

The incomes policy adopted in Spring 1977 could contribute to the realisation of this objective in so far as the salary guidelines, which imply a modest growth in real terms in 1978, are strictly adhered to. It should be accompanied by budgetary measures which, ranged around a policy to reduce the net borrowing requirement of the public sector, could nevertheless permit certain investment incentives. This development would be even more desirable since the maintenance of the high interest rates, necessary to finance the external deficit, could have a negative impact on the propensity to invest. If the salary norms were to be exceeded, the restrictive orientation of budgetary policy would have to be reinforced; it would be in particular appropriate to have recourse to an increase in indirect taxation in such a way as to maintain private consumption, and consequently imports, at a level compatible with the balance of payments, which must be regarded as the principal objective.

In the Federal Republic of Germany, the upswing, which has been more restrained than in previous expansionary phases, remains weak. Taking into account the relative lack of dynamism of economic activity, in the area of private-sector investment in particular, growth will be insufficient to improve substantially the labour market situation.

Owing to the slow rate of growth, efforts to cut the public deficits should be spread over a larger period than previously foreseen. There may in fact be a need for the public budgets to exert an expansionary influence on the economy. The amended draft of the tax law tabled by the Government and at present being examined by Parliament is along these lines. Under the draft, while the standard rate of VAT is to go up from 11 to 12% and the reduced rate - applying principally to foodstuffs and services - from 5.5 to 6%, child benefits are to be increased, certain basic allowances under income and wage tax raised and some reliefs granted in respect of company taxation and wealth tax. This package is likely to provide an initial stimulus of some DM 1 000 million in 1978. If the impact of these measures, together with those adopted earlier (the annual shares of the multiannual public investment programme, the measures aiding public housing and the specific programme to maintain employment) is inadequate to restore domestic demand, new stimuli should be applied, particularly with a view to a long-term strengthening of the prospensity to invest.

In spite of the more expansionary nature of the overall budget, continued efforts should be made to curb the growth of current expenditure, thereby making room for capital expenditure.

On the monetary side, the Bundesbank should continue its present policy of expanding the money supply in line with potential growth and a further slackening in the rate of price increases. Monetary policy should continue to be applied flexibly so as to avoid temporary strains on the money and capital markets.

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In France, where the rate of growth of wage costs has moderated since the beginning of the year, growth which is mainly export-led, will remain moderate in the period up to the end of 1977. The external deficit will shrink further and the terms of trade will go on improving. The upward movement of prices will tend to slacken gradually from the second half of 1977. In 1978, a progressive revival in domestic demand should lead to some quickening in the rate of growth. Even so, the labour-market situation will experience only a slow improvement.

The economic policy laid down for 1977 is aimed at securing a decisive slowdown in the inflation rate so as to make substantial progress towards restoring equilibrium in the main macro-economic relationships. The central state budget, which in the form now adopted shows a deficit of FF 11 800 million, could close with a deficit close to that of 1976. However, the greater part of this deficit will be financed by non-monetary means. In addition, the authorities have for the first time fixed a limit for money supply growth for 1977 while maintaining the control over the increase in the greater part of bank lending. Compliance with these guidelines throughout the current year will make a valuable contribution to the general fight against price and cost inflation.

The efforts to restore equilibrium should be continued in 1978 and, in particular, the more restrained growth of costs seen in 1977 should continue. Economic policy, both monetary and budgetary, should aid in this direction. As care should be taken to avoid any sharp acceleration in the growth of demand as this would be likely to generate an excessive increase in imports, the growth in central state expenditure should therefore not be allowed to exceed the increase in output in value terms though spending should be timed to take account of the short-term economic situation. Thus investment in building and construction, which has a low import content but an appreciable effect on employment, might be stepped up to help sustain employment. But in any event a return to budget equilibrium, which should remain the longer-term objective, should not necessarily be sought in 1978.

In Ireland, developments in the second half of 1977 should be reflected in a marginally higher growth rate due to a more sustained performance of exports, private consumption and investment, resulting in a small decrease in unemployment, which will still, however, remain at an historically high level at the end of the year. Consumer prices will moderate and the balance of payments deficit will continue to widen but at a slower pace.

In 1978 these trends should continue, unemployment should fall again moderately and the rate of increase in prices slow down further.

The 1977 budget is likely to have a more stimulatory effect than initially expected. The net borrowing requirement as a percentage of gross domestic product should nevertheless be of the same order of magnitude as last year (11½%).

Budgetary policy should ensure that this level is not, in any event, exceeded in 1978. Taking account of the necessity, on the one hand of not increasing tax pressure on wage incomes, due to income policy considerations, and on the other of making a supplementary budgetary effort in favour of investment and employment, compensatory savings should be found by an extension of the tax base on certain incomes, notably agricultural, and cuts in certain non-priority current expenditure. In addition, the cost of food subsidies also constitutes a burden to the Exchequer and their phasing out could be envisaged when the consumer price index shows its expected deceleration in the second half of this year.

As far as incomes policy is concerned a continuation of a moderate pay agreement for 1978 is imperative as it will improve the prospects for the development of employment and reduce the risk to the balance of payments of too rapid an expansion in private consumption.

To obtain at the same time a moderate expansion of monetary aggregates and a satisfactory performance of bank lending to the private sector, the authorities should endeavour to finance as much as possible of the public deficit by non-monetary means and encourage the development of the "non-monetary liabilities" of the banking system.

In Italy, economic activity, particularly because of the stabilization measures adopted in the autumn of 1976, weakened in the first months of the year, while still showing an increase relative to the fourth quarter. The continued high rate of inflation slackened, though only little. At the same time, the deficit on the overall balance of payments for the first four months of the year was slightly smaller than a year earlier. The lira exchange rate remained fairly stable thanks to a substantial increase in the commercial bank's short-term external indebtedness. The authorities should ensure that economic growth, which might reach 3% in 1977, is obtained under conditions which are compatible with the objectives for 1977 and 1978 agreed among the terms for the grant of the Community Loan.

In the public finance field, the public sector deficit will shrink significantly in 1977, mainly as a result of an increase - already implemented - in certain tax rates and the introduction of a new system of advance tax on non-wage incomes. However, additional measures will probably prove necessary to comply with the limit of Lit 16 450 000 million laid down by the Council in May. Further efforts will also have to be made to keep to the limit of Lit 14 450 000 million for 1978. This is because revenue growth must be expected to decelerate sharply now that tax arrangements are reverting to normal and incomes in money terms expanding a lot less rapidly. Consequently, the growth in public expenditure, and more particularly that in current expenditure, should be kept within strict limits, leaving no room for any increase in real terms. There will also be a need to secure additional revenue, among other things through a fresh adjustment of public service charges and increased local taxation. The reform of the system of financing social security benefits which the government has undertaken to carry out by 31 January 1978 should bring a better distribution in the tax burden on different sorts of economic transactions. It should also provide an opportunity for stepping up the fight against tax avoidance.

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The monetary authorities seem to be having great difficulties in controlling domestic credit expansion. During the first quarter of 1977, this was again much larger than the objective set, even though the release of the deposits on foreign currency purchases meant an appreciable increase in firms' financial resources. The Community and international undertakings given on this score for 1977 and 1978 must be strictly complied with by the monetary authorities, failing which the stabilization programme would be liable to lose most of its effectiveness. If necessary, the ceiling controls on bank lending will have to tightened and extended once more. Interest rates should be kept relatively high, while simultaneously endeavouring to improve their structure.

Lastly, fresh efforts will have to be made to contain the rise in labour costs per unit of output. Success in this field will help to slow down inflation, to improve the competitive position of the Italian economy and to support the level of employment.

In the Netherlands, following sluggish growth and an increase in unemployment in the first half-year, the economy should pick up somewhat in the second half of 1977 and in 1978, although this is unlikely to produce a rise in employment. The surplus on the balance of payments on current account may well continue at the same level if not increase.

The authorities must therefore seek a middle course between short-term considerations, which favour a continued policy of stimulating investment, and longer-term considerations, which point to the need to curb the rise in prices and costs and restrain the growth in public expenditure and the tax burden.

With the outlook for employment and activity in 1978 not particularly favourable, it would be inappropriate to give budgetary policy a restrictive bias. However, given the medium-term objectives, the general government borrowing requirement as a proportion of gross domestic product should remain close to the level reached in 1977.

Since unemployment cannot be brought down unless there is a relatively large external surplus, economic policy must continue to provide room for substantial exports of long-term capital, which - given the present outlook - should hardly be an impediment to meeting the general government financing requirements. In any case, there is a special need to check the growth of domestic liquidity so as to avoid any increase in the ratio between that and national income.

In Belgium, in the first half of 1977, unemployment rose appreciably again the upward movement of consumer prices slowed down and foreign trade remained in satisfactory balance. In the months ahead and in 1978, economic growth will probably still be too moderate overall, to produce any significant improvement on the labour market. On the other hand, progress made in slowing down the rates of inflation remains precarious. Economic policy should therefore continue to combat both unemployment and inflation, within the limits set by the difficult public finance situation.

The constraints imposed by the pronounced public finance disequilibrium - a disequilibrium which is untenable in the medium term - would leave no room for implementing an economic policy designed to stimulate activity and employment through overall budgetary measures. The Government should therefore pursue a selective and temporary policy of combating unemployment; it should stimulate business investment, notably by ceasing to charge VAT on investments and making full use of the scope offered by the existing laws on economic expansion. Care should be taken to avoid an additional increase in public investment, given the narrow margin of spare capacity in the public works sector. There should be a gradual shift in the public investment programmes towards activities which focus more on the quality of life and involve lower permanent operating costs; this shift would also contribute to the required moderation in the growth of current expenditure, which is essential if a rapid increase in the tax burden is to be avoided. The central government budget for 1978 should therefore be aimed at a redeployment of the present budgetary resources with a view to holding to borrowing requirement as a percentage of GDP to the level reached in 1977.

In view of the resources available on the capital market, the greatest possible proportion of the budget deficit should be financed through long-term loans on the national market. Monetary policy should restrict the rate of growth of private sector credit to the expected rate of growth in the gross domestic product in money terms so as to reduce the danger of excess liquidity causing inflationary tendencies to get out of hand.

In Luxembourg, the economic situation is still sluggish and the outlook for the second half of 1977 and for 1978 holds out only little hope of a revival in activity. Even so the public finance situation is more favourable than expected.

Work on the Central government budget for 1978 should be based on the assumption that there will still be some unemployment and that temporary measures to support certain industries may have to be extended. Such a policy stance would make it possible to maintain Central government net lending at a level of over Flux 2 000 million and hold general government net borrowing, expressed as a proportion of GDP, to the same level as in 1977 (1%).

The present outlook for the United Kingdom economy is sensitive to the wide range of possible outturns for earnings after stage II expires at the end of July 1977. Until the details of the next wage agreement are known, it must be feared that average earnings could well accelerate beyond the Government's target of about 10 per cent for the twelve months from August 1977. On this basis, **a temporary acceleration in demand is foreseen.** However, by late 1978 economic growth will have weakened and inflation may accelerate.

The forecast is for an increase in gross domestic product (GDP) of about 3 per cent between 1977 and 1978. As much as 1 per cent of this growth in GDP will be accounted for by increased production of North Sea oil. The rate of inflation is expected to fall markedly in the outlook period; in the final quarter of 1978, however, the increase over a year earlier may still be more than 10 per cent if the Government's target with respect to earnings is exceeded. The combined effect of this slowdown in prices and acceleration in earnings **could be** a strong revival of private consumption. Total gross fixed asset formation will also show an increase between 1977 and 1978, albeit at a lower rate than for private consumption. Strong growth in private sector fixed asset formation (especially in manufacturing industry) will be partly offset by a further substantial decline in public sector investment. There is likely to be little change in public authorities' current consumption. On the external side, there should be a continued and rapid expansion in net exports, because of the contribution of North Sea oil, pointing to a current account surplus of over £ 1 billion in 1978.

The present developments of the budgetary aggregates suggest that the public sector borrowing requirement (PSBR) for 1978/79 should remain within the figure indicated in the Letter of Intent to the IMF without increasing the tax pressure significantly. However, domestic credit expansion (DCE) is likely to be close to the permitted ceiling.

The problems facing the U.K. Government, when considering budgetary policy for 1978/79, are that:

- after reaching a low point in the second half of 1978, the rate of inflation may begin to rise once more;
- the rate of economic growth may not be sufficient to avoid a fall in capacity utilisation and a further rise in unemployment;
- the balance of demand between consumption and investment may deteriorate;

- pressures could well arise to use the room for manoeuvre provided by the projected balance of payments surplus to stimulate private consumption.

Despite the strong possibility that economic expansion may slow down, no fiscal or monetary relaxation can be countenanced given the threat posed to the U.K. economy by the possibility of a further surge in inflation. However, should the authorities still see room for manoeuvre without exceeding the target given to the IMF (a PSBR of £ 8.6 billion, the equivalent of $5\frac{1}{2}$ per cent of GDP), action should be directed towards **a lasting increase in investment and employment, without ignoring the goal of reducing the inflation rate.**

PROPOSAL FOR A COUNCIL DECISION

of July 1977

on the preparation of public budgets for 1978

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Economic Community,

Having regard to Council Decision 74/120/EEC 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 (1), and in particular Articles 1 and 3 thereof,

Having regard to the proposal from the Commission,

Whereas the Council agrees with the analysis of the economic situation contained in the Commission communication of July 1977 concerning, in particular, the preparation of public budgets for 1978,

HAS ADOPTED THIS DECISION:

Article 1

Member States shall pursue economic policies which conform to the guidelines on the preparation of public budgets for 1978 set out in the Annex (2).

Article 2

This Decision is addressed to the Member States.

Done at Brussels, July 1977

For the Council

The President

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(1) OJ No L 63, 5.3.1974, p. 16.

(2) Chapter II of the Communication to the Council.

STATISTICAL APPENDIX

TABLE 1

INDUSTRIAL PRODUCTION

(% change on preceding period)

Seasonally-adjusted figures

	1973	1974	1975	1976	1975		1976				1977					Apr. '76 Apr. '77
					III	IV	I	II	III	IV	I	Jan.	Feb.	Mar.	Apr.	
Denmark	:	:	- 5,8	10,9	2,2	4,9	3,7	2,3	0,4	- 0,2	1,2	- 1,7	- 1,9	6,3	:	:
F.R. Germany	7,9	- 1,1	- 7,2	7,9	0,3	4,3	2,8	2,4	0,4	1,6	2,1	5,9	- 1,7	- 0,8	3,5	7,1
France	7,3	3,3	- 8,1	8,6	- 1,0	3,7	4,8	1,5	0,6	0,6	3,6	3,5	- 0,8	1,2	- 2,2	3,1
Ireland	10,3	3,0	- 6,7	10,1	- 0,6	1,5	4,8	3,0	3,4	1,5	:	:	:	:	:	:
Italy	10,0	4,3	- 9,8	12,2	- 0,3	3,7	4,9	4,8	0,3	6,7	1,4	- 0,9	0,0	- 1,8	- 3,3	6,3
Netherlands	6,1	3,4	- 5,0	7,9	- 2,0	8,4	1,9	1,0	1,3	1,1	+ 0,1	- 0,5	- 2,4	- 0,2	2,3	4,1
Belgium	6,3	4,0	-10,4	8,7	- 1,0	1,5	4,9	5,3	0,1	1,7	0,4	4,8	- 1,2	- 0,1	1,5	2,9
Luxembourg	12,0	3,8	-22,9	6,6	-10,0	9,9	3,7	8,2	- 3,5	0,4	2,3	7,2	- 5,4	6,0	-2,8	2,7
United Kingdom	8,8	- 3,1	- 4,8	1,7	- 0,6	0,8	2,6	0,2	0,0	1,8	2,7	1,8	- 0,6	- 1,5	-0,2	3,6
Community	7,7	0,6	- 7,3	7,7	- 0,5	3,9	3,4	2,2	0,5	2,0	2,4	3,1	- 1,0	- 0,4	0,4	5,4
Investment goods	6,6	2,5	- 3,9	1,9	- 1,0	1,4	0,9	1,6	- 0,5	1,7	2,9	4,9	- 0,0	0,2	1,1	6,6
Consumer goods	7,3	- 0,6	- 4,8	7,8	2,1	2,1	2,5	3,0	0,7	3,2	1,4	3,1	- 1,5	-0,0	1,2	6,3
Intermediate goods	9,0	0,5	-10,8	10,3	- 1,7	5,8	5,2	2,2	1,3	2,0	2,5	1,7	- 1,2	- 0,8	- 0,3	5,3

Source: SOEC

TABLE 2

UNEMPLOYMENT

Unemployment rates[1] since 1973

	1973	1974	1975	1976	1975		1976				1977		
	Annual average				III	IV	I	II	III	IV	I	Apr.	May
Denmark	1,0	2,1	5,2	4,9	5,4	5,3	5,1	4,8	4,9	4,8	5,6	5,9	5,8
F.R. Germany	1,0	2,2	4,2	4,0	4,5	4,4	4,5	4,0	4,0	3,8	3,8	3,8	3,8
France	1,8	2,2	3,8	4,2	3,9	4,4	4,3	4,2	4,1	4,3	4,3	4,5	4,6
Ireland	5,9	6,2	8,7	9,8	9,1	9,4	9,6	9,8	10,0	9,8	9,6	9,6	9,5
Italy	5,3	5,1	5,7	6,0	5,9	6,0	5,9	6,0	6,1	6,1	6,3	6,5	6,5
Netherlands	2,4	2,7	4,1	4,4	4,3	4,4	4,4	4,3	4,5	4,3	4,0	4,0	4,1
Belgium	2,9	3,1	5,2	6,7	5,8	6,3	6,3	6,6	7,0	7,1	7,1	7,2	7,4
Luxembourg	-	0,0	0,2	0,3	0,1	0,4	0,3	0,3	0,4	0,4	0,5	0,5	0,5
United Kingdom	2,5	2,3	3,8	5,3	4,1	4,8	4,9	5,2	5,7	5,5	5,4	5,4	5,3
Community	2,5	2,9	4,4	5,0	4,7	4,9	5,0	4,9	5,1	4,9	5,0	5,1	5,1

(1) Number of registered unemployed as % of civilian labour force. As definitions are not uniform, unemployment rates are not comparable from country to country.

Source : SOEC and Commission staff.

TABLE 3

CONSUMER PRICES

	% change on preceding period													May '76
	1973	1974	1975	1976	1975		1976				1977			May '77
					III	IV	I	II	III	IV	I	Apr.	May	
Denmark	9,3	15,3	9,6	9,0	1,8	- 0,7	3,1	4,0	1,5	3,9	2,3	1,0	:	:
F.R. Germany	7,0	7,0	5,9	4,6	0,8	0,9	1,7	1,5	0,1	0,5	1,9	0,5	0,4	3,8
France	7,3	13,6	11,7	9,6	2,2	2,2	2,4	2,3	2,3	2,6	1,6	1,3	0,9	9,8
Ireland (1)	11,3	17,0	20,9	17,9	- 0,8	2,7	7,3	6,3	1,5	4,2	3,8		3,8	13,9
Italy	10,8	19,2	17,0	16,7	1,9	2,9	4,2	6,3	2,8	6,4	4,7	1,1	1,2	18,3
Netherlands	8,1	9,8	9,9	8,9	1,9	2,3	1,7	3,4	0,7	2,5	0,7	1,7	0,5	7,0
Belgium	6,1	12,7	12,8	9,2	2,3	2,9	2,1	2,0	1,9	1,7	2,0	0,5	1,0	7,3
Luxembourg	6,1	9,5	10,8	9,8	2,1	3,0	2,5	2,3	1,6	1,8	2,3	0,6	0,4	7,2
United Kingdom	9,2	16,0	24,2	16,5	4,4	3,5	3,6	3,7	2,3	4,6	5,0	2,6	0,8	17,0
Community	8,2	13,0	13,4	11,0	2,2	2,2	2,7	3,1	1,6	3,0	2,9	1,3	(0,9)	(11,5)

(1) Quarterly indices.

Source: SOEC

Table 4

BALANCE OF TRADE

Seasonally adjusted, $ million

	1973	1974	1975	1976	1975 I	1975 II	1975 III	1975 IV	1976 I	1976 II	1976 III	1976 IV	1977 I	1977 March (at quarterly rates)	1977 April (at quarterly rates)
Denmark	- 1584	- 2306	- 1348	- 3188	- 230	- 192	- 371	- 555	- 663	- 726	- 819	- 981	- 835	- 1002	- 567
F.R. Germany	12976	20260	15448	12994	4758	4257	3302	3131	3075	3131	3314	3473	3451	4250	3099
Germany	- 1428	- 7141	- 1894	- 8291	- 609	91	- 174	-1202	-1460	-1480	-2400	-2951	-2518	- 2635	-2215
Ireland	- 684	- 1211	- 609	- 857	- 234	- 154	- 88	- 132	- 274	- 163	- 207	- 214	- 332	- 336	- 243
Italy	- 5661	-11042	- 3161	- 6216	- 787	- 598	- 509	-1266	-1370	-1747	-1179	-1920	-1510	- 1462	-1352
Netherlands	- 431	- 145	- 745	- 1170	- 404	- 89	- 190	- 61	122	- 598	- 241	- 453	- 672	- 558	:
Belgo-Luxembourg Economic Union	362	- 1631	- 894	- 717	231	- 321	- 449	- 355	- 212	- 243	- 209	- 52	- 345	- 127	:
United Kingdom	- 8555	-15985	- 9642	- 9370	-2824	-2301	-2623	-1895	-1617	-2395	-2635	-2723	-2331	- 2211	-1697
Community (1)	- 4592	-20549	- 4504	-19476	- 827	451	-1344	-2784	-3321	-4784	-5071	-6299	-5904	- 4459	:

(1) Community : Extra-Community trade.

Source : SOEC and Commission staff.

TABLE 5

ECONOMIC POLICY OBJECTIVES AND PROBABLE RESULTS FOR 1977

(% change on preceding year)

Country	Gross domestic product in volume				Consumer prices		
	Objectives 1977 (1) (Annual Report Nov. 1976)	Objectives 1977(2) (Adjustment March 1977)	Probable result (Estimates May 1977)		Objectives 1977 (1) (Annual Report Nov. 1976)	Probable result (Estimates May 1977)	
			N	C		N	C
Denmark	3	2	1 1/2	1 1/2	8	9	9
F.R. Germany	5	5	4 1/2	4	4 1/2	4	4
France	4 1/2	3	3 1/2	3	7 - 8	8 3/4	9
Ireland	3	3	4 1/4	3 3/4	13	14 1/2	15
Italy	± 0	3	(2 - 2 1/2)	3	17,5	19 (3)	19 (3)
Netherlands	4 1/2	4	4 1/2	4	7	6 1/2	7
Belgium	4 1/2	3	-	3 1/2	8 - 9	-	7 1/2
Luxembourg	4 1/2	3	-	2	8	-	7 3/4
United Kingdom	3	1,5	1 (x)	1	11	14	15
EEC	4	3,5	3 1/4	3	7 - 8	9,4	9,6

(1) Economic policy guidelines for 1977 included in Annual Report (November 1976).
(2) Adjustment of economic policy guidelines for 1977 (March 1977).
(3) Result of a rise at an annual rate of about 21 % between January and April and a progressive reduction to a rate of about 16 % in the last quarter.
(x) At 1970 prices.

N = Forecasts by national experts. C = Forecasts by Commission staff.

TABLE 6

WORLD OUTPUT AND TRADE (1)

(% change on preceding year)

	Gross domestic product in volume (2)					Imports of goods in volume				
	1969-73 average (3)	1974	1975	1976	1977	1969-73 average (3)	1974	1975	1976	1977
UNITED STATES	3,3	- 1,7	- 1,8	6,1	5	6,9	- 3,4	- 11,1	21,5	13
CANADA	5,3	3,2	0,6	4,6	3½	10,0	10,0	- 5,4	7,5	6
JAPAN	9,6	- 1,3	2,4	6,3	5½	14,9	- 0,7	- 13,5	11,5	8½
OTHER DEVELOPED COUNTRIES (excluding EEC)	6,0	3,7	0,3	2½	2½	8,9	11	- 8	6	3½
TOTAL DEVELOPED COUNTRIES (excluding EEC)	4,6	- 0,4	- 0,5	5½	4½	9,2	3½	- 10	12½	8
COMMUNTIY	4,8	1,7	- 2,0	4,6	3,0	10,3	- 1½	- 5	14	4½
TOTAL DEVELOPED COUNTRIES (including EEC)	4,7	0,3	- 1,0	5,2	4	9,8	1	- 7½	13	6½
OPEC COUNTRIES						7,4	38	43	16	16
DEVELOPING COUNTRIES							23	- 4	3	6
CENTRALLY PLANNED ECONOMIES						8,4	10	6	4	4
WORLD (excluding EEC)						8,6	9	- 3½	9	7½
WORLD (including EEC)						9,2	5	- 4	10½	6½

(1) See Annex for definition of areas.
(2) Gross national product for United States, Canada and Japan.
(3) Geometric mean of annual changes from 1968 to 1973.

Sources : National statistics and Commission staff.

TABLE 7

MAIN MACRO-ECONOMIC AGGREGATES

Country	Gross domestic product (volume) % changes				Unemployed as % of labour force			
	1970-1974	1975	1976	1977	1970-1974	1975	1976	1977
Denmark	2,8	- 1,1	4,8	1,5	1,3	5,2	5,1	6,0
F.R. Germany	3,1(a)	- 2,6	5,7	3,8	1,1	4,1	4,1	3,8
France	5,1	+ 0,1	5,2	3	2,7	4,2	4,6	4,8
Ireland	3,4	+ 0,4	3,2	3,7	5,9	7,9	9,4	9,3
Italy	4,1	- 3,5	5,6	3	3,3(5,2)	3,3(5,5)	3,7(5,9)	3,9($6\frac{1}{2}$)
Netherlands	4,7	- 1,1	3,7	4,2	2,1	4,3	4,6	4,4
Belgium	5,2	- 2,0	3,0	3,2	2,3	4,5	6,1	6,9
Luxembourg	4,1	- 8,4	3	2	0	0,2	0,4	0,3
United Kingdom	2,5	- 1,7	1,8	0,8	2,8	3,7	5,2	5,9
Community	4,0	- 1,8	4,6	3,0	2,4(2,8)	4,0(4,5)	4,5(5,0)	4,8(5,3)
United States	3,1	- 1,8	6,1	5	5,6	8,5	7,7	[illegible],8
Japan	6,2	2,4	6,3	$5\frac{1}{2}$	1,3	1,9	2,0	2

Country	Implicit consumer price, % changes				Balance on current account ($ '000 million)			
	1970-1974	1975	1976	1977	1970-1974	1975	1976	1977
Denmark	7,9	8,8	8,5	9	- 1,0	- 0,5	- 1,9	- 1,6
F.R. Germany	6,3(a)	6,3	4,4	4	3,1	4,4	3,2	3,0
France	8,3	11,6	9,9	9,0	- 1,1	0	- 5,8	- 3,1
Ireland	10,8	21,8	17,0	14,5	- 0,2	0	- 0,3	- 0,5
Italy	8,7	17,6	17,5	19	- 1,3	- 0,6	- 2,9	- 0,8
Netherlands	8,0	10,5	9,1	7,1	2,1	1,7	2,5	2,8
Belgium	6,3	12,1	8,8	7,5	1,0	0,3	- 0,4	0
Luxembourg	6	10,7	9,8	7,8				
United Kingdom	7,5	23,4	15,2	15,0	- 1,2	- 3,6	- 2,6	0,4
Community	7,8	12,8	9,9	9,6	1,2	1,7	- 8,1	0,2
United States	6,0	8,0	5,1	6	- 3,5	11,7	- 0,9	$-11\frac{1}{2}$
Japan	10,5	10,9	8,3	8	1,9	- 0,7	3,7	+ $6\frac{1}{2}$

(a) 1971 - 1974

Source : Commission staff

TABLE 8

WAGE COSTS AND PRICES

1975 - 1977

(% change on preceding year)

Country	Per capita compensation of employees			Consumer prices (implicit price index)			Compensation of employees per unit of output in economy as a whole		
	1975	1976	1977(1)	1975	1976	1977(1)	1975	1976	1977(1)
Denmark	15,5	11,1	7 1/2	8,8	8,5	9	13,7	8,2	5,1
F.R. Germany	7,7	8,0	8,2	6,3	4,4	4	7,0	1,4	4,4
France	17,7	14,8	11,8	11,6	9,9	9	17,6	9,1	8,5
Ireland	24,6	18,0	12	21,8	17,0	14½	24,1		
Italy	19,7	21,3	22	17,6	17,5	19	25,6	16,2	19,8
Netherlands	13,5	10,6	8,0	10,5	9,1	7,1	14,0	6,7	4,5
Belgium	15,6	12,4	11,2	12,1	8,8	7½	16,4	7,5	7,8
Luxembourg	12,5	10	10,2	10,7	9,8	7 3/4	13,5	5,3	7,4
United Kingdom	30,6	14,9	11,1	23,4	15,2	15	32,9	12,0	9,8
EEC	16,7	12,9	11,4	12,8	9,9	9,6	17,4	7,6	8,3

(1) Estimates established in May 1977 by Commission staff.