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Report of the Study Group on

INDUSTRIAL POLICIES IN THE COMMUNITY:

STATE INTERVENTION AND STRUCTURAL ADJUSTMENT

Brussels, January 1981

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The opinions expressed in this report should not be considered as expressing the position of the Commission of European Communities.

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INTRODUCTION - TERMS OF REFERENCE OF THE GROUP AND PROBLEMS
OF ADJUSTMENT POLICIES

1. Terms of reference

The performance of the European economies in the 1970s were marked by slower growth and higher unemployment. This situation was closely connected with the onset of the energy problem and faster inflation. The effectiveness of macroeconomic demand management instruments as deployed in the 1950s and 1960s was increasingly called into question, and intervention at microeconomic level became more widespread.

*The findings
of previous
reports:*

Two reports ⁽¹⁾ were produced for the Commission by a group of experts chaired by Mr. Maldague. Both tried to describe the changes in the sectoral performance of the European economies and the types of structural adjustment carried out in the different member countries. Both ended with an expression of concern regarding the adjustment capacity of member countries' economies, characterized by growing divergence in their industrial structures.

*The Member States'
differing ability
to cope with the
crisis...*

The purpose of these studies was not to make a systematic comparison of adjustments in sectoral structures and the macroeconomic and specific policies underlying them. Nonetheless, one important provisional - conclusion could be drawn from the studies, namely that macroeconomic performances and policies influence the direction and pace of structural adjustment. Even so, it was necessary to take the analysis further. Thus, despite the technical complexity of the relationships between policies and adjustment, the Commission

(1) "Sectoral change in the European economies from 1960 to the recession", II/253/4/76, Brussels, January 1978; and "Changes in industrial structure in the European economies since the oil crisis, 1973-1978", European Economy, Special Issue, Brussels 1979.

...hence the need for an analysis of structural intervention.

felt that an initial analysis of the instruments and policies deployed should be made, and this in an attempt to produce an assessment of experience gained and ideas expressed in each of the Member States and at Community level in this connection.

The Commission accordingly requested a group of four experts chaired by Mr. Maldague to make an initial assessment of intervention; this report looks into a number of matters which merit further analysis from a Community viewpoint, in view of their importance for the cohesion of the Community over the next few years.

Structural adjustment ...

2. The problems of adjustment policies

...a key to growth and competitiveness at all times,...

In general, structural adjustment of the economy is a continuous, complex process resulting from changes in producers' and consumers' behaviour in order to adapt to new market conditions, the outcome of which is economic growth itself. In the last few years, however, the concept of adjustment has become central to the economic policy debate because a set of relatively uncontrollable factors have demanded greater adaptability from economic agents while growing constraints on adjustment have emerged elsewhere.

It is customary nowadays to call adjustment measures "positive" when their aim is to make the productive system more flexible and more capable of adapting to change, as opposed to "negative" adjustment measures which maintain the "status quo", preserve inefficient structures or introduce additional distortions and rigidities into the operation of the economy and into trade.

*...is now having
to contend with
greater pressures...*

2.1. A number of easily identifiable factors explain a "growing demand" for adjustment. These are:

- the energy constraint requiring the development of alternative sources and a reduction of energy consumption;
- the changes in the international division of labour, and in particular the emergence of the newly industrializing countries,
- the faster pace of technical progress and a higher rate of obsolescence of products, processes and production systems. (1)

The influence of these factors is not new: changes in the relative prices of energy sources have been taking place throughout the post-war period, the international division of labour has been changing all the time and technical progress has been a constant source of economic growth.

The new element which will alter the scale of adjustment problems in the years ahead lies in the combination of these three factors and in the special importance which each of them has recently acquired. (This last point is particularly apparent in the turn-around - from a decline to a continuous rise - in the trend of oil prices after the first energy crisis.)

Other factors which also contribute to reinforcing the "need" for adjustment are more ambiguous because they can in turn be analysed in terms of the objectives of, or the constraints hampering, the adjustment process.

(1) For example, technological changes in telecommunications have been as follows: step-by-step process (1891), Crossbar (1950), stored program control (1968); analogic electronic (1977) (See Ira C. Magaziner : The rationale and the competitive economics of public policy for new industries", Symposium on industrial policies for the 80's, Madrid, 5-9 May 1980).

This is particularly the case for employment. It is true that the growth potential of the European economies will be largely determined by their ability to ease the energy constraint, to safeguard their overall competitiveness, and to incorporate the "available" technical progress. But, in many cases, the adjustments needed to provide a lasting base for growth and employment in the next few years pose a short-term threat to a considerable number of existing jobs, and this at a time when, as a result of slack growth in recent years and demographic trends, unemployment has risen to unprecedented levels. This conflict between the immediate cost of adjustment policies (higher unemployment) and the medium-term benefit (higher eventual level of new viable jobs) severely tests the ability of governments to reconcile the need for an immediate social consensus and longer-run economic requirements.

*...and is hampered
by new constraints.*

2.2. New constraints are at present hindering the normal adjustment process:

- (i) the persistence of high rates of inflation and the greater variability of relative prices increase the uncertainty facing potential oil investors and encourage the adoption of nationalization projects or investment projects providing an immediate return, a pattern which is not always in line with the restructuring requirements of the economy;
- (ii) greater unpredictability of government action at micro-economic and macroeconomic level and, in general, increased slowness in the public decision-making process, due in part to the need for consultation;
- (iii) persistently slow-growth which (with fairly abrupt changes since 1974) make adjustments particularly difficult to achieve because of the insufficient number of new jobs created and which is liable to diminish resistance to defensive measures;

(iv) a series of rigidities that are partly institutional and relate in particular to the labour factor are, in a context of slower growth, holding back the adaptation of production structures to changes in comparative advantage.

Two other factors merit special attention.

First, the room for manoeuvre at present afforded by public finance has been considerably reduced by the sluggish economic growth in recent years. It is sufficient to recall in this respect the often very large deficits and the structure of expenditure, in which intervention measures devoted to conservation have accounted for an appreciably greater proportion. The reduced flexibility of public finance has largely deprived the economies of a potential adjustment instrument.

Second, the level of investment since 1973 has been insufficient to permit structural adaptations on a scale similar to those carried out previously. This has both aggravated the employment constraint and slowed down the incorporation of technical progress into the production process.

Because of the difficulty of promoting investment through macro-economic measures, for reasons connected with both external and internal equilibria (energy constraints adversely affecting the trade balance, the danger of a renewed burst of inflation), more specific intervention measures become more widespread.

*State intervention
in the economy...*

2.3. Put very simply, State intervention in the economy is usually justified by the need to remedy shortcomings in mechanisms (external economies and diseconomies arising out of the activity of economic agents, monopolistic or oligopolistic practices) and by the desire to allocate resources fairly.

...through supply policies...

In a context where conflicts over resource distribution at national and international level go some way towards explaining the slow-down in growth and the ineffectiveness of the tools of macro-economic management, supply policies, that is to say policies which act on production capacity in the medium and in the long term, have been increasingly recognized as likely to achieve better results. Attention therefore has focussed on the conditions for financing capital accumulation, the skills and availability of manpower, the rate at which innovation is applied to technology, the conditions determining both national and international competition, and the impact of State intervention on long-term growth factors.

...can contribute to positive adjustment.

The Group's views on State intervention in the adjustment process were concerned primarily with industry, but some of its conclusions, deriving from its assessment of the ability of instruments and policies to contribute to positive adjustment, could apply to economic activity as a whole. Of the Member States only Germany, France, Italy and the United Kingdom have been studied in detail.

Even so, the countries examined form a fairly representative sample of European economies and, as a result, the report's conclusions, while formulated in general terms, can be thought to have wider relevance. ⁽¹⁾

3. Structure of the report

Following this brief account of the present background to the problem of adjustment, the report summarizes the results of previous work on the trend of sectoral structures (Chapter I). It goes on to examine the role of the State in member countries' economies from the point of view of its structural impact, discussing in turn overall economic management measures, horizontal measures, government

(1) Nonetheless, where some important aspects are concerned, each country's experience is sui generis.

involvement in the economy, the role of taxation and the role of public enterprises (Chapter II). Direct structural intervention by Member States is then analysed in Chapter III, both by country and by type of instrument according to the aim pursued (measures operating on the inputs of firms, on technology and organization methods or on markets). Chapter IV, which discusses the role of the Community, is followed by the report's conclusions.

It should be pointed out at this stage that relevant information, especially harmonized, is not always readily available; for this reason, the arguments and the illustrations in the report are often incomplete.

CHAPTER I - ADAPTATION OF ECONOMIC STRUCTURES IN THE COMMUNITY

Divergence in structural adaptation...

I.1. As the 1980s get under way, divergence in inflation and unemployment rates still exist as between Member States: aggregates such as output, private consumption and per capita investment (at current prices and at purchasing power parities) and also the indicators of regional disparities show that the situation has not changed much over the last ten years.

Divergences in structural adaptation are also still quite pronounced in industry. The 1960s witnessed rapid growth in the same branches of industry in virtually all Member States (chemicals and chemical derivatives, electrical and electronic equipment, the motor vehicle industry and energy) and a relative decline in coal mining, textiles, leather and clothing; this resulted, at least at a fairly high level of aggregation, in some alignment of production structures. Despite this convergence of sectoral developments, differences in adaptability persisted and even widened significantly during the period of slow growth which followed the energy crisis.

...increased after the crisis.

Better integration in the international division of labour...

1.2. In Germany, a country which specializes in the export of high-technology products, there was some market penetration by imports with a low value-added content. While costs were held down (between 1973 and 1979, prices rose at an annual rate of 4.6%, as against 10.4% for the Community as a whole), industrial productivity climbed at a rate which, though lower than in the 1960s, was higher than the Community average (3.6% between 1973 and 1979, as against 3.2% for the Community). However, net job losses (to some extent at the expense of immigrant workers) amounted to 1.5 million during the same period.

*but a general
slow down of
productivity.*

The upturn in investment from 1976 onwards and the decline in the rate of unemployment were the result of an unremitting effort of adaptation which strengthened the entire productive structure (the textile industry in fact has the highest productivity rate in the Community), although the general slowdown in productivity gains may give rise to problems in the long run, as it may in other industrialized countries.

*A gradual process
of de-industria-
lization...*

I.3. The United Kingdom's share of world exports contracted up to 1973 and subsequently levelled out, owing to the depreciation of the pound, the country's relatively favourable pattern of export specialization and the decline in domestic demand.

Since 1979, several factors, including the strengthening of the pound (due to North Sea oil and a stringent monetary policy), a very high rate of inflation and a very low rate of investment in manufacturing, have reduced the country's market share, especially at home. Net trade in manufactured goods (exports - imports) as a percentage of manufactured exports declined from 53% in 1963 to 13.5% in 1978 and to 5% in 1979. As the United Kingdom economy is highly dependent on foreign trade (the proportion of output exported is greater than in Germany), the above trend makes the economy very vulnerable. The relative decline of industry in the United Kingdom and the transfer of value-added creation to the services sector is continuing, except in chemicals and in one part of the electronics industry, which are still relatively profitable. The share of manufacturing in value-added (28.3% in 1979) is lower than in most other European economies, whereas it was the second highest in 1970.

*...benefiting the
services sector and
the energy sector.*

Following the relative decline in real wages, which has to some extent offset the advantages of a switch to more capital-intensive products, processes and industries, the decline in the share of low-productivity activities has slowed down and the fall in real incomes has continued.

Persistence of serious structural weaknesses...

...in spite of the job creation.

A less dynamic industry in spite of good export performances.

I.4. In terms of export performance, Italy appears to have profited more from the effects of the depreciation of the lira. Serious structural weaknesses still persist: a growth of investment which, despite the upturn in 1979 and 1980, has been much slower than the Community average in the period 1970-79 (0.6% as against 2.1%); a level of sectoral productivity lower than in other Member States; a very heavy dependence on imported energy, and an industrial specialization which makes the Italian economy potentially more vulnerable to competition from low-wage countries. Despite the fairly large number of new jobs created, notably in 1979 and 1980, unemployment has remained high owing to the growth of the labour force and the decline in out-migration. A major adjustment effort is needed as a result of the dual nature of the industrial sector, divided as it is between large firms (some of which are partly State-owned, heavily in debt and concentrated in crisis-ridden sectors) and small firms (which are very dynamic but have limited technological and research potential).

I.5. The productive apparatus in France was less affected by the 1974/75 crisis than that in the other member countries (the overall rate of growth in value added by industry actually remained positive during this period) but, in spite of a healthy export performance, it seems to have lost a good deal of the dynamism which previously marked the adaptation of its economic structures.

Admittedly, some industries (intermediate products, motor vehicle construction, paper, plastics, etc.) are now back on a growth rate much the same as that observed in the 1960s and in the early 1970s, but the services sector is the only sector in which this has been accompanied by a sustained rise in investment.

And yet, French industry has, albeit at a later stage than its major European competitors, embarked on a decisive labour-shedding process affecting almost all branches: this was the price to be paid for maintaining a productivity trend compatible with its

involvement in the system of international trade and with the franc's membership of the EMS. Nevertheless, despite the pursuit of export growth (over what may be an unduly limited range of products), which is one of the key factors underpinning expansion, industry's dependence on imports continues to hamper any desirable acceleration in growth.

International investment is no longer a factor making for dynamic growth.

I.6. Belgium's very high degree of economic integration at the European level has reduced its capacity for responding to the crisis in an independent manner.

Its industrial output is, for the most part, generated in sectors such as steel, glass, textiles, equipment goods and chemicals which between 1965 and 1975 increasingly became "transit channels" cut off from the country's interlocking industrial fabric, that is to say dependent on the outside world for their imports and exports. The large-scale penetration by foreign capital in the 1960s, which at the time was the source of a large proportion of investment and new jobs, is no longer a factor making for dynamic growth.

CHAPTER II - OVERALL ECONOMIC MANAGEMENT MEASURES, HORIZONTAL MEASURES, THE ECONOMIC WEIGHT OF THE STATE AND OF PUBLIC ENTERPRISES IN THE ECONOMY: SOME STRUCTURAL EFFECTS

II.1. Structural effects of overall economic management measures

Macroeconomic policies are a major factor in the adjustment process...

Economic policy that is tailored to macroeconomic objectives (rate of growth, rate of inflation, external equilibrium, level of employment), often with a short-term perspective, has longer-term repercussions on industrial structures and may, in some cases, impose constraints on the adjustment policies pursued elsewhere.

Exchange rate policies illustrate this problem. The effects at sectoral level of an upward or downward shift in the real exchange rate (which does not have altogether symmetrical effects) will differ depending on the extent to which a sector is exposed to international competition and - for the sectors which are so exposed - on the price elasticity of demand for their products and on supply conditions. A policy aiming at a persistent depreciation may inhibit industrial structures from adjusting towards the most advanced sectors and may reduce the impact of more specific measures taken to foster better integration into the international division of labour. A strong currency policy pursued in response to domestic constraints (as in Belgium) or imposed by factors such as the exploitation of a natural resource (e.g. North Sea oil in the case of the United Kingdom) can exert greater pressure towards adjustment, and this may conflict with the public authorities' concern to control the rate at which and the extent to which certain less competitive activities (e.g. steel) are being restructured. The present consensus in the Community in favour of exchange rate stability should therefore help to encourage adjustment in the countries where adaptation is needed most.

...but any attempt to limit their structural repercussions may generate new distortions.

The general thrust of credit and interest rate policy may also be inconsistent with specific structural objectives. While pursuing restrictive policies, a number of countries tried to limit some of their structural repercussions. In the United Kingdom, the practice at one time was to issue guidelines to the banks indicating certain types of borrower that were to receive preferential treatment. In France, ceiling controls on lending sometimes differed from one sector to another. In Italy, as well as in France, loans at preferential rates are a widely used instrument. In Germany, State-backed loans are another example. In view of the proportions ⁽¹⁾ that these measures are tending to assume in some countries, consideration should be given to their implications for positive adjustment.

Overall demand management achieved by regulating public expenditure also has structural effects. Apart from the fact that when high employment prevails an increase in public demand can be fully or partially offset by a reduction in private demand ("real" crowding-out), any increase in the public sector net borrowing requirement can lead to more expensive and scarcer financing for the private sector ("financial" crowding-out) even where there is substantial unused capacity. At present, efforts are being made in almost all the member countries to scale down public deficits; at the same time the effectiveness of public expenditure, including expenditure on industry, is being reviewed. If deficits are reduced inter alia by discontinuing certain types of intervention, there will be greater scope for encouraging growth points within the productive sector.

(1) In France, for example, preferential-rate loans represented almost 44% of all lending to the economy at the end of 1979. In the Federal Republic of Germany, State guarantees for certain loans stood at DM 143 000 million at the end of 1975, or 85% of that year's Federal budget.

II.2. The economic weight of the State in the economy

The proportion of public expenditure has increased sharply...

The proportion of GDP taken by general government expenditure tended to increase sharply during the 1970s, as will be seen from the table below and from annexed Table I. The increase between 1970 and 1979 ranges from 57% for Luxembourg to 9% for the United Kingdom. The figures recorded in 1979 range from 59% of GDP (Netherlands) to 43% (United Kingdom). If social security transfers, which are distributive transactions, are excluded, the increase is more varied (5% to 61%) and general government expenditure as a proportion of GDP ranges from 23% (France) to 39% (Denmark). Social security payments apart, the increase in public expenditure was accounted for by public consumption, other current expenditure and subsidies: in recent years, public capital expenditure as a proportion of GDP has tended to fall.

Table 1

General government expenditure as % of GDP, 1979

	DK	D	F	IRL	I	NL	B	L	UK
1. <u>Current and capital expenditure</u>	54.4	46.6	45.6	44.8	45.6	58.9	49.6	52.6	42.9
2. <u>of which: social security expenditure</u>	15.4	15.7	22.3	12.3	16.1	27.1	20.7	21.6	11.3
3. <u>1. - 2.</u>	39.0	30.9	23.3	32.5	29.5	31.8	28.9	31.0	31.6
4. <u>% growth 1970-79 (total)</u>	26.0	24.0	17.0	12.0	27.0	31.0	36.0	57.0	9.0
5. <u>% growth 1970-79 (excluding social security)</u>	55.0	40.0	5.0	11.0	42.0	19.0	29.0	61.0	5.0

Source: See annexed Table I.

irrespective of the declared preferences with regard to state intervention.

The proportion of GDP taken by public expenditure appears to bear relatively little relationship to the declared preferences with regard to the degree of interventionism between Member States. This proportion (even excluding social security payments) gives some indication of the public authorities' responsibility in the adjustment process. In general, the public sector is less subject to market pressures; and so a wider public sector may increase the pressure on the productive sector. This could be one of the reasons for explaining the difficulties of adjustment.

We must, however, be wary of over-simplified generalizations and must take account of other features of the role played by general government in the economy, such as the share in wages and salaries paid, in employment or in investment.

Because of its relative size, better use should be made of the "non-market services" sector in connection with positive adjustment.

The following table brings out in particular the large share of the wage and salary earners⁽¹⁾ of the non-market services sector⁽²⁾ and the large share of public capital expenditure. The orders of magnitude are such that they inevitably lead to questions regarding the contribution actually made to adjustment by the use of these resources, which are diverted from the market sectors.

(1) It should be added that these quantitative data provide only a direct illustration of the effects of general government activity on the economy, while the indirect effects of general government demand on employment and output can also be substantial: see, for example, "Ways of analysing the effects of public demand on sectoral employment: the case of the Federal Republic of Germany" by B. GÖRZIG, where the author puts the effects induced by public demand at 6% of employment (doc. II/590/78-EN).

(2) the counterpart of which is almost entirely made up of general government expenditure.

Table 2

Share of the "non-market services" sector in wages,
employment and investment, 1978

	D	F	I	UK	NL	B
1. <u>Wages (%)</u> (1)	19.96	19.79	21.09	21.47	23.36	22.31
2. <u>Employment</u> (2)	16.88	21.67	19.70	23.18	16.94	20.32
3. <u>1. as % of 2.</u>	(118)	(91)	(107)	(93)	(138)	(110)
4. <u>Gross fixed capital formation (%)</u> (3)	15.66	12.75	9.42	10.43	14.79	16.20

Source: EUROSTAT, ESA

-
- (1) Compensation paid to employees in non-market services as % of compensation paid to all employees.
- (2) Wage and salary earners in general government non-market services as % of total wage and salary earners.
- (3) Gross fixed capital formation of general government non-market services as % of total gross fixed capital formation.

II.3. Financing of public expenditure

The characteristics of taxation (which vary between Member States) affect production structures.

Although the level of public expenditure has risen appreciably, public receipts have been adjusted accordingly. In 1979, the situation was as follows:

Table 3

Taxation : Structure and weight as % of GDP

	Indirect taxes	Direct taxes	Social security contributions	Other current receipts	Total
D	12.95	12.63	15.41	2.65	43.63
F	14.43	7.97	19.87	2.47	44.74
I	9.51	9.75	14.44	2.50	36.20
NL	12.51	17.22	18.58	7.30	55.57
UK	16.40	13.53	6.21	3.88	39.92
B	11.61	18.69	12.55	2.39	45.24
L	12.39	19.50	15.31	5.03	52.24
IRL	15.64	11.81	4.69	5.15	37.29
D	18.86	24.43	0.63	7.03	50.95

Source: Commission services

This table shows the differing composition of taxation as between member countries and the total level of taxation. The latter aspect apart, the characteristics of taxation may have an impact on production structures. This is notably so in the case of the taxation of energy, social security contributions and the taxation of company profits.

The taxation of energy has not encouraged saving.

The trend of social security contributions...

...represents a burden on public budgets...

The taxation of energy - and particularly of oil - in the period 1974-78 showed a definite tendency to fall in real terms.⁽¹⁾ Moreover, the absolute level of taxation on heavy fuel oil is still low compared with the level for other petroleum products, the result being that industry has little incentive to cut its consumption. This example is even more striking when the trend of employers' social security contributions is considered.⁽²⁾ Over the same period, the latter have increased by 1 1/2 and 2 times in absolute terms⁽³⁾ and as a percentage of wages and salaries, while at the same time wages and salaries continued to rise. This trend in the taxation of energy and in social security contributions may go some way towards explaining the trend in relative costs of energy and labour between 1974 and 1978, which was one of the factors hampering adjustment to the new energy situation.

The trend of social security contributions is one of the aspects of the general problem of financing their social security systems which Member States are now facing. In the last decade, a variety of factors pushed up expenditure in this sector; they included demographic trends and unemployment but also the cost of health care. In several Member States, the social budgets - which have a separate existence - are in deficit. It must here be pointed out that contributions, which are normally expressed as a percentage of wages, are liable to increase less rapidly in periods of pay restraint, whereas a proposed cut in the level of social security expenditure encounters the (now traditional) resistance.

(1) See annexed Table II.

(2) See annexed Table III.

(3) Except in Italy, where a deliberate policy of charging a proportion of social security contributions to general taxation has been pursued in recent years.

...and has a greater effect on sectors with a high wage and salary bill.

Further, the increase in contributions has a greater effect on sectors which have a high wage and salary bill, some of which are particularly exposed to the pressures of international competition. Within the Community, there are marked differences in the levels of social security charges borne by firms (employers' social security contributions range from 16% of wages and salaries in the United Kingdom to 36% in France). It is therefore important to redefine the social security benefits which are directly chargeable to labour costs. Close examination of some social security budgets may well bring to light categories of expenditure which should be borne by society as a whole.

Company taxation...

As regards company taxation, tax systems feature a multiplicity of rules providing for different rates and exemptions or relief for certain assets or certain activities⁽¹⁾: these rules, which are often modified for short-term economic reasons, have important consequences. In a period marked by uncertainty with regard to investment decisions, an examination should be made of whether greater simplification of taxation should not in general be preferred to frequent tinkering with the rules.

...finances in part a transfer from profitable firms to firms in difficulties...

It is also interesting to compare the tax burden on firms and the total amount of public subsidies granted to them. In France, for instance, private firms paid some FF 42 000 million and received some FF 27 500 million in 1979. According to certain estimates for Belgium, it would appear that government subsidies to industry have, in recent years, been equivalent to at least two thirds of the taxes paid by industry. This comparison in fact masks deeper-seated distortions: by definition, taxation hits firms which make profits,⁽²⁾ while a doubtless growing

(1) This is the case, for example, with rules on depreciation, which vary according to the category of assets in question.

(2) Because of the U.K. tax rules on depreciation, the firms whose net contributions are highest are those which are profitable but do not reinvest their profits.

proportion of subsidies goes to firms in industries beset by difficulties.

...and is a major factor in their capacity for adjustment.

The taxation of companies' profits is a major factor in their capacity for adjustment; some tendency seems to be emerging towards lowering the level of such taxation as part of the efforts to increase the profitability of firms and encourage investment. Moreover, the tax treatment of inflation (which differs from one country to another) may, in certain cases, penalize some firms (or sectors) more than others because of their relative profitability or indeed because of their rate of growth. Furthermore, the extent to which inflation accounting is practised influences the assessments investors may make of firms on the basis of information made available to them.

The role of the government as a producer...

II.4. Public enterprises

In all the countries of the Community, the government is acting as a producer through the intermediary of public enterprises or enterprises in which it has a holding. The variety of forms such participation takes makes it difficult to estimate the scale of government involvement in the economy, especially since the sectors concerned and the level of and rules governing equity participations differ as between countries. Moreover, the State's role as the principal, if not the only purchaser or creditor in a given sector can be just as crucial as a direct holding.

However, it is possible to make out in the various member countries areas in which the State is often involved:

- (i) public service sectors: transport, post and telecommunications;
- (ii) traditional industries: motor vehicle industry, steel, energy, shipbuilding;
- (iii) high-technology industries: aerospace, data processing, chemicals, telematics.

Clearly, the reasons for State participation have varied: in some cases, nationalisation has been politically motivated, while in others, public-service or national-defence considerations have prevailed; in other cases again, intervention by the State was prompted by employment considerations or by the financial needs of a restructuring operation.

Whatever the initial reasons that lay behind this type of intervention, there is some tendency in the member countries to add social, regional or other priorities to the original purpose.⁽¹⁾ At the same time, greater burdens have been placed on national budgets to finance the costs associated with these new priorities.

The role of public enterprises in the adjustment process

should be appreciated also with respect to its contribution to positive adjustment.

In some cases, government involvement may have slowed the adjustment process (e.g. steel); in others, the situation has to be seen in less straightforward terms. There are several instances in the Community of firms partly owned by the State proving to be entirely competitive (e.g. motor vehicle industry, chemicals), and the fact that the State is a shareholder has not stopped the enterprises concerned (cf. Renault, Volkswagen) from making substantial adjustment or rapid technological advances.

For the future, the pressure on public deficits will strengthen the Member States' resolve to impose a greater measure of discipline on public enterprises. In this respect, increasing attention is being paid to the problems of profitability, price and cost trends, financing conditions, and control. In addition, public enterprises and firms partly owned by the State provide the

(1) In Italy; for example, undertakings with State participation are required by law to earmark 80% of new investment for the Mezzogiorno.

authorities with a potential means of intervening in the economic adjustment process. For instance, public enterprises in the energy sector can be made use of to adapt the supply of energy in the transport sector to influence energy consumption and in the telecommunications sector to provide opportunities for developing new technologies.

CHAPTER III - DIRECT STRUCTURAL INTERVENTION IN THE MEMBER STATES

Public intervention measures designed to affect production structures can take a number of very different forms, not all of which are equally transparent. This makes it difficult to offer a systematic presentation. It is even more difficult to assess the relevant measures with respect to the objective they pursue, and even more so in terms of their contribution to positive adjustment. This chapter provides:

- a summary of available estimates of the scale of public intervention
- a description of recent trends observed in the Community countries
- comments on the effectiveness of the main types of intervention.

III.1. Some orders of magnitude

Intervention measures in support of industry...

have reached significant levels.

It is particularly difficult to quantify measures influencing the supply-side conditions (tax and financial incentives, rules and regulations, action through enterprises in which the State has a holding, etc.), and only rough orders of magnitude can therefore be provided. However, despite the wide range of possible estimates, it is obvious that the expenditure involved in intervention in support of industry has reached significant levels.

The following estimates may be cited: ⁽¹⁾

GERMANY: Federal Government aid to industry (excluding transport and mining, but including small firms, the distributive trades and the services sector) amounted to DM 5 000 million in 1978 (0.4% of GDP). This figure does not include the sizeable amounts of aid

(1) These estimates are obviously not comparable because of differences in methods of calculation, notably as regards the types of measures included, their fields of application and the recipients covered.

provided by the Länder. ⁽¹⁾ Other estimates indicate a figure of some DM 15 000 million for subsidies and tax reliefs granted by the Federal Government and the Länder to industrial firms (excluding transport, but including energy) in 1978. ⁽²⁾

BELGIUM: Interest subsidies, capital transfers and other subsidies to firms in 1978 are estimated at BF 64.905 million, or 2.2% of GDP. ⁽³⁾

FRANCE: Financial flows from government to industry (including energy) are estimated to have amounted to about FF 20 000 million in 1979 (0.8% of GDP), comprising some FF 6 000 million for aid to exports, FF 6 000 million for conversion aid and FF 8 000 million for technological development. ⁽⁴⁾ These funds are channelled mainly towards large public or private enterprises, taking various forms (guarantees, loans, tax exemption, guaranteed public contracts, subsidies).

ITALY: Direct and indirect budget transfers (including capital appropriations for firms in which the State has a holding) to industry, the distributive trades and small firms in 1978 were estimated at Lit 4 888 000 million, or 3.3% of GDP. ⁽⁵⁾

UNITED KINGDOM: Regional measures, industrial innovation aid, selective measures and subsidies for nationalized enterprises (excluding the transport sector) amounted to £ 1 597 million, i.e. some 0.9% of GDP, in the financial year 1978-79. ⁽⁶⁾

(1) See paper delivered at the International Symposium on Industrial Policy in the 1980s, Madrid, 5-9 May 1980: Fr. LANGER, "L'expérience des pays de l'OCDE en matière de politique industrielle".

(2) See below, paragraph III.2.1.

(3) Ministry of Finance, Studies and documentation department: "Les incitants fiscaux aux investissements", January 1979.

(4) See paper delivered at the International Symposium on Industrial Policy in the 1980s, Madrid, 5-9 May 1980: Ch. STOFFAES, "L'expérience française de la politique industrielle".

(5) Ministry for Industrial Affairs: "Relazione sullo Stato dell'Industria, November 1979.

(6) Public Expenditure White Papers.

Other estimates, using more uniform bases, confirm this general pattern.

Table 4

Total general government expenditure on the economy (as % of GDP)

	D	F	I	B	UK
	(1975)	(1975)	(1977)	(1976)	(1976)
Agriculture	0.4	-	1.0	0.5	1.2
Trade and industry	0.8	-	2.8	0.8	1.0
Transport and communications	3.2	-	3.7	4.8	2.5
Total	4.4	4.4	7.5	6.1	4.7

Source: EUROSTAT, 1978, general government accounts and statistics, 1970-77.

For the United Kingdom: National Accounts.

Figures are also available on investment grants. Once again, however, they are not wholly comparable and give only a partial view of the scale of intervention, since tax reliefs and certain financial benefits (such as interest subsidies) are not taken into account.

In the case of some countries, the figures cover grants to enterprises which are principally engaged in the production of goods and non-financial market services:

Table 5 a.

Investment grants to non-financial corporate and quasi-corporate enterprises (as % of GDP)

	1970	1973	1974	1975	1976	1977
F	0.30	0.27	0.28	0.38	0.67	0.33
I	0.82	0.52	0.52	0.69	0.73	0.78
NL	0.36	0.42	0.35	0.37	0.44	0.48
B	0.24	0.28	0.50	0.53	0.53	-
UK	1.14	0.69	0.67	0.66	0.57	0.47

Source: SOEC - National Accounts ESA 1976-1977; 1978-2; 1980.

In the case of Germany, the field covered by the only figures available is wider, and the relevant figures are therefore not comparable with those given above. The figures for Germany, in fact, include also firms not organized in the form of corporate or quasi-corporate enterprises.

Table 5 b.

Investment grants to non-financial corporate and quasi-corporate enterprises, sole proprietorships and partnerships

	1970	1973	1974	1975	1976	1977
FRG	0.74	0.99	1.13	1.08	1.44	1.33

Source: See Table 5 a.

III.2. Changing pattern of national intervention

III.2.1. Federal Republic of Germany

(a) Government intervention has been characterized recently by some increase in the proportion of total aid going to industrial firms.

This development (1) has meant that aid (2) to industrial firms in the form of non-repayable grants, tax relief and loans under the European Recovery Programme (ERP) increased from under 30% of all subsidies granted in 1976 to over 33% in 1980, or from DM 12 500 million in 1976 to something over DM 15 000 million in 1980. The data for 1976 cover all public aid to industrial firms, (3) whether granted by the Federal Government, the Länder, the local authorities or under the ERP; the data for 1980 concerning financial aid from the Länder and the local authorities and ERP loans are not available. In view of the orders of magnitude observed in the past, the estimate for 1980 is probably too low. From 1976 to 1978, the amounts allocated to measures in favour of industrial firms represented a little less than 3% of the value added of the industrial sector; forecasts now available suggest that the percentage will be at least as high in 1980.

(1) As described in the 6th and 7th subsidy reports, Bonn, Bundesministerium der Finanzen, October 1977 and August 1979. It should be borne in mind that the definition of "subsidies" in these reports covers grants, some types of loan, interest rebates and tax relief for specific purposes. The reports deal mainly with subsidies granted at Federal level, but also include, with some time lag, subsidies from the Länder and the local authorities. The reports cover subsidies granted to industry and households but not subsidies granted to public services such as railways, post and telecommunications, infrastructure and scientific research.

(2) The measures dealt with here include only non-repayable grants and tax relief, since interest rebates are not available separately for industry and the exact nature of some loans is difficult to define.

(3) Including the energy sector, but not including transport.

(b) The main guidelines for intervention in the economy can be summarized as follows:

- some selectivity is accepted as between sectors or regions, but not as between firms;
- intervention should help the spread of technological progress either to certain types of firms (small firms), or to certain activities in view of their prospective potential;
- the consequences of running down certain activities should be mitigated by spreading the readjustment over time;
- intervention instruments are specialized to some extent;
- fairly systematic efforts to ensure transparency (twice-yearly publication of orders of magnitudes for the main types of subsidy, and the proposed period of application of measures).

Tax reliefs the preferred form, increased productivity the priority goal.

(c) The most preferred form of intervention is certainly tax relief, while priority is given to helping firms adjust and to increasing productivity.

In 1978, more than half the total amount spent in favour of industrial firms took the form of tax relief, although this share was lower than in 1976. The share of non-repayable grants in the total increased from 24.5% in 1976 to over 31% in 1978. In 1979, 63% of the total (1) was allocated to help firms adjust and increase productivity, in particular through tax relief. The remainder, mainly non-repayable grants, was allocated to keep firms in operation.

Importance of regional aid and measures to promote technical

(d) The total amount (2) of aid to industrial firms is also broken down into the following categories: regional aid, aid to certain industrial sectors, and measures to promote the spread of technology. This breakdown shows that regional development as well as

(1) i.e. of resources allocated in the form of non-repayable grants and tax relief for firms.

(2) Aid from the Länder has invariably been considered regional aid in this paper.

progress.

to a lesser extent measures to promote technological progress are preponderant.

Regional aid to industrial enterprises amounted to over DM 6 000 million in 1978, accounting for over 40% of the total Federal and Länder aid. Regional aid is mainly granted in the form of tax relief; 36% of the German population live in assisted areas, which cover more than 60% of the territory of the Federal Republic. No sectoral breakdown of regional aid is available but an estimate for the period 1969-71 showed that the main recipients were major exporting sectors such as mechanical engineering, chemicals and the motor industry.(1)

Since 1977, rationalization and adjustment of the coal industry have been second on the list of priorities in aid to industrial firms. It has almost always been necessary to help the coal sector, but since 1977, efforts have been made to develop the role of coal in the country's energy supply. Most of the aid takes the form of non-repayable grants, and the extra aid since 1977 has been mainly directed towards developing production and improving mining technology.

Since 1977, the share of three industrial sectors - aerospace, ship-building and steel - in total aid to industry has been increasing; aid to firms in these sectors always takes the form of non-repayable grants.(2) The main purpose of aid to the aerospace industry is to help exploit potential world demand for certain types of equipment (e.g. Airbus and BO 105 helicopters), while promoting development in this sector because of the spillover effects on electronics, mechanical engineering and chemicals. The main purpose of aid to ship-building, on the other hand, is to prevent the prevailing world market situation from having unduly disruptive effects on employment.

(1) Corden and Fels, "Public assistance to industry", 1976, p. 97.

(2) In 1978, the aerospace industry and the shipbuilding industry each received about DM 400 million in grants of this type, while the rest went to the steel industry in the Saar.

The promotion of innovation and technological development has also been a priority aim of State intervention in favour of industrial firms, particularly since 1977. Such intervention is intended first to compensate for the disadvantages of medium-sized firms in the field of R & D: in 1979, a programme of subsidies was adopted to cover 25% to 40% of the cost of staffing R & D activities in small and medium-sized firms.(1) Aid to promote technological progress is also intended to encourage the development and the exploitation of new products or processes that would improve the prospective long-term trend of productivity. The aid can be assimilated to non-repayable grants: firms are granted 8-year loans at 6.5%, with an interest-free period of three years, the loans being repayable only if the investment is successful. Since 1975, firms in data-processing, medical technology, electronic components, undersea exploration and exploitation, mining technology and the exploitation of raw materials have received aid of this type.

III.2.2. France

Since 1976, structural policy in France has developed in three main ways:

- "horizontal" measures have been increasingly used, and general measures to improve resource allocation have been adjusted, in an attempt to promote an economic environment that is more favourable to competitiveness;
- there has been a change of emphasis in selective policies;
- there has been an attempt to reinforce and rationalize existing intervention instruments.

*A greater role
for market forces.*

(a) The authorities have adopted a series of general measures (see below III.3.3.) aimed at improving the operation of market forces.

For example, the prices of industrial products were decontrolled in 1977, and some prices in the services and agricultural sectors have since been decontrolled. Competition legislation was reinforced in 1977, both to extend the powers of the Competition

(1) Small and medium-sized firms are those employing less than 1,000 and with a turnover of less than DM 150 million.

Commission, and to increase the effectiveness of the legislation in force concerning concerted practices and merger controls. Concurrently, a systematic overhaul of administrative procedures was begun in 1977 to ease the burden on companies caused by a range of regulations, particularly the rules governing the activities of firms. The practical results of this gradual overhaul are already evident.(1)

From the support of major sectoral projects to contracts between government and successful enterprises.

(b) Until the early 1970s, France pursued an industrial policy of selecting and launching major projects in certain sectors which were given priority status (aerospace, large computers, chemicals, nuclear technology, steel). At the beginning the projects reflected a concern for technological independence, without much regard to profitability prospects. Since 1976, this approach has been partially replaced by a policy aimed at reinforcing industrial structures by coordinating public financial assistance over several years in a small number of fields, so as to provide support for the strategies pursued by successful firms selected on their own merits.

While the approach is still selective, therefore, emphasis is shifting, from major projects to specific areas of activity that are considered to be of strategic importance, and to development programmes proposed by the firms themselves. At the same time, relations between the Government and the firms receiving public aid are increasingly governed by multiannual contracts.

The fields for financial assistance are selected on the basis of their potential technological development, their international trade potential and their role in the process of industrial development. So far the following fields have been chosen: office automation; consumer electronics; robotics; bio-technology; undersea works; energy-saving equipment. These activities are given medium-term priority, and a detailed development programme has been drawn up for each one.

(1) For example, improvements in the methods of payment by government departments for subcontracted work and for purchases of supplies and the remodelling of legislation requiring administrative authorization for laying off redundant staff.

One illustration of this approach is the introduction of development contracts (1) in strategic industries, which enable available public funds to be concentrated on promoting an industrial project (subsidies, loans, public purchases, foreign investment controls, etc...), while the recipient industries accept certain commitments that can be monitored. The approach involving individual contract arrangements is also applied to public enterprises.

(c) Since 1976, there has also been an increase in the resources devoted to specific purposes such as encouraging the setting up of new business or contributing to the own funds of small and medium-sized firms and in measures aimed at facilitating the use of outside capital.

For example, a fund has been created to guarantee 65% of medium-term and long-term loans granted by banking establishments to people setting up businesses, and 75% of the loans granted by mutual guarantee societies. In the initial stage, this fund can guarantee loans totalling about FF 200 million. In 1979, a programme for increasing the capital of the Institut de Développement Industriel (IDI) was adopted; the Institut contributes to solving the problems of rapidly developing medium-sized firms with a shortage of own funds. In 1979 too, the terms for assistance from the Sociétés de Développement Régional (SDR) were adjusted. In addition, the "Loi Monory" adopted in 1978 allows individuals to deduct from their taxable incomes any proportion of such income used to establish or extend a portfolio of shares.

(d) Since 1976, efforts have also been made to rationalize and strengthen existing intervention instruments. In particular, there has been some functional specialization of intervention instruments.

*Functional
specialization...*

(1) Prepared by the Ministerial Committee responsible for deciding on guidelines for strategic industrial development (the CODIS, set up in 1979).

The CIASI, (1) set up in 1974 and adapted in 1979, collaborates with industry and finance (2) in finding viable solutions when a firm comes up against grave problems, and helps with loans in quasi-equity form and/or subsidies. Since 1979, the CIDISE (3) has also been made responsible for helping small and medium-sized firms that submit "forward-looking" projects likely to create jobs and value added for export.

The FSAI, (4) set up in 1978, is specifically responsible for promoting industrial investment and job creation in areas affected by the problems of the steel industry, shipbuilding and, more recently, some mining areas. The FSAI grants subsidies and/or subsidized loans in quasi-equity form. It is also responsible for centralizing the examination of investment projects, while its management committee negotiates government assistance and loans from the Crédit National and the Crédit Hôtelier, Industriel et Commercial. The FSAI has a considerable amount of freedom, since its aid is not subject to any predetermined criteria, or to any published constraints.

The CPME, (5) set up in 1980, is a more recent example of functional specialization and rationalization of intervention instruments. All the activities for financing the equipment expenditure of small and medium-sized firms have been brought together (6) under the CPME, so as to simplify the procedures for obtaining bank credit. The Government is the major shareholder in the new institution, which is also responsible for providing small and medium-sized firms with medium-term and long-term financing in a more decentralized way.

-
- (1) Comité interministériel pour l'aménagement des structures industrielles.
 - (2) including the CODEFI (Comités départementaux pour le financement) which come under the Chambers of Commerce, and were also set up in 1974.
 - (3) Comité Interministériel pour le Développement des Investissements et le Soutien de l'Emploi.
 - (4) Fonds Spécial d'Adaptation Industrielle
 - (5) Crédit d'Equipement des Petites et Moyennes Entreprises.
 - (6) The CPME has partly or wholly taken over the activities of the Caisse Nationale des Marchés de l'Etat, the Crédit Hôtelier, Industriel et Commercial and the Groupement Interprofessionnel des PME.

*and improved
coordination,
decentralization
and monitoring of
intervention.*

(e) New measures for the coordination, decentralization and monitoring of public intervention have been brought in since 1976, in order to increase the effectiveness of assistance.

Coordination between the various ministries has been improved, and the supervision procedures for firms receiving FDES (1) loans or other industrial policy assistance were adjusted in 1978. This supervision, the responsibility of the Economics Ministry, is aimed in particular at ensuring that the specific commitments undertaken by firms in order to obtain public aid are respected.

III.2.3. Italy

The rules for financial assistance (subsidized loans, the main incentive employed) were reorganized in the second half of the 1970s.

*Reform of the
system of sub-
sidized credit...*

The "Fondo Nazionale per il credito agevolato" (2) was set up by Presidential Decree 902/76; several types of facility designed for small businesses are merged under this fund; 35% of the fund's resources are reserved for the central and northern regions of the country, and 65% for the Mezzogiorno.

Capital grants, however, are provided only for companies located in the Mezzogiorno (Law 183/76).

*and sectoral
intervention.*

In 1977, the law on industrial conversion and restructuring (Law 675/77) was adopted, superceding most of previous laws, which were generally sectoral in character. The law established a single decision-making and supervision body, the CIPI (Inter-ministerial Committee for Industrial Policy, which also administers a fund for industrial restructuring and conversion. The Mezzogiorno was allocated 40% of the Fund's resources and 65% of the total available for conversion. To be eligible for the financial assistance provided for by this law, projects must

(1) Fonds de Développement Economique et Social.

(2) Until 1976, the length of assistance procedures implied a waiting period of 8 to 24 months from the acceptance of the application to the financing decision; meanwhile companies were obliged to obtain finance at market rates.

fit in with the sector plans approved by the CIPI.(1) However, owing to delays in drawing up the implementing regulations (due among other things to the difficulty in defining criteria for intervention), the law came into operation only in 1980.

Debate on new guidelines for public aid to industry...

With the approach of the expiry of the main laws on incentives, (at the end of 1980), a debate has opened on how guidelines and procedures for public intervention should be adapted. In particular, it has been stressed that financial incentives, mainly associated with fixed investment, should be reduced, and the emphasis placed on research (public financing of R & D has indeed been increasing since 1974, as a percentage of GDP, but still represents only about half the equivalent percentage in the other Member States), the dissemination of R & D results, more specific use of public purchasing, improved vocational training, and the reinforcement of the productive tertiary sector, whose inefficiency places a heavy constraint on expansion.

and to the development of the Mezzogiorno...

It is generally agreed that administrative procedures must be simplified as far as possible, and the element of discretion in aid decisions reduced, particularly in the Mezzogiorno and for small firms; this might mean increasing the role of tax relief, which becomes a more powerful incentive with the success of measures to control tax evasion.

and on the role of public enterprises.

The potential role of public enterprises in adjustment is particularly important in Italy: these enterprises are numerous in crisis sectors (steel, basic chemicals, shipbuilding, the motor industry), in advanced technology sectors (electronics, electromechanics), in the energy sector and in infrastructures. This means that the problems of efficient management, financial stability and the costs to public enterprises of assuming responsibility for social or regional priorities are probably more acute in Italy than in the other Member States.

(1) Several "vertical" sector plans have been approved, among others for base chemicals and chemical products, fibres, fertilizers, steel, paper, instrument engineering, electronics, textiles and clothing and the food industry, and three "horizontal" plans, for the efficient use of energy and raw materials in production processes, improved organization of the marketing abroad of manufactured goods, and the development of equipment to reduce the adverse ecological impact of production processes.

III.2.4. United Kingdom

Industrial policy in the United Kingdom has undergone a number of major changes since 1979, directed towards restoring and reinforcing the role of the market and reducing public intervention.

*Regional aid
reduced and made
more selective...*

- Regional policy has been made more selective and more concentrated:

Regional aid, which is estimated to have amounted to about £ 900 million in 1979, is to be reduced by about 40% in real terms over a three-year period. In 1979, 40% of the working population lived in the various assisted areas: special development areas, development areas, intermediate areas. By 1 August 1982, the extent of these areas will have been gradually reduced so that only about 25% of the working population will live in them.

At the same time, intervention instruments have been reappor- tioned: regional development grants, which were automatic, represented 63% of regional aid in 1978 and 1979; they have been abolished for intermediate areas, and the rate of aid as a percentage of eligible assets has been reduced from 20% to 15% in development areas. The minimum eligible investment expenditure has been increased to £500 for plant and equip- ment and to £5,000 for buildings. Selective (and discre- tionary) regional aid granted under Section 7 of the 1972 Industry Act has not been changed; a scheme was introduced in April 1980 to subsidize the costs of in-plant training schemes associated with modernization or job-creating in- vestment projects. Subsidies to help with certain costs of transferring firms to assisted areas were discontinued in July 1979, but labour mobility subsidies were maintained.

*continued support
for high-growth
sectors...*

- As regards selective measures, the best way to support certain activities, particularly in the high-growth sectors, is still a matter of debate with a certain emphasis being put on an in- creased use of public procurement as a policy instrument.

The industrial strategy introduced in November 1975 was based on an essentially sectoral approach with a rather high level of disaggregation (into about forty sectors); a systematic economic analysis of each sector is carried out by the Sec- toral Working Parties, set up on a tripartite basis under the auspices of the National Enterprise Development Council.

This approach was justified because the more general policies pursued from the 1960s onwards had not solved the problems of productivity and trade performance in industry; the main weakness of the approach was that specific analyses at disaggregated level could not be synthesized, although this could have made it possible to integrate general measures affecting the industrial climate, and to achieve greater coherence with macroeconomic policies. Therefore although the analysis was valid, and although some of the recommendations did lead to government intervention, the practical results have been limited.

One of the central elements of the strategy was to determine domestic and international market shares for each of the manufacturing branches concerned; this illustrates the risk inherent in sectoral approaches that inadequate account might be taken of trends and potential reactions of trade partners.

Nevertheless, sectoral working parties remain an essential instrument of analysis to identify bottlenecks or potential at company level, and thus to supply basic information for intervention measures.

The Selective Investment Scheme (1972-79), which has now expired, supplied about +£79 million in aid, mainly to engineering, at a rate of one-tenth of the private capital; aid supplied under Section 8 of the 1972 Industry Act to specific sectors (textiles, footwear, machine tools, printing machinery, electronic components, etc.) has now been discontinued, but the Government has expressed its intention to aid projects of "national interest".

Reduction in the State's role as a producer.

- The Government is committed to reducing direct intervention by the State in its role as a producer by returning certain segments of public enterprises to the private sector and reducing State monopoly of certain products.

The need for public enterprises to attain financial targets has been reaffirmed, and required rates of return (1) have been defined for gas and electricity; moreover, annual cash limits on external financing of whatever source (loans, repayments from the Treasury, etc.) have been defined for all nationalized enterprises.(2)

-
- (1) The required rate of return is calculated on the basis of the total new investment.
 - (2) The 1978 White Paper did not solve the problem of the relation between the required rate of return, cash limits and the pricing policy of public enterprises. It has still not been settled.

The National Enterprise Board (NEB), set up in 1975, is a State holding company which intervenes through the acquisition of holdings or through public loans from the public purse; up till now, its resources have for the most part been devoted to rescue operations (British Leyland, Rolls Royce, Herbert Tools). The guidelines laid down by the Government in August 1980 define the main areas for NEB investment activity: besides companies in which it already holds interests, those developing or exploiting advanced technology (the acquisition of a holding in Inmos for the development of microprocessors was recently confirmed), and those located in assisted areas. The NEB's role in connection with small and medium-sized firms has now been limited mainly to granting loans, and no more holdings will be acquired.

III.2.5. Belgium

*Internationalization
of industry...*

Largely under the "Lois d'expansion économique", central government intervention in Belgium in the 1960s primarily took the form of general incentives. These encouraged the inflow of foreign investment and also contributed to the progressive internationalization of Belgian industry, one-third of whose value added is attributable to multinationals. In 1970 a new Law on expansion adjusted the range of incentives and at the same time defined the conditions for implementing the contractual policy whereby companies were to obtain advantages provided that they acted in accordance with the guidelines laid down in the Plan. Steps have recently been taken to strengthen direct public initiative (the Law on public economic initiative, which adapted the function assigned to the Société Nationale d'Investissement), and a fairly fundamental review of industrial policy was undertaken in 1978. These developments were due to the unsatisfactory results of the industrial policy implemented since 1960, to industrial problems, in particular as regards employment, to an excessive multinationalization of the Belgian economy and to the need for a macroeconomic strategy of industrial redeployment. The new orientations cover the modernization of traditional sectors, specialization in advanced products and systems, the promotion of industrial research and the transfer of technology, and the reduction of dependence on the

*review of industrial
policy...*

rest of the world. The introduction of this policy in 1978 was accompanied by the setting up of regional investment corporations and of the "Fonds de Rénovation Industrielle".

Sectoral guidelines were laid down in the 1975-1980 Plan, but in fact the only sectors which have been the subject of sectoral policy are steel, textiles, shipbuilding and repair and hollow glass.

Objectives include closer liaison between innovation and public procurement.

Finally, as a result of what was felt to be a lack of coordination and transparency in the various instruments of State intervention and a lack of precise objectives, the guidelines recently adopted for 1981-1985 are designed to ensure closer liaison between innovation, public procurement and external markets: for example, the "Commission d'orientation et de coordination des commandes publiques" (Commission on Public Procurement Policy) is required to prepare a medium-term programme for public contracts, to make an inventory of the future technological needs of government departments and to propose measures aiming at promoting new products and equipment which would hold their own against foreign competition. Moreover, as regards research and development, the guidelines recently adopted aim to make State intervention more selective, on the basis not only of scientific criteria proper but also of marketing possibilities.

As regards institutional organization, there has been a recent trend to transfer major responsibilities in industrial policy to the regional level, except for the so-called "national" sectors - steel, textiles, shipbuilding and repair, and hollow glass.

III.3. Comments on the effectiveness of the main types of instrument

The instruments are presented

- (a) The relevant instruments may be grouped according to their impact on:

according to their impact on company inputs, on technology and organization methods and on markets.

- company inputs (capital, labour, energy)
- methods of organization and the technology used by companies
- the markets on which the companies sell their products.

Obviously this breakdown, like any other, is partly arbitrary: it ignores the fact that in practice certain policy aims - the promotion of research for example - may be reflected in measures designed to have an impact on the cost of capital or labour (such as subsidies tied to spending on manpower engaged in research and development) or to have a direct impact on markets (such as the multiannual public procurement programme for a high technology sector). Similarly, certain investment incentives may be geared to the creation of jobs. The annex gives a number of examples of national measures and illustrates the considerations set out below. ⁽¹⁾

Measures do not necessarily constitute a policy.

(b) Before considering each type of instrument in detail, it should be stressed that a series of individual measures, even if very well planned technically, do not constitute an industrial or structural policy unless they are articulated and together serve one or more common objectives. For instance, a particular aid to research in a given sector (e.g. telecommunications) may in present circumstances prove ineffective unless it is accompanied by measures relating to the demand for the products concerned or to the skills needed to produce them.

The conditions under which a measure is applied may determine its contribution to positive adjustment.

(c) Finally, the contribution of a particular measure to positive adjustment cannot in some cases be determined in advance; rather, the conditions under which the measure is applied may determine its contribution to adjustment. For example, assistance measures to small and medium-sized firms may produce different results in terms of adjustment depending on whether the firms are mostly in high-growth sectors or whether they are for the most part in

(1) For a general survey of the main adjustment measures, see also: D.K. STOUT, "Adjustment Policies on the European Continent", International Symposium on Industrial Policies in the 1980s, Madrid, 5-9 May 1980.

traditional sectors. Similarly, measures in favour of employment can be assessed in different ways depending on whether they are designed to reduce labour costs or to adapt the structure of the labour supply to demand.

III.3.1. Measures affecting the inputs of firms

The need to increase capital formation requires more effective use of investment incentives.

(a) Capital

The purpose of investment incentives, whether tax incentives or financial incentives, is to decrease the cost of capital of firms or the uncertainty attached to their investment decisions. Although capital formation has always been a priority aim of government intervention, the increased investment required to ensure adjustment and to lower unemployment has recently led to an increase in the range of incentives used.

Tax incentives are usually horizontal measures; they are rarely adapted to particular sectors or regions. Changes in this type of incentive over time often reflect cyclical preoccupations. Different arrangements are possible (changes in depreciation allowances, the possibility of deducting some investment expenditure from taxable amounts, etc.). The disadvantage of this instrument is that its cost is less transparent (although it can be evaluated),⁽¹⁾ partly because of the accumulation over time of different incentive schemes. Nevertheless, for the entrepreneur, it has the advantage of being automatic and can therefore be reliably incorporated in investment calculations. The relative frequency of changes in tax incentives suggests that they could perhaps be more effective if they were designed from the outset with a more structural purpose in view, and if they were not merely tinkering at the margin.

(1) Such incentives are indeed regularly evaluated and the figures published, for example in Germany in the "Subventionsbericht".

Financial incentives (subsidies, interest rebates, etc.) are mostly associated with sectoral or, more usually, regional adjustment programmes. This is because they are more flexible than tax measures, and because they can be more specifically linked to commitments on the part of the recipients. This perhaps explains why financial incentives have tended to increase in recent years. To the extent that there is a large element of discretion in the decision to grant this type of incentive, there is a risk that resources might be misallocated, or that the measures will be essentially defensive.

Subsidized credit, which is widely used as an instrument, for example in Italy, gives rise to specific problems. Since the financial establishments granting subsidized loans must fulfil a role that extends beyond banking as such, management may be more cumbersome and their efficiency in the resource allocation process may be affected. Experience in this area would seem to point to the advantages of fairly automatic and easy-to-manage incentives.

(b) Labour

In a context of slower growth, measures to improve the match between labour supply and demand are a matter of priority.

As regards measures affecting the cost of labour or the conditions of labour utilization, the serious problems encountered since 1975 have sometimes, because of job losses, led to the adoption of measures (such as aids to maintaining jobs) which, although justifiable in the short term, have in practice tended to maintain the status quo - at substantial cost in terms of resources diverted from the pursuit of other objectives.

However, in view of budget constraints and since the measures have proved ineffective in restoring competitiveness, other measures have been gradually worked out in most of the Member States to deal with unemployment in a way more consistent with positive adjustment: such measures include vocational training measures,

grants or tax reliefs for the creation of new jobs (particularly for certain categories of workers), measures designed to spread the burden of large-scale redundancies in certain depressed sectors, and measures to substitute State financing for a proportion of employers' social security contribution. In the present situation, even measures whose sole effect is to increase recruitment can be useful.

However, in circumstances where the factors of immobility are tending to increase,⁽¹⁾ and where labour costs remain high, vocational training measures should probably be given special priority. It is interesting that this type of measure has been very important in Germany for the past few years, while little has been done in other countries - although some change is now apparent. Obviously, the success of such measures depends partly on institutional structures (e.g. a narrower range of after-tax incomes may mean less incentive to improve skills), and also on prospects for new jobs: workers will be less resistant to mobility if they can be guaranteed substitute jobs. Nevertheless, an efficient vocational training policy may contribute significantly to help solve the unemployment problem, which is one of the most serious adjustment problems.

(c) Energy

Measures aimed at easing the energy constraint have been insufficient.

It is also essential to ease the constraints placed on growth in the Community by energy, because of its share in imports and because of the risk of exhaustion of supplies. Measures to encourage energy saving in production processes or at the final consumption stage could significantly affect behaviour if they were accompanied by a suitable price policy to guide the market.

(1) Owing, first, to the general inadequacy of vacancies, but also to the increase in home ownership and to the fact that in more and more families both husband and wife have jobs.

Important measures have already been taken in some Member States, for example tax or financial incentives for energy-saving investment, the renovation of industrial buildings, or the installation of approved heat insulation, and measures to promote new energy-saving technologies.

III.3.2. Measures operating on technology and organization methods

In order to reinforce business performance and competitiveness, governments in the Member States also participate directly in research, or promote concentration and association between firms so as to take advantage of economies of scale.

*The increase
in R and D...*

(a) Government expenditure on research and development (R & D), while varying fairly considerably from one country to another, has picked up again during recent years, as the annexed graphs show. (1)

It will be seen in particular that there is a very sharp difference between public R & D appropriations as a proportion of GDP in Germany, France and the United Kingdom on the one hand, and in Italy on the other; the relevant proportion has been rising again in Italy since 1974, and in Germany and France since 1976-1977. (2)

The priorities attached to the different aims pursued through public R & D appropriations vary little over time, but they differ substantially from one country to another. (3)

(1) See annexed graphs.

(2) Government financing of research and development, 1970-79: Eurostat, 1980.

(3) See Table IV annexed.

For example, defence research accounts for less than 5% in Italy and over 50% in the United Kingdom. The general promotion of knowledge (1) accounts for over 55% in the FRG, compared with less than 22% in the U.K. Technological objectives account for 16% of R & D appropriations in the United Kingdom, compared with 40% in Italy. Moreover, efforts in this field are very selective: for example, nuclear fission accounts for a large proportion of R & D financing for energy research; the same is true of the share of electronic equipment and aircraft construction in industrial R & D financing, and of that of launchers and satellites in space R & D financing.

The share of industrial productivity and technology projects in total public R & D appropriations is increasing very slowly in Germany and Belgium, and decreasing significantly in the other countries.

and greater emphasis given to areas having economic spin-offs ...

Public spending on R & D raises a number of questions. Emphasis on areas having direct economic spin-offs has perhaps not always been sufficient in all Member States. A greater effort to channel expenditure in this direction seems called for, particularly in present circumstances where, because of the deterioration in the economic climate, firms tend to give preference to low-risk projects.

but this must be accompanied by improved dissemination of the results of research.

The effectiveness of government R & D spending depends very critically on the efforts made to spread the results; on this point some improvements are necessary in order to ensure the economic exploitation of results as well as the application of new technologies developed abroad.

(1) This covers basic research in the exact and the natural sciences, and medical and engineering research as well as research in the social sciences.

(b) Government financing of R & D also includes supporting firms' own R & D activities in various ways.⁽¹⁾ Although precise figures are not available, it is estimated that, in 1975, public funds financed 17.9% of R & D in industry in the Federal Republic of Germany, 25.4% in France, 30.9% in the United Kingdom, 6.5% in Italy and 6.2% in Belgium.⁽²⁾ A breakdown of the different types of assistance to firms' R & D is given in Table V. It is particularly interesting to note the proportion accounted for by assistance to selected technologies in Germany in comparison to the proportion of assistance given without sector consideration in France.

Encouragement of concentration processes is not without risk.

Several Member States are also trying to influence concentration and association between firms by acquiring government holdings (where appropriate, through the agency of public enterprises), by encouraging concentration and by supporting plans for association agreements. These measures are often part of a selective sectoral approach, and may be used in crisis sectors - for example, the restructuring of the steel industry in France, the intervention (until recently) of the National Enterprise Board in the United Kingdom, especially in the motor industry, or the intervention of the "Société Nationale d'Investissement" in Belgium. They may also be used in potentially high-growth sectors, or, when required, in high-risk sectors (e.g. telecommunications and the nuclear industry in France; holdings acquired by the National Enterprise Board in the United Kingdom, etc...). There is a very great risk that intervention of this type in declining sectors will have adverse effects on adjustment.

(1) General or selective tax and financial incentives granted for research projects undertaken individually or collectively; tax arrangements for the purchase and assignment of patents and licences; advisory services, technical assistance, information, joint research; support for selected technologies. See Table V annexed.

(2) See: "Mesures directes et indirectes de promotion de la R & D industriels dans les Etats membres des Communautés Européennes", J.M. Didier & associés, December 1979.

A more recent estimate shows that external financing accounted for 7% of R & D expenditure by private firms in Italy in 1978 (see Confindustria: "La spesa dell'industria privata per la ricerca scientifica 1976-1978", Rome, October 1979).

Measures in support of SMEs can improve the operation of the market.

(c) Small and medium-sized enterprises also tend to be given special priority in the industrial policies of the Member States. This priority is reflected in a number of measures which, while maintaining the advantages associated with the small size of such firms, are intended to allow SMEs to benefit from economies of scale in their access to capital, information, technology and certain services connected, for example, with market exploration and penetration. These measures are usually horizontal and relatively cheap, and they seem to contribute to positive adjustment.

Financing is provided in France by State participation in guaranteeing loans to SMEs and by the financial intervention of the "Crédit d'Équipement des PME" and the "Agence Nationale pour la création d'entreprises". In Italy, the IMI provides financing on favourable terms for investments by SMEs. In Germany, loans on favourable terms have been granted since 1979 for setting up SMEs, and a series of new tax measures will, from 1980-1981, reduce the basis of assessment for taxing both the trading profits and the trading capital of SMEs. The tax arrangements in force in the United Kingdom are particularly favourable to SMEs, and these businesses can also obtain advice (particularly from the NEB) and assistance in relation to the labour costs involved in creating new jobs. In Germany, there is a government programme to encourage expenditure by small firms on R & D, and in France, small firms subcontracting R & D projects can obtain financial support for this, as well as for expenditure incurred in incorporating new technologies in production processes.

III.3.3. Measures acting on markets

Government intervention on markets where companies sell their products appears in very different forms which, despite the fact that they do not involve direct financial transfers, can have major consequences for the allocation of resources and thereby for the scale and speed of adjustment.

Public procurement may be used as an instrument of adjustment...

Public procurement accounts for a large proportion of demand in a number of sectors. Although a detailed assessment has not been possible, it has been noted that, for example, public purchasing of industrial products represented more than 10% of the gross

value added of the industrial sector (including energy) in France in 1978. In Belgium, public purchasing (works, supplies and services) accounted for 5.8% of GDP in 1979. Table 6 shows the proportion of GDP accounted for by public consumption (excluding salaries and remunerations) together with gross fixed capital formation by the general government in the Member States.

Table 6

Public consumption (excluding salaries and remunerations) +
general government gross fixed capital formation as % of GDP

	D	F	I	UK	B	NL
1979	12.20%	6.55%	6.69%	9.86%	8%	7.63%

Source: Commission departments (see Annex 1)

These data cover only general government. However, nationalized firms may also account for a large share in the purchase of goods and services. In the United Kingdom, for example, investment by the nationalized firms represented between 15% and 20% of total GFCF in recent years, i.e. about 2.5% to 3% of GDP.

Public procurement accounts for the major share of national markets in some sectors such as defence (closely associated with civil aerospace), telecommunications, transport, energy and data-processing. Procurement policy is sometimes used to promote development in certain sectors. In France, a major investment programme has been undertaken in the telecommunications sector with the explicit aim of improving the competitiveness of the sector. In the United Kingdom, a similar programme involves railway transport equipment. In some Member States at least,

national products are given preference for government purchasing of data-processing equipment.

but the possible costs of national preference must be taken into account.

The objectives pursued by public procurement policy can affect the adjustment process; an assessment of such effects should in particular take the possible cost of national preference into consideration. This cost is such that any adjustment policy involving public procurement ought to be extremely selective and wholly transparent. It would at all events be useful if government programmes and planned expenditure could be announced well in advance, since research, investment and production may require long periods of time, particularly in advanced technology sectors.

The decontrol of prices must be accompanied by the strengthening of the conditions of competition.

Generalized price controls and monitoring ⁽¹⁾ require a cumbersome administrative structure and may lead in practice to delays or distortions in the adjustment of relative prices, thus affecting the rate of return and business investment decisions. These effects on the capacity of firms to adjust are the main reason why some Member States have decided in recent years to dismantle price controls and to adapt competition rules. It is too early yet to assess the results of this change of policy.

Freedom of prices has been gradually reintroduced in France since 1977, while the control of concerted practices and mergers has been tightened. The aim, in view of France's long experience of price controls, is to speed up innovation, technical progress and the rationalization of industrial structures while allowing for the need to fight against certain price rises and to protect consumers.

(1) Which may be intended for cyclical purposes, or in order to control monopolies, achieve certain social aims or influence production, bring about structural developments in the economy, etc.

Price supervision and all other forms of government price control were discontinued in 1979 in the United Kingdom after some twelve years of a prices policy that had demonstrated that price controls tend to limit the impact of changes in relative prices without being used to bring about sectoral change. A residual power to require structural changes in industry (following an enquiry into its conduct and performances) has now been transferred to the Monopolies and Mergers Commission. Similarly, the determination of "acceptable" prices is rarely flexible enough to allow for investment needs, for improved quality or for the need to finance new products from the income accruing from the sale of existing products at higher prices. Nevertheless, structural weaknesses in a particular sector have sometimes been revealed by an enquiry into its prices. Finally, the experience of price controls also demonstrated the interactions between prices policy and incomes policy as well as the limited effects of price controls on rates of inflation.

The easing and simplification of regulations may, often more than other measures, improve the conditions under which firms operate.

Rules and regulations concerning product standardization, environmental protection and health and safety standards are justified as a rule by the need to take into account certain social costs that would certainly arise if there were no rules, but they may also act as a constraint on adjustment. Where problems do arise, they appear in most cases to involve aspects such as the transparency of the measures, their mutual consistency, or the opportunities for introducing them gradually. Further, to the extent that they have a direct effect on conditions of access to the market, such measures affect the possibility of exploiting economies of scale at international level; and they may also be used for non-tariff protection purposes.

Finally, the easing and simplification of rules and regulations, though often the responsibility of the administrative authorities, may be used as an instrument which could help to improve, as much as or more than other measures, the conditions under which firms have to operate and the efficiency of intervention measures. This was recently shown to be the case in France ⁽¹⁾ and is at present being tried in the United Kingdom. ⁽²⁾

(1) See above, remarks on the changing pattern of national intervention.

(2) Facilities offered in "enterprise zones".

CHAPTER IV - THE ROLE OF THE COMMUNITY

IV.1. The existence of the Community may in itself contribute to more positive adjustment of the economies of the Member States to internal and external pressures.

The Treaties lay down in respect of economic activity in the Community a number of rules designed to ensure the establishment and proper functioning of a single market as well as a measure of common protection vis-à-vis the rest of the world. These rules are based on an economic and political approach which is rather liberal in the sense that a major role is left to market forces.

The present economic conditions are different from those prevailing when the Treaties were drafted, but, because of its dependence on the outside world for supplies of energy and raw materials and its need to take part in world trade, the Community still needs to become more competitive. For this, it is essential to exploit the economies of scale afforded by a single market if the Community is to enjoy the same advantages as those available to its main trading partners.

Although all the Community policies may affect adjustment, some are particularly important.

IV. Trade policy

The structure of trade requires that the openness of markets be preserved.

The fact that more than 46% of Community exports are directed outside the EEC means that the process of adapting economic structures must be carried out in such a way as to preserve the openness of markets.

This is the reason why the Community's trade policy has made the Community one of the areas most open to trade in industrial products.

In this context, the Community's powers under the Treaty in the field of external trade confer upon it a key role in the adjustment process. While Community measures in this field may be quite varied (bilateral, multilateral, unilateral or differentiated according to products or trading partners in question) and may not necessarily be tailored to the needs of positive adjustment, they differ from national measures in two respects:

- (i) a greater degree of transparency due to the institutional constraints under which they are formulated;
- (ii) a balanced content resulting from the need to reconcile the sometimes diverse interests of the Member States.

In the particular case of textiles, the Community has exercised its powers (within the framework of the GATT agreements) in an industry where there is a most urgent need for restructuring as a result of international competition. However, the ensuing restrictions on trade have, as a rule, affected the rate at which low-wage countries have been able to increase their share of the Community market with a view to reducing the destabilizing effects on production and employment. Provided that the protection is temporary and lasts only as long as necessary for internal reconstruction and conversion, the principle of progress in the international division of labour will not have been undermined.

However, as with other examples of external protection mechanisms, there is a risk here that, under the pressure of vested interests, protection deemed necessary as a temporary measure may become permanent and thereby result not in a switch of emphasis to branches and/or products enjoying a comparative advantage, but in an indiscriminate expansion of the industry concerned. There is also a danger that, as more and increasingly varied safeguard clauses are introduced, transparency will suffer and there will be less incentive to become more competitive.

Reinforcing the single market makes for economies of scale.

IV.3. The single market

Since the establishment of a single market is one of the fundamental objectives laid down in the Treaty, the Community has been particularly active in monitoring State intervention which could affect intra-Community trade, such as different aids to reduce firms' costs, regulatory activities and public procurement.

The speed and impact of action taken at Community level in the various fields depend partly on the institutional instruments available. The growing economic difficulties sometimes give rise to a half-hearted attitude regarding any moves to expand the scope of Community rules and regulations.

Harmonization measures are subject to very long lead-times due either to persisting protectionist attitudes and administrative inertia or to the necessity, in order to secure unanimity, of taking concurrent action in several fields so as to maintain some balance as between Member States in the costs and benefits of harmonization operations. Community action is not made any easier by the present proliferation of national measures in this area.

A recent judgement of the Court of Justice is particularly interesting in this connection ("Cassis de Dijon"). The Court held that the existence of national rules governing the characteristics of any product could not hinder the sale of products manufactured in other member countries as long as these satisfied the rules applicable in the exporting country. The only exceptions to this principle would be rules concerning public health, protection of consumers or of the environment, or fairness of commercial transactions. In future, therefore, the Commission's harmonization measures will concentrate on this type of rule.

In the case of public procurement, a genuine unification of the Community market conflicts with the tendency to use this instrument at national level as a means of supporting or promoting particular industries; the opening up of public contracts for the Community as a whole is provided for in a directive of July 1971 as regards tenders for works and in a directive of December 1976 as regards tenders for supplies. Nevertheless, these directives have not yet been fully implemented, particularly since, under the second directive mentioned, firms in certain branches (transport, production and distribution of water and energy, telecommunications) are exempt from the requirement to open up public contracts for the purchase of supplies. The importance of public procurement at national level has already been stressed: the need to include this instrument in the range of measures that can be taken to encourage advanced-technology industries in the Community should also be emphasized.

As regards the monitoring of State aids, some progress has been made inter alia by establishing principles for the coordination of regional aids and by laying down principles for the use of sectoral aids.

Measures have been taken to devise a general framework for aids to the most threatened sectors (steel, shipbuilding, textiles); aids granted to these sectors should be linked to restructuring commitments, be diminishing and limited in their duration.

As well as regional and sectoral aids, there are also general "horizontal" aids, which have been used increasingly in recent years in order both to promote investment in general and to encourage behaviour (e.g. in the areas of R & D and energy-saving) considered desirable in all sectors and regions. This raises new problems as regards Community rules and regulations on aid since the requirements of adjustment must be reconciled with the need to avert distortions of competition.

IV.4. Industrial policy

While the Community's role in the "orderly" development of international trade and the preservation of the single Community market is indisputable in view of the Community's own specific powers and of the present degree of openness of the European economies, the possibility of a more "active" adjustment policy, especially for industry, raises a number of problems.

In this respect, the EEC Treaty applies to all industries except those covered by either the ECSC Treaty or the Euratom Treaty. Thus, in the case of steel, the Commission has access to a range of instruments that have enabled it to pursue an active industrial policy in this sector.

The instruments available for action in the other sectors, however, are intended mainly to preserve the conditions of competition in the Community and could play only a partial role in an active industrial policy.

There is some opportunity for direct action through the budget (Social Fund and Regional Fund, Research and Energy Subsidies), and in the form of financial aid (EIB and NCI). These tools have their own rationale, but they can be adapted so as to facilitate adjustment.

The Community's role as regards both regulatory activity and financial intervention should not be confined to sectors in difficulty, but should extend to other areas.

In the case of restructuring operations, the decisions to be taken raise the problem of how to allocate the costs of restructuring (loss of capacity or jobs) since, if Community industry is to remain competitive in the long term, sectors must be restructured

*In the industrial
sphere, cooperation
at Community
level...*

*...is essential
for sectors in
difficulty...*

by eliminating marginal production units.⁽¹⁾ To be acceptable, a solution along these lines must be accompanied by suitable compensation arrangements.

It should also be remembered that, even in traditional sectors, there are branches of activity or products which could become competitive once again if new technologies were incorporated into their production processes.

*...and useful for
the growth sectors
of the future.*

Promotion of certain activities might be of particular interest to the Community because of their high value-added, technological or skilled-labour content; in this respect, there are some areas where Community-level coordination could obviate duplication of effort and resource mismanagement. Similarly, the advantages to be gained from a single market comparable to those of our main industrialized partners could be realized.

This objective should be pursued more systematically by taking measures that help to reduce the risk to a tolerable level, by pooling financial efforts, by bringing research teams together, by coordinating programmes, by exploiting economies of scale at the production stage and by expanding the market (particularly as regards public procurement policies and collaboration between potential users and producers). The Commission has recently taken action along these lines, notably in the field of micro-electronics.

(1) An additional problem is that in restructuring account has to be taken not only of existing capacities but also of expansion programmes already decided upon. Further, in some cases, greater competitiveness will depend on new investments aimed at increasing the output of certain units, and this makes the problem of marginal plants a permanent one.

Owing to present budgetary constraints, Community financial intervention will have to be concentrated, rather than spread over a large number of ventures. Moreover, as long as the results are made fully available to all the Member States, projects financed need not necessarily concern all the Member States, provided they have a genuine Community dimension. However, promoting cooperation could be done in many fields, so that, with a sufficient number of projects, the comparative advantages available in the different countries can be exploited.

CONCLUSIONS

The following are the main conclusions to be drawn from the analyses and remarks set out above:

Interrelationship between structural adjustment and macroeconomic trends and policies.

1. The structural adjustment process is closely dependent upon macroeconomic trends and policies:

- Structural intervention measures, whether general or specific, may back up and supplement macroeconomic policies (notably by removing the obstacles to stronger growth), but they cannot take their place.
- In the present context, persistent inflation, the balance of payments situation and public deficits severely restrict the Community's and the Member States' scope for pursuing a macroeconomic policy of supporting overall demand and priority should therefore no doubt be given to easing the energy constraint and to strengthening the productive and marketing base of firms so as to obtain stronger growth. It would, however, be dangerous to rely solely on a spontaneous upturn in domestic and external demand resulting from such improved supply-side conditions. A gradual increase in the economic scope for supporting demand therefore becomes a matter of priority for the purpose of adjustment.

Horizontal policies are not neutral in their effect on adjustment.

2. Horizontal policies (such as exchange rate policy, taxation, parafiscal policy, etc.) are not neutral in their effect on the adjustment process. It is therefore essential to pay special attention to the constraints which they impose on structural policies in other areas. This is particularly true of, for example, exchange rate policy and the arrangements for financing the social security system.

Proliferation of intervention instruments.

3. State intervention in the adjustment process has often resulted in the proliferation of instruments: despite recent efforts aimed at coordination and rationalization, the number of instruments used has increased further, with a view to alleviating the most immediate employment problems or in response to "strategic" considerations. These instruments have often been designed or applied in such a way as to produce adjustment which is negative rather than positive, specific rather than systematic, and they have not always been coordinated with each other or with macroeconomic policy.

Although official doctrine on intervention is increasingly emphasizing the need for positive adjustment and for greater respect of market forces, this has not in practice ruled out specific interventions and/or defensive measures, not only in the declining industries, but also in the "growth" industries.

The "demand" for adjustment is bound to increase.

4. The demand for adjustment is bound to increase over the next few years, not only in the declining industries (steel, textiles, shipbuilding), but also in the industries which have played an essential role in the growth of the industrialized countries (the motor industry) and in the advanced technology industries where the speed of technological change also means greater pressure for adjustment (e.g. telecommunications, where progress in innovation is posing job problems, despite the growth of the market). Meanwhile, there is a serious risk that the supply of adjustment may fall if high overall unemployment reduces the willingness of workers to apply new technologies.

Negative adjustments lead to a double impasse.

5. Excessive reliance on negative adjustments can only lead to a double impasse:

- a budgetary and financial impasse, given firstly the growing budgetary costs of policies aimed at supporting industries in decline and secondly the absolute need to limit the public sector borrowing requirement in all the EEC countries.

- a slowdown in productivity growth, damaging the growth rate of the economy and thereby creating a general environment that is more unfavourable to the necessary adjustments.

Adjustment and employment.

6. The essential criterion for adjustment cannot be short-term job preservation: reducing unemployment, which is a prime objective, must be based on the search for structures that are sound in the medium term and on the creation of value added enabling a higher level of growth to be maintained on a lasting basis.

Role of the public sector in adjustment.

7. While there is a consensus, at least in broad terms, on the need to restore the market to its proper role in the adjustment process, it is clear that the public sector will continue to play an important part in positive adjustment, insofar as action is required in areas such as energy, telecommunications, new transport techniques, data-processing technology, etc. These are all areas where important externalities exist and in which government can therefore naturally play a major role.

Limitations of the sectoral approach.

8. Furthermore, it is increasingly clear that there are limits to the effectiveness of a sectoral approach:

- first, the sectors embrace industries having different potentials in terms of comparative advantage, scope for applying new technologies, and growth. Thus, the dichotomy between negative interventions in declining sectors and positive interventions in growth sectors is not always pertinent.
- second, many areas of action on which positive adjustment is crucially dependent (energy conservation, dissemination of technology, social technology, etc.) go beyond traditional sector classifications.

R. and D. investment in human resources.

9. In the context of positive adjustment, policies on research and on investment in human resources are bound to occupy a central position:

- as regards research, what is needed generally speaking is not so much to increase total financing as to concentrate it in those areas in which member countries retain comparative advantages (actual or potential); to give greater weight than in the past to marketing criteria and to the dissemination of research results; and to link efforts in this area with other key adjustment instruments such as public procurement policy and the policy on the productive tertiary sector.
- as regards investment in human resources, what is needed is to allow redeployment of labour shed by uncompetitive firms through appropriate vocational training and to enable firms and offices to exploit new technology (such as information transmission and robotics).

Conditions to be met by positive adjustment policies.

10. Over and above the foregoing considerations, positive adjustment policies must, far more than is the case today, meet three essential conditions:

- transparency as regards the objectives and the resources used, this being a necessary condition for the purpose of assessing costs and effectiveness;
- coordination so as to take advantage of the scope for synergy between the various measures, since a series of instruments, even if well devised from a technical point of view, do not amount to a policy unless they are properly linked up to serve an objective;
- a check on the results in the form of assessment and monitoring, allowing the priorities and instruments to be readjusted if necessary.

In this connection the Community can play an important role by seeing that certain agreed "rules of the game" are respected.

*The Community's
role...*

11. The Community must play a growing role in the positive adjustment process.

*at macroeconomic
level...*

The Community's initial contribution to adjustment must be to ensure, at macroeconomic level and in the context of the European Monetary System, a more stable environment by coordinating short and medium-term policies at the highest growth rates that are consistent with the fight against inflation.

*and as regards
structural
policies.*

As regards structural policies, its role cannot be confined either to the traditional areas in which it has been active hitherto (external relations, the single market, etc.) or to industries in difficulties such as steel or textiles. It must also be extended to the areas or industries in which it can provide a consistent framework and reduce the dangers and waste which would be inherent in a series of independent initiatives.

This is particularly the case with regard to certain general measures which involve Community priorities (energy conservation and the development of new sources of energy, research and the spread of new techniques, environmental protection, etc.) and the development of certain advanced technology industries and industries having high value added.

Accordingly, with a view to adjustment, the Community must reinforce and adapt the instruments at its disposal (regulations, competition policy, financial assistance, etc.) in order to make the most of the comparative advantage enjoyed by the Member States, to exploit the areas where they complement each other and to compensate for disadvantages where they exist.

TABLES, GRAPHS & ANNEX

- TABLE I - Breakdown of general government expenditures.
- TABLE II - Indices of prices and taxes in real terms for some oil products.
- TABLE III - Evolution of gross and net wages and salaries and of social contributions.
- GRAPHS - Trends in R & D government financing as a percentage of total budget and of GDP.
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- TABLE V - Types of industrial R & D supporting schemes in the Member States.
- ANNEX - Examples of national intervention measures.
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TABLE I

BREAKDOWN OF GENERAL GOVERNMENT EXPENDITURE

(As a % of G D P)

		DK	D	F	IRL	I	NL	B	L	UK
1. Current transfers	Ø 1960-69	10.13	14.44	19.01	11.74	15.71	14.99	13.71	17.16	10.31
	1970-79	17.26	17.43	22.61	16.75	20.46	25.84	19.36	23.03	13.56
	1977	18.46	19.53	25.00	18.11	22.74	29.18	22.01		15.11
	1978	19.77	19.59	25.58	15.86	20.10	30.34	22.50		14.35
	1979	20.18	19.25	25.79	16.35	19.31	31.49	22.61		14.59
1a. Subsidies	Ø 1960-69	1.05	1.06	2.15	4.03	1.41	0.94	1.24	3.05	1.87
	1970-79	3.10	1.57	1.88	3.85	2.08	1.77	1.34	3.45	2.41
	1977	3.14	1.58	2.16	3.64	2.20	2.15	1.42		2.38
	1978	3.47	1.83	2.02	3.46	2.51	2.29	1.47		2.22
	1979	3.30	2.04	2.06	3.83	2.81	2.52	1.41		2.20
1b. Social security benefits	Ø 1960-69	8.66	12.82	15.61	7.01	14.03	13.76	12.19	12.76	8.05
	1970-79	13.16	14.74	19.32	12.65	17.77	22.84	17.39	18.22	10.59
	1977	14.15	16.58	21.43	14.16	20.01	25.51	20.04		11.96
	1978	14.93	16.37	22.09	12.11	16.81	26.40	20.54		11.07
	1979	15.44	15.71	22.33	12.34	16.10	27.07	20.72		11.29
2. Public consumption	Ø 1960-69	15.10	15.11	13.21	11.79	13.29	15.23	13.16	10.61	17.07
	1970-79	23.37	18.93	14.08	17.22	14.12	17.45	15.98	12.64	19.83
	1977	23.75	20.05	14.92	18.11	13.72	18.20	17.27		20.82
	1978	24.48	20.01	15.11	18.12	15.92	18.32	17.95		20.27
	1979	25.08	19.88	14.87	20.18	15.77	18.71	18.24		20.26
2a. Compensation of employees	Ø 1960-69	10.54	7.78	9.25	5.93	9.94	10.62	9.18	7.68	10.91
	1970-79	16.33	10.51	10.35	11.26	10.67	12.86	11.58	9.49	13.05
	1977	17.05	11.15	11.19	11.42	10.45	13.41	12.55		13.57
	1978	17.45	11.06	11.33	11.55	11.75	13.52	12.92		12.42
	1979	17.85	10.84	10.61	12.64	11.75	13.60	13.16		12.62
3. Other current expenditure	Ø 1960-69	1.00	0.81	1.23	3.26	1.54	2.61	2.99	1.18	4.12
	1970-79	2.17	1.36	1.18	4.59	3.97	3.02	3.80	0.96	4.39
	1977	2.82	1.74	1.37	5.30	6.09	2.96	4.15		4.89
	1978	3.34	1.73	1.44	6.64	5.93	3.06	4.61		4.53
	1979	4.88	1.74	1.56	6.69	6.04	3.19	5.18		4.76
4. Gross capital formation	Ø 1960-69	4.10	4.06	3.92	3.90	3.18	4.66	2.70	4.28	4.21
	1970-79	4.00	3.93	3.53	4.27	3.31	3.96	3.41	6.02	4.27
	1977	3.60	3.38	3.33	3.74	3.49	3.38	3.25		3.49
	1978	3.66	3.58	3.26	4.81	3.75	3.25	3.11		2.64
	1979	3.56	3.75	3.00	5.29	3.17	3.28	3.25		2.85
5. Total current and capital expenditure	Ø 1960-69	31.24	35.83	37.89	30.93	34.43	38.39	32.59	33.04	36.13
	1970-79	47.54	43.37	42.21	43.55	43.04	51.42	42.80	44.38	43.03
	1977	49.27	46.69	44.94	46.45	47.55	54.56	47.01		45.29
	1978	51.96	46.71	45.65	46.51	47.03	55.78	48.50		42.63
	1979	54.36	46.55	45.55	44.84	45.61	58.85	49.63		42.90

Sources: Commission Services

Ø : Yearly average over the period.

Notes : a) Subsidies include current transfers to private or public enterprises ; they do not cover transfers for exceptional losses and losses accumulated over several years nor investment grants (these two categories of transfers being considered as capital transfers) ; they exclude also equity participation and the provision of capital (which constitute financial operations).

b) Social security benefits granted to households include on the one hand health benefits, family allowances and pensions (which constitute the majority of social security benefits) as well as on the other hand unemployment benefits.

c) Public consumption includes employees' compensation, the purchase of goods (including military equipment) and services by general government for consumption purposes as well as capital consumption.

d) Other current expenditure cover mainly interest payments on loans by general government.

INDICES OF PRICES AND TAXES IN REAL TERMS FOR SOME OIL PRODUCTS* (1974 = 100)

	Germany		France		Italy		Netherlands		Belgium		United Kingdom		Ireland		Denmark	
	Price (in.tx)	Taxes	Price (in.tx)	Taxes	Price (in.tx)	Taxes	Price (in.tx)	Taxes	Price (in.tx)	Taxes	Price (in.tx)	Taxes	Price (in.tx)	Taxes	Price (in.tx)	Taxes
REGULAR GRADE PETROL																
1975	98	95	93	93	90	91	96	92	94	91	104	109	116	131	93	92
1976	98	91	93	92	100	100	92	87	90	84	96	97	119	142	95	96
1977	90	87	100	107	107	115	87	85	87	86	89	90	116	133	92	106
1978	91	87	100	114	95	102	84	81	86	87	79	80	104	121	88	105
1979	95	85	105	122	89	94	88	80	93	87	95	86	108	110	100	117
1980	104	84	108	111	94	90	99	84	107	91	99	89	120	119	116	124
AUTOMOTIVE DIESEL OIL																
1975	95	94	94	93	90	85	97	91	101	95	88	79	90	82	97	77
1976	93	91	95	88	83	69	88	84	90	87	85	81	80	75	94	88
1977	89	87	97	90	70	42	84	79	85	81	92	89	88	58	92	105
1978	87	86	97	98	65	38	87	95	80	80	87	85	81	64	88	131
1979	93	85	109	114	73	37	102	105	98	100	99	92	89	60	122	217
1980	102	84	118	106	88	38	122	109	115	85	102	93	104	81	154	264
DOMESTIC HEATING OIL																
1975	95	97	94	94	90	90	103	133	110	70	72	81	84	-	95	76
1976	83	85	101	96	96	96	91	114	97	63	92	70	97	90	98	88
1977	80	82	105	99	108	178	89	110	87	58	101	127	107	88	91	107
1978	77	100	104	131	104	178	89	178	83	56	94	140	95	81	89	136
1979	128	148	121	184	119	187	116	235	115	62	109	141	115	72	132	237
1980	160	264	150	198	153	218	153	283	147	68	118	135	133	160	171	308
HEAVY FUEL OIL**																
1975	85	94	96	90	112	85	91	90	76	45	75	81	95	-	79	68
1976	96	90	93	82	112	72	93	82	76	45	78	70	104	120	82	79
1977	99	87	99	241	119	71	100	97	71	43	86	126	119	122	73	33
1978	89	85	94	223	101	68	85	75	60	14	74	139	105	113	69	68
1979	109	81	113	202	126	59	96	72	67	13	84	138	121	100	86	129
1980	135	77	137	178	154	49	135	67	97	12	95	134	133	222	124	180

* Provisional figures calculated from monthly data converted into annual averages and deflated using the consumer price index. For 1980 : prices and taxes for first six months of the year.

** For heavy fuel oil, only excise duties are included, since VAT is considered deductible.

EVOLUTION OF GROSS AND NET WAGES AND SALARIES AND OF SOCIAL CONTRIBUTIONS

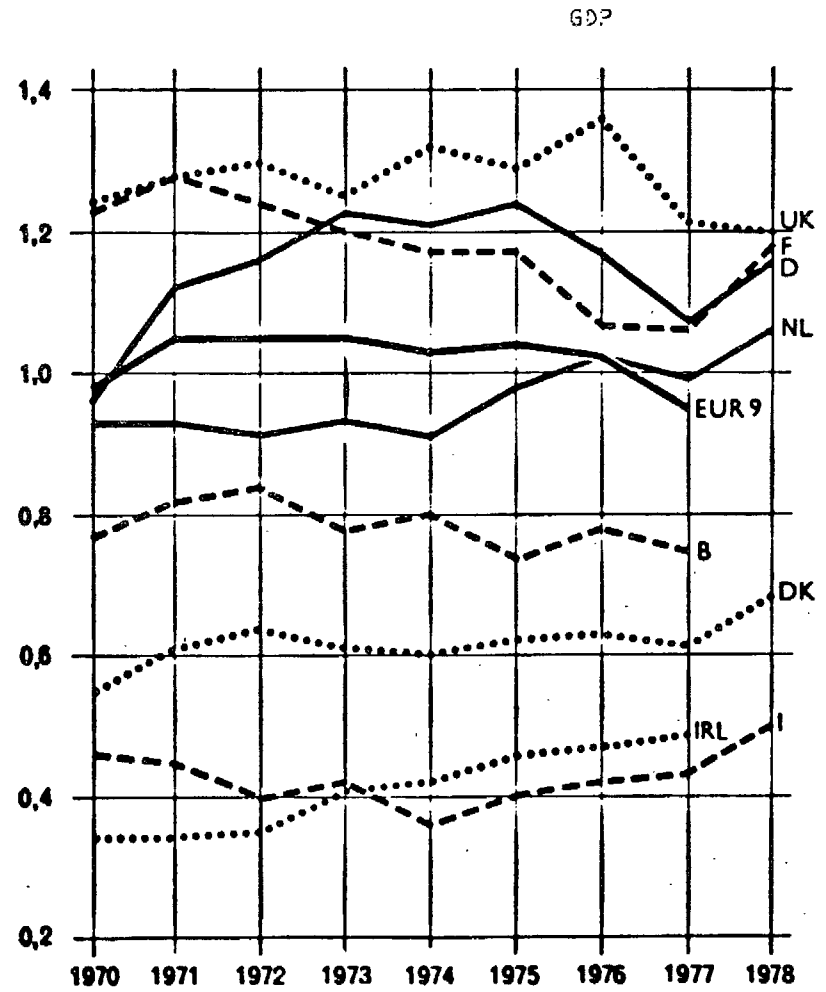
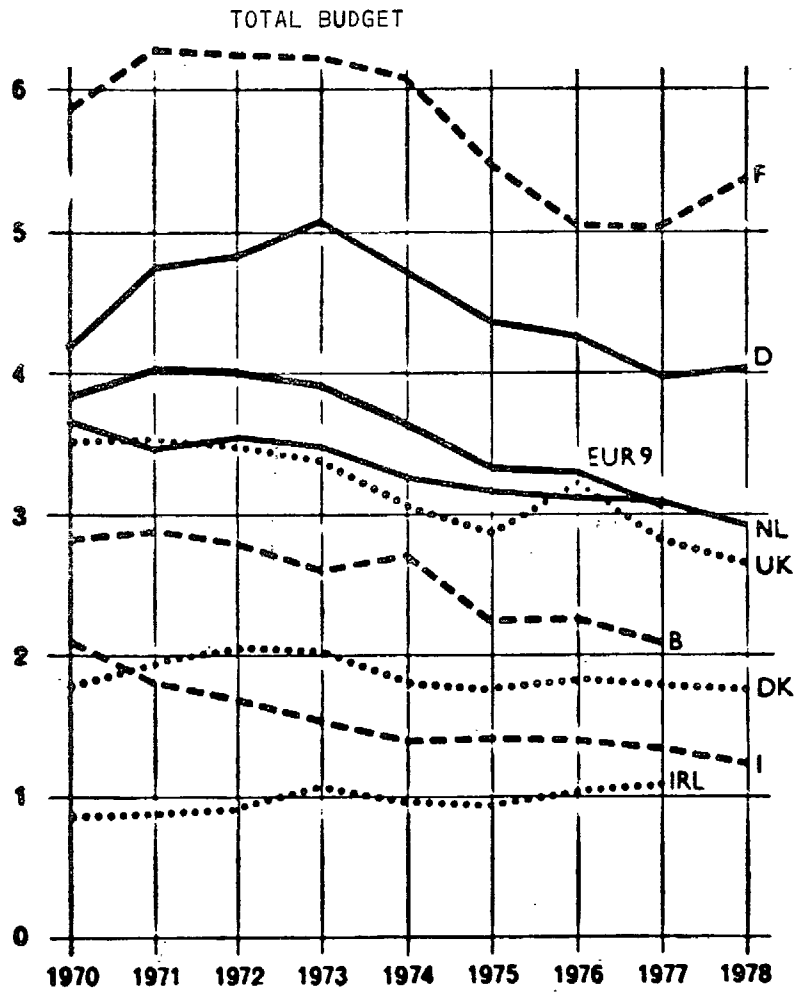
TABLE III

	GERMANY							FRANCE						
	1970	1973	1974	1975	1976	1977	1978	1970	1973	1974	1975	1976	1977	1978
1) Gross wages and salaries paid	100	138,2	151,3	156,5	166,6	178,6	189,8	100	145,9	173,7	201,5	231,7	260,1	292,1
1a. Wages and salaries net of all social contributions	100	137,0	150,0	153,6	162,2	173,5	184,4	100	144,8	172,2	198,6	226,5	252,3	283,6
1b. Employees' social contributions	100	149,5	164,0	180,2	203,5	220,3	234,9	100	159,8	192,4	238,0	296,1	356,6	398,7
2) Employers' total social contributions	100	156,0	176,6	189,0	210,7	223,2	236,7	100	146,1	175,3	215,7	254,4	293,4	334,3
3) Employers' total social contributions as % of gross wages and salaries paid	17,9	20,2	20,9	21,6	22,7	22,4	22,4	31,9	31,9	32,1	34,1	35,0	35,9	36,5
	UNITED KINGDOM							NETHERLANDS						
1) Gross wages and salaries paid	100	140,7	169,6	218,1	228,1	290,7	310,3	100	144,4	166,5	187,6	207,6	227,1	244,3
1a. Wages and salaries net of all social contributions	100	140,1	168,9	217,5	244,7	270,0	308,7	100	124,3	142,4	160,2	176,7	194,1	207,2
1b. Employees' social contributions	100	150,8	179,7	228,0	274,9	310,8	335,1	100	139,5	165,6	187,4	210,8	226,2	251,3
2) Employers' total social contributions	100	158,2	205,3	284,3	363,2	386,7	432,1	100	166,4	197,7	223,6	251,9	270,2	292,6
3) Employers' total social contributions as % of gross wages and salaries paid.	11,5	12,9	13,9	15,0	18,3	15,3	16,0	23,9	27,6	28,4	28,5	29,0	28,4	28,6
	ITALY *							BELGIUM *						
1) Gross wages and salaries paid	100	156,0	192,0	231,3	279,8	355,3	412,7	100	148,7	179,5	204,7	234,3	255,4	275,4
2) Employers' total social contributions	100	151,8	193,0	238,0	297,1	331,8	378,4	100	157,0	185,6	222,9	254,0	278,8	296,0
3) Employers' total social contributions as % of gross wages and salaries paid.	38,5	37,5	38,7	39,6	40,9	35,9	35,3	23,7	25,1	24,6	25,9	25,7	25,9	25,5

Source : EUROSTAT - National Accounts ESA

* 1a and 1b not available for Italy and Belgium

Trend in R & D government financing (1970-78) as a percentage of :



Source : EUROSTAT, Government financing of research and development 1970-1979

Breakdown of R & D government financing by objectives

Objectives	D			F			I			NL			B			UK		
	%			%			%			%			%			%		
	70	76	78	72	76	78	70	76	78	70	76	78	70	76	78	70	76	78
Human and social objectives	6,1	11,0	13,4	9,9	11,5	11,4	6,6	6,2	11,5	11,8	19,7	19,7	13,7	16,1	28,8	5,0	6,8	6,4
Technological objectives	24,9	24,1	27,5	32,3	29,0	26,4	44,8	41,4	39,8	17,0	13,2	13,8	30,2	35,2	23,2	25,4	17,9	16,1
<u>of which :</u>																		
- exploration & exploitation of the earth and its atmosphere	1,7	1,8	2,2	2,5	3,2	3,1	1,5	1,6	2,6	1,3	1,0	0,7	3,4	2,8	2,2	0,3	0,8	1,0
- production, distribution and rational utilisation of energy	11,3	11,0	13,8	8,3	8,5	7,9	21,7	20,7	19,0	6,2	4,7	4,5	13,0	16,9	7,8	7,2	7,7	7,6
- industrial productivity and technology	6,6	6,8	7,3	15,2	11,8	10,4	17,1	10,3	8,3	6,4	4,8	5,0	9,9	10,5	10,2	16,0	7,1	5,0
- exploration and exploitation of space	5,3	4,5	4,2	6,3	5,5	5,0	4,5	8,8	9,9	3,1	2,7	3,6	3,9	5,0	3,0	1,9	2,3	2,5
Agriculture	2,1	2,0	2,0	3,0	4,3	3,9	3,2	3,1	5,0	8,7	7,4	7,4	4,2	5,3	3,7	2,6	4,3	4,6
Defence	17,7	11,4	12,2	31,8	29,5	33,3	3,9	4,5	4,3	4,9	3,2	3,1	0,4	0,6	0,2	41,0	47,7	51,5
General promotion of knowledge	49,2	51,5	44,7	22,7	25,3	24,5	41,6	44,5	39,3	54,0	54,3	55,6	51,4	42,8	44,1	25,6	23,4	21,4
Expenditure not itemized	-	-	0,2	0,3	0,4	0,5	- 0,1	0,3	0,1	0,6	2,2	0,4	0,1	-	-	0,4	- 0,1	-
TOTAL	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100

Source : Government Financing of Research and Development in the Community countries, European Communities, CREST/51/78

TYPES OF INDUSTRIAL R & D SUPPORTING SCHEMES IN THE MEMBER STATES (1)

	Patents & Li- censing systems	Advisory act & techn. systems	Collective research	Support for sele- cted technologies	Support regard- less of sector	Equity capi- tal
Belgium	XXX	XXXX	XX	XXX	XX	
Denmark	XXX	XXXXXX	XXX	X	XXX	X
Germany	XXXX	XXXXXX	XXXXXX	XXXXXX	XX	XX
France	XXX	XXX	XX	X(2)	XXXXXXXXXX	X
Italy	X		XXX	X(3)	XXXX	X
Ireland	XXX	XXXX	X	X	XXX	X
Netherlands	XX	XXX	XXX	XX	XX	X
United Kingdom	XX	XXX	XX	XXXXXX	XXXXXXXXXX	X

(1) Only the number of schemes is indicated and not their importance or financial contribution to the industrial R&D

(2) The French large-scale Technological Programmes are composed of 7 separate projects (see Annex I, p. 199)

(3) Under the Italian "Progetti Finalizzati" CNR. There are now 24 approved projects.

Source : J.M. DIDIER AND ASSOCIATES "Direct and indirect measures for promoting industrial research and development in the member states of the European Communities".

Report prepared for the Commission of the European Communities, Directorate General for Research, Science and Education - Dec. 1979.

EXAMPLES OF NATIONAL INTERVENTION MEASURES

This annex describes in brief a number of intervention measures taken in the Member States. This list, which does not claim to be exhaustive, classifies intervention measures according to whether they are concerned with firms' inputs (capital, labour) or technology and organizational methods, or with the markets on which firms sell their products. (It includes some measures which have been discontinued recently, and where this is the case, it is stated).

MEASURES ON INPUTS

CAPITAL

(i) TAX INCENTIVES

Germany	SINCE 1977, CHANGES IN COMPANY TAXATION, including the possibility of setting off losses against previous profits, reduction of the tax on companies trading capital, changes in the rules on accelerated depreciation, and abolition of double taxation of dividends.
France	GENERAL SCHEME TO PROMOTE INVESTMENT. Since April 1979, allowance against (taxable) capital gains resulting from balance-sheet revaluation equal to up to 10 % of investment made between 1979 and 1980. Measures applicable as of 1 October 1980 for a five-year period allow companies to deduct from taxable profits an amount equal to 10 % of the sums devoted to the acquisition of new plant and machinery.
Italy	For the period 1976-78, REVALUATION OF CERTAIN ASSETS WAS ALLOWED. For tax purposes, valuation at replacement cost for some depreciable assets.
Belgium	TAX CONCESSIONS : tax allowance in respect of the investment of capital gains resulting from balance-sheet revaluation ; rules on degressive depreciation extended to all plants and machinery ("Plan de relance de l'activité économique et de l'emploi", February 1977), measures contemplated for the period 1977-1980.

(ii) FINANCIAL INCENTIVES

Germany	<p>1975 : INVESTMENT GRANT of 7.5 % made available in part by the Länder.</p> <p>1975 : SUBSIDIES of 7.5 % for energy-saving investments.</p>
France	<p>1979 : EQUITY LOANS granted out of the resources of the Economic and Social Development Fund, with repayment terms varying according to the success of the investment project ; those administered by the Special Industrial Adaptation Fund are designed to promote both regional development and industrial conversion.</p> <p>REGIONAL DEVELOPMENT GRANTS related to job creation, subject to a ceiling expressed as a % of the investment. Strong regional selectivity. Conditions for obtaining grants are published, but grants are not made automatically.</p> <p>SEPTEMBER 1978 : LOANS ON PREFERENTIAL TERMS for job-creating investments.</p> <p>These three measures were reinforced in April 1979. The intention is to extend them for 1981.</p>
Italy	<p>CAPITAL GRANTS (Law 183/1976) for investment schemes in the Mezzogiorno.</p> <p>INTEREST-RATE SUBSIDIES (DPR 902/1976) related to investment size and regional location.</p> <p>RESTRUCTURING AND CONVERSION FUND (Law 675/77) : interest subsidies, loans at preferential rates, and grants available for the period 1977-1981.</p>
United Kingdom	<p>1979 : REGIONAL DEVELOPMENT GRANTS : changes in the conditions for awarding these grants with a view to a greater degree of regional selectivity. Grants are automatic, once the qualifying criteria are met.</p> <p>SELECTIVE ASSISTANCE FOR INVESTMENT PROJECTS under Section 8 of the Industry Act 1972 ; discretionary measure to promote projects that are in the "national interest". No framework for granting this assistance exists as yet.</p>
Belgium	<p>1977 : INTEREST-RATE SUBSIDIES initially granted under the 1975 Economic Assistance Programme and improved under the Expansion Law of 1977.</p>

LABOUR

(i) EMPLOYMENT SUBSIDIES

- Germany APRIL 1979: PREMIUM FOR RECRUITING DISABLED WORKERS: DM 8 000 to DM 18 000 for each new job created for at least 18 months; in force until 31 March 1980.
- France APRIL 1979: PREMIUM TO ENCOURAGE THE EMPLOYMENT OF OLDER MANAGERIAL STAFF: FF 18 000 to FF 24 000 for each new job created. Applicable until December 1981.
- United Kingdom 1976-78: TEMPORARY EMPLOYMENT SUBSIDY: £ 10 per week for every threatened job for a period of three months, with the possibility of an extension, for firms obliged to dismiss at least 50 people. This measure was discontinued in APRIL 1979.
- 1978-79: SMALL FIRMS EMPLOYMENT SUBSIDY: £ 20 per week for three months for each additional worker taken on by firms with less than 200 employees; in October 1978, subsidy extended to the country as a whole but once again restricted to certain regions from July 1979 onwards.
- JULY 1978: ADULT EMPLOYMENT SUBSIDY, restricted to particular regions; £ 20 per week for each person who has been unemployed for 12 months or more and who is taken on by a firm on a full-time basis.

(ii) VOCATIONAL TRAINING

- Germany MAY 1979: SPECIAL REGIONAL PROGRAMME RELATING TO LABOUR MARKET POLICY: Federal intervention confined to regions where unemployment in 1978 was higher than 6% of the regional labour force. The programme includes incentives for vocational retraining of employees in firms where restructuring is under way and for redeployment of unskilled, long-term unemployed persons. Expected budgetary cost: DM 500 million per year.
- AUGUST 1979: CHANGES IN THE RULES ON THE DIFFERENT SUBSIDIES AVAILABLE FOR FURTHER VOCATIONAL TRAINING: increased subsidies for persons following further vocational training courses.

France JULY 1977: GOVERNMENT ASSISTANCE FOR FIRMS EMPLOYING TRAINIEES. Scheme renewed annually since then under successive "national employment pacts". Wages equal to between 76% and 90% of minimum wage) are paid to young trainees (especially those undergoing practical training in firms). Scheme planned to continue until December 1981. Annual budgetary commitments: FF 1500 million.

FEBRUARY 1979: ESTABLISHMENT OF RETRAINING UNITS offering appropriate vocational retraining to workers leaving the steel industry.

Italy JUNE 1977 and JULY 1978: LAW ON VOCATIONAL TRAINING FOR YOUNG PEOPLE. This law provides for the public financing of employment-training contracts for young people.

VOCATIONAL TRAINING AND RETRAINING PROGRAMMES IN PUBLIC ENTERPRISES: Programmes for adult workers only, notably in connection with the conversion plans of public enterprises in industry.

United Kingdom APRIL 1978: YOUTH OPPORTUNITIES PROGRAMME: under the programme, the State meets the cost of training courses in firms that last no more than 12 months and are intended for persons under 19 who have been out of work for more than six weeks in 1980-81.

1977-78: REFORM OF VOCATIONAL TRAINING: Industrial Training Boards were set up to improve the quality of vocational training, to adapt it to needs and to spread the costs over industry and commerce.

1978: TRAINING OPPORTUNITIES SCHEME: public finance for accelerated training for a wide variety of skilled jobs for people out of work or wishing to change jobs (since July 1979, no training provided for tertiary-sector jobs).

Belgium JUNE AND NOVEMBER 1977: REFORM OF VOCATIONAL TRAINING, concerning in particular the system of "credit hours" for workers following vocational training courses, financing by the government of 50% of vocational training expenses, an increase in the guaranteed wage during training leave and a review of the way in which training courses are organised.

(iii) REDUCTION IN
SOCIAL SECURITY
CONTRIBUTIONS

- France JULY 1977: PARTIAL EXEMPTION IN RESPECT OF EMPLOYERS' SOCIAL SECURITY CONTRIBUTIONS: 50% reduction, applicable until December 1981, in employers' social security contribution for firms taking on a net increase in the workforce. This measure, agreed under the "national employment pacts" represents an annual budgetary cost of FF 675 million.
- JULY 1977: EXEMPTION FOR EMPLOYERS' SOCIAL SECURITY CONTRIBUTIONS PAID IN RESPECT OF APPRENTICES: in the case of apprenticeships in the artisanat, total exemption for 3 years, reduced to 1 year in the case of apprenticeships in industry. This measure, agreed under the "national employment pacts", represents an annual budgetary cost put at about FF 460 million.
- Italy JUNE 1977: SCHEME UNDER WHICH THE GOVERNMENT HELPS WITH THE BURDEN OF FIRMS' SOCIAL SECURITY CONTRIBUTIONS: initially introduced for the period from February 1977 to January 1978 and subsequently extended in different forms.
- Belgium JANUARY 1977 AND MARCH 1979: REDUCTION OF EMPLOYERS' SOCIAL SECURITY CONTRIBUTIONS for firms with more than 100 employees which increase their workforce by 1% annually in the period 1979-81. Total exemption until 1981 for contributions in respect of workers taken on during that period and 15% reduction in contributions in respect of existing workforce.

(iv) MOBILITY INCENTIVES

- Italy 1977: CREATION OF A LABOUR MOBILITY FUND (Law 675/1977): assistance available in various forms to workers moving elsewhere in order to take a job through a central or regional "job clearing agency".
- United Kingdom REMOVAL GRANTS: an employee recruited for at least six months and expected to remain with a firm for at least six months following his move qualifies for a contribution of L 1500 towards his removal expenses. The grants have been reduced considerably since July 1979.

MEASURES OPERATING ON TECHNOLOGY AND ORGANIZATIONAL METHODS

PROMOTION OF
RESEARCH AND
DEVELOPMENT

Germany Since 1979, PROMOTION OF R & D IN SMALL AND MEDIUM-SIZED FIRMS (firms employing less than 1000 people and with a turnover of less than DM 150 million : direct public assistance for certain research projects, reimbursement of up to 45% of R & D labour costs, tax relief for investments in R & D, 30% premium for R & D contracts signed abroad, subsidized loans.

PROMOTION OF R & D IN CERTAIN SECTORS : to encourage the introduction of new processes or equipment in the field of health services (grants totalling DM 29 million were made to private and public research institutes in 1979); to foster the development of new products or processes in data processing (mainly software); to encourage wider use of microelectronics (notably in the production processes of small and medium-sized firms); to assist selected pilot projects in the fields of office electronics and data transmission.

France JULY 1979: NEW MEASURES TO PROMOTE R & D IN SMALL AND MEDIUM-SIZED FIRMS (firms employing less than 2000 people): innovation premiums of up to 20% of R & D contracts signed abroad, with an annual ceiling of FF 1 million; loans to cover 50 % of costs involved in introducing new technologies and products; these loans are repayable only if the project is successful (loans available to all firms).

APRIL 1977: LOCALIZATION PREMIUM FOR CERTAIN RESEARCH ACTIVITIES in certain regions amounting to FF 25 000 for each new permanent job created in the case of investments of less than FF 10 million (for investments over FF 10 million a ceiling of 25 % is applied). Available until December 1981.

JANUARY 1979: REORGANIZATION OF THE INSTITUTIONS RESPONSIBLE FOR PROMOTING INNOVATION: mainly reform and decentralization of the "Agence Nationale pour la valorisation de la recherche" (ANVAR).

Italy 1977: NEW RESOURCES FOR THE SPECIAL FUND FOR APPLIED RESEARCH (law 675/77), to be used notably for particularly important technological projects involving a high industrial risk; 20% of the Fund's resources earmarked for research undertaken or dissemination of new ideas by small and medium-sized firms.

United
Kingdom

JULY 1977: PRODUCT AND PROCESS DEVELOPMENT SCHEME : grants of up to 25% of investments in the manufacture of microelectronic components. Only investments of £ 25 000 or more qualify.

JULY 1978: MICROPROCESSOR APPLICATION PROJECT: measures aimed at fostering the application of microprocessor techniques in the production processes of different industries.

JULY 1978: MICROELECTRONICS INDUSTRY SUPPORT PROGRAMME: 5-year assistance programme for the development and dissemination of new product or processes by the microelectronics industry. Grants may cover between 25% and 50% of R & D costs and up to 25 % of investments necessary for production.

Belgium

1976-80 RESEARCH & DEVELOPMENT PROGRAMME: with special emphasis on nuclear technology; in addition research grants for non-nuclear industrial technology (e.g. projects involving several sectors in the fields of energy saving, raw-material conservation, etc.).

MEASURES TO ASSIST
SMALL AND MEDIUM-
SIZED FIRMS

- Germany FEBRUARY 1979: START-UP LOANS FOR SMALL AND MEDIUM-SIZED FIRMS: loans of DM 100 000 available to businessmen setting-up firms; these loans have a 10-year period of grace and carry no interest during the first two years.
- France JULY 1980: CREATION OF THE "CREDIT D'EQUIPEMENT DES PME". This new agency is responsible for all forms of public assistance for small and medium-sized firms.
- MARCH 1979: CHANGES IN, AND REINFORCEMENT OF MEASURES TO ASSIST SMALL AND MEDIUM-SIZED BUSINESSES: concerning the conditions for providing mutual guarantees for loans by small businesses (creation of a Guarantee Fund), the coordination of public initiatives to assist small businesses ("Agence nationale pour la création d'entreprises"), the activities of the CIDISE ("Comité interministériel pour le développement des investissements et le soutien de l'emploi"), in support of small and medium-sized businesses with a high technological potential or a high value-added content and a greater role for the CODEFIs ("Comités départementaux d'examen des problèmes de financement des entreprises").
- Italy 1976: MEASURES TO ASSIST CONSORTIA MADE UP OF SMALL AND MEDIUM-SIZED FIRMS (Law 374/76).
- United Kingdom TAX MEASURES IN FAVOUR OF SMALL AND MEDIUM-SIZED FIRMS (1980 Budget): in particular, tax relief in the form of a carry-forward of losses over several years and a further increase in the ceiling up to which taxable profits are subject to a reduced tax rate.
- Belgium JULY 1978: PREMIUMS GRANTED TO SMALL AND MEDIUM-SIZED FIRMS that are setting up in business for the first time or that create new jobs ("Loi d'orientation économique").

MEASURES ACTING ON MARKETS

PUBLIC PROCUREMENT

- Germany 1976: DEVELOPMENT OF THE VFW-614 AEROPLANE: assistance was initially granted for the marketing of the aeroplane; following the difficulties experienced in 1974, it was replaced by direct support measures for the firms involved.
- France 1979: PROGRAMME FOR THE DEVELOPMENT OF TELEMATICS : the PTT (the postal and telecommunications administration) embarked on a major multi-annual programme for the introduction of electronics in the telecommunications field. Development and supply contracts serve first and foremost to promote development of the French telecommunications industry.
- United Kingdom GENERAL PREFERENCE SCHEME: Under this scheme, government and nationalised industries are obliged to give preference to firms in special development areas or in development areas which tender for public contracts on the same terms as firms located in other areas.
- Belgium 1980: MEDIUM-TERM PROGRAMMING OF PUBLIC PROCUREMENT: a role given to the "Commission d'orientation et de coordination des commandes pbuliques". Agreements will be signed between the government and public enterprises in the transport and communications sectors (the major guidelines laid down in the 1981-85 national plan).