

European BACKGROUND INFORMATION Community

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BACKGROUND NOTE

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1978 ACTION PROGRAM PROPOSED ON EUROPEAN ECONOMIC AND MONETARY UNION

To move the European Community closer toward its goal of economic and monetary union, the Commission has put forward an action plan for 1978 that is expected to pave the way for closer economic ties among the nine member states and provide a simultaneous impetus to a solution of the continuing economic crisis.

The Commission proposals, to be discussed at the European Council meeting in Copenhagen on April 7 and 8, are the first initiative in what Commission President Roy Jenkins has described as the "long-jump approach" -- a rapid succession of small steps, a lengthening of stride and increase of momentum, and then the leap toward economic and monetary union.

Commission Vice President Francois-Xavier Ortoli, who is in charge of economic and financial affairs, emphasized to the press in Brussels recently that the 1978 action plan was the first portion of the five-year economic and monetary action program already approved in principle by the European Council. It calls, he said for regular checks at the highest political level to ensure its implementation.

If approved by the European Council, the 1978 program will require member states to pledge their cooperation on three main goals: increased convergence of economies and economic policies, progress in the creation of a single competitive market, and development of Community structural and social policies.

The final European Council meeting of 1977 adopted economic objectives for 1978 that call for, among other things, a Community-wide gross domestic product growth rate of 4 to 4 1/2 per cent, a lowering of the inflation rate to 7 to 8 per cent for the Community average, and a narrowing of the inflation rate spread between the member states.

As a communication to the Council this month on economic policy adjustments

pointed out, the action plan's closer coordination of economic and financial policies "would soften the constraints imposed on different member states, increase the chances of success of joint action to bolster economic activity, and permit greater exchange rate stability within the Community and vis-a-vis the outside world."

That communication also noted, however, that the GDP growth rate objective of 4 to 4 1/2 per cent now seems unrealistic. "Recent exchange rate phenomena," it said, "particularly the depreciation of the dollar, will on the whole have restrictive effects on the European Community."

The Commission offered the following arguments in support of the 1978 action program:

Increased convergence of economic policies is a prerequisite of progress toward European integration. In view of the present degree of economic interdependence, any solution on the price, economic growth and employment fronts in any one member state is closely tied to the action taken in the neighboring state. With this in mind, the coordination of short-term economic policies must take on a new dimension, to become more realistic in practice and wider in application.

The Commission will therefore concentrate on working toward a closer coordination of monetary and budgetary policies and the reestablishment of monetary cohesion within the Community.

A single Community market would be both a step toward integration, a growth factor and a guarantee against the temptations of protectionism. Passage of important proposals on tax harmonization, the elimination of technical barriers to trade and the opening of public contracts to competitive bidding -- now before the European Council -- would speed the establishment of a single competitive market.

To promote the free movement of goods within the Community, steps should be taken in the course of the year to encourage greater harmonization of customs regulations for both internal and external Community trade.

Community structural and social policies can be improved through better sectoral information that would give early warning of crisis symptoms and hence be able to allow for clearer definition of the action to be taken in the different industries. Community-wide programs have already been put forward in steel, textiles and shipbuilding. The Commission also intends to pursue its policy of concerted action with the national authorities to remedy existing structural problems, to outline prospects for the development of the Community economy in the priority areas of the growth sectors and energy and to ensure that the necessary investment programs are carried out.