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PRESS RELEASE

Summary of a speech by M. Marjolin, Vice-President  
of the Commission, to the European Parliament  
on January 19, 1965

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On January 19, M. Robert Marjolin, Vice-President of the European Economic Community, made his annual New Year speech to the European Parliament on the economic situation in the Community.

He began by outlining developments in 1964: "By and large the Community's economic record in 1964 is a good one: growth was very considerable, in fact, greater than had been forecast at the beginning of the year. And inflationary strain eased in the course of the year in most of the Community countries". Expansion had been spurred on by a distinctly more rapid growth of exports to non-member countries, and by industrial investment, which had increased at a higher rate than in 1963, save in Italy and in France. On the other hand, the growth rates for both public and private consumption expenditure had declined. Italy was the only country where there had been a distinct slowdown in expansionary momentum.

In the Federal Republic of Germany and in the Netherlands gross national product had grown by 6.5%, in Luxembourg by 6%, in Belgium and in France by 5%, and in Italy by 2.5%.

Consumer prices, which had continued to rise rapidly during the first half of 1964, except in France and in Germany, moved up more slowly in the second six months of the year.

Trade and external payments moved nearer equilibrium in 1964. In this field, the most noteworthy trend was the spectacular recovery of the Italian balance of current payments. For the Community as a whole, it was estimated that a small surplus on current account had been achieved.

Considering next the outlook for 1965, M. Marjolin said that the growth rate for economic expansion was again likely to be fairly high, though not as high as for 1964. This loss of momentum was to be expected everywhere except in Italy. The consequence for the Community as a whole would be a decline in the growth of gross product in real terms from just short of 5% in 1964 to about 4% in 1965. The weakening of expansion would be due, in most countries, to a slower growth in overall nominal demand (exports, investments, consumption of households). In the Federal Republic of Germany it would be caused by limits to production capacity and manpower shortage.

The forecasts for 1965 suggested that, in most of the Community countries, the rising trend of consumer prices would continue to weaken, except in the Federal Republic of Germany where price strain was likely to grow. But in M. Marjolin's opinion the upward price trend in 1965 would still be excessive. In most of the Community countries, the increase in consumer prices might again be somewhere between 3 and 4%.

As for external payments, it was probable that there would be no substantial change in the trade balance and in the Community's current account with non-member countries. The boom in intra-Community trade would continue.

On the trade-cycle policy needed for 1965 he said:

"Like all economic forecasts, those I have just mentioned necessarily involve a margin of error, which must be borne in mind in working out the short-term policy to be pursued in 1965.

"For example, in view of the latest returns of industrial production, we may well doubt whether economic activity will be as brisk as our present forecasts suggest: in recent months, industrial production in Italy has remained virtually static; in France, it has apparently advanced very slowly, in the Benelux countries distinctly more slowly than during the first half of 1964, and also less vigorously in the Federal Republic of Germany, though in this country it is still appreciable."

This loss of pace, which might be only transient, raised no new problems in Germany and in the Netherlands, where demand was still very heavy. In the other countries, although the lower rates of expansion seemed to be due to a certain weakening of demand, the time did not appear to be ripe to give a general fillip to the economy: "Any premature relaxation of the policy of restraining overall demand might add to the strain which still persists in the countries concerned and stultify

our stabilization drive. On the other hand, a more stringent policy of restraint, designed to bring more pressure to bear on cost and price trends, would be unwise, since employment and economic activity in general might be adversely affected."

However, changes in the economic "policy mix" in certain countries must be recommended or contemplated. The Commission approved the Italian Government's steps to revive investment. Similarly, if in France productive investment appeared to be running perceptibly below forecasts, cautious expansionary measures might be advisable. Care should, however, be taken to ensure that these measures did not engender an undue expansion of overall demand, so as to avoid any further overheating of the economy.

Concluding this survey of the current situation, M. Marjolin said that it had proved necessary to resort to emergency measures in 1963 and 1964 which could have been avoided if greater foresight had been shown. Faced with the rapid development of an inflationary situation, the authorities had had no other means of conserving some degree of equilibrium in the Community save that of curbing demand. With more time in hand, it would have been possible to concentrate more on production capacity problems and on the far-reaching structural reforms needed in this field. One chief aim of medium-term policy was, in fact, to forestall imbalance rather than remedy it when it occurred. For this reason, M. Marjolin included in his address to the Parliament an outline of the main problems which are to be tackled in the first EEC medium-term programme, which will cover the period 1966-1970.

Two problems were the sharp decline in the growth rate of the EEC labour force and the drain upon such manpower reserves as still existed in certain countries. If a high rate of economic expansion was to be maintained, a more rapid improvement in productivity would henceforth be needed. Maximum productivity meant the optimum distribution of productive forces between the various sectors of the economy. This meant not only that more labour must be drawn from the land to man the more productive sectors of industry and services but also a change in employment patterns within those sectors themselves.

Although competition policy had a vital role to play in the optimum distribution of the factors of production, it was no less essential that the action of public authorities should be streamlined and co-ordinated. The most important spheres were

vocational training, scientific and technical research, incentives to investment, regional policy, policy relating to particular sectors. If all these operations were to be consistent they must be planned within the framework of overall economic development. They would therefore be covered by the medium-term programme.

Having explained the link between Community policies (on agriculture, transport, etc. ...) and the medium-term economic policy, M. Marjolin stressed that the objective of this policy - expansion - could only be achieved in conditions of, and by means of, internal stability and external equilibrium. The equilibrium of external payments presupposed the maintenance of a surplus on the balance of current transactions to cover necessary exports of capital, notably to the developing countries. Internal stability was no less indispensable: it was still vital that the increase of nominal demand should not outstrip to any appreciable extent that of available goods and services and that savings should be on an adequate scale to finance the very heavy investments which would be needed. Stability would only be achieved if it was considered of major importance, not only by the Community Institutions and the States, but also by the main economic and social groups in the Community. "For this purpose", said M. Marjolin, "two conditions must in my opinion be fulfilled:

- "1. The sharing of the fruits of expansion must be efficacious and fair; efficacious, because, as the Community economy gradually moves forward, the foundations of future development must be laid; fair, because it is essential that each individual should feel himself a partner in a great undertaking and not the object of decisions ignoring his legitimate interests;
- "2. Both sides of industry should be consulted when major economic policy decisions are taken which will determine the scale of the national product or Community product and its utilization, even if in many cases the final decision must be taken autonomously by the public authority representing the general interest".

Having described briefly the machinery which had been set up to elaborate medium-term policy, M. Marjolin concluded with these words:

"To put the whole thing in a nutshell, I would say that the economic committees which we have set up in the past year constitute a complete administrative unit, which, with the support and sometimes the guidance of the Commission's staff, could in the near future become the policy-making and policy-implementing bodies in this field of a modern, federal or confederal European State.

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"Senior officials of Government departments responsible for economic, financial and monetary affairs and Commission representatives are now meeting regularly and, more effectually than we would have dared to hope only a few months ago, are analysing, comparing and contrasting, their experience and the decisions, laws, regulations and administrative practices of the different Member States.

"Inexorably, as we find ourselves in the half-light between the still extensive sovereignty of the individual States and the dawning sovereign rights of a united Europe, some measure of co-ordination of national economic policies is emerging from these lengthy discussions.

"And that is the process we want to develop most during this preparatory period. We shall endeavour, with the support of the Parliament, to induce the States to accept, in all economic, social, financial and monetary matters, common rules and standards spelled out as precisely as possible and in figures wherever appropriate.

"This way we shall be ready for the day when a federal or confederal Europe will shine forth. Meanwhile we shall not have been idle; we shall, I trust, have done good work."