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Contact: Ella Krucoff
862-9540

EC RELEASES ANNUAL ECONOMIC FORECAST

The 10 European Community member states are slowly recovering from a three-year economic recession, but continued progress will be "hesitant and patchy," according to the Community's 1983-84 annual economic report.

Community nations have made headway in fighting inflation, stabilizing public finances and rectifying external trade imbalances, the report notes. But substantial problems remain: unemployment, high world interest rates and a disequilibrium in United States and Japanese currency exchange rates.

The report, which was released in October by the Commission of the European Communities, urges the Community and individual member states to take strong measures to reduce the fundamental structural problems that stand in the way of durable recovery. "The risks of relapse into continued quasi-stagnation are too great to let policies stand on the status quo," it says.

The Community economy will grow by 0.5 percent in 1983 and 1.5 percent in 1984, according to Commission forecasts. Recent growth is attributed primarily to pick-ups in private consumption, house-building and inventories. In 1984, exports are expected to increase by 3.4 percent, investment by 2 percent, private consumption by -0.1 percent and public consumption by 0.3 percent.

The growth of unemployment in the Community slowed down at the beginning of 1983, but the level remains "excessive," and it is expected to increase slightly in 1984, the report notes. At the end of August, 11.7 million people were out of work, compared with 10.6 million a year earlier.

The report emphasizes that the Community's recovery lags substantially behind that of the United States. For example, in the US, industrial

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production has grown much more strongly than in the Community. While in August 1983 the annual price increase had declined to 8.2 percent in the Community (compared with about 14 percent in 1980), in the United States it had fallen to 2.6 percent.

The report attributes the strong US recovery to an approach that combines an expansionary budgetary policy with a monetary policy whose overriding aim is to retard inflation - an approach that would not be workable for the Community. "The consequences of such a policy in terms of interest rates, the exchange rate and the trade deficit can, in the short term - and so long as their international impact is not taken into account - be more easily borne by a powerful, homogeneous economy benefitting from the advantages conferred by the status of its currency," the report states.

The US recovery has helped Europe in the sense that it has created a stronger American demand for imports, the report notes. The appreciation of the dollar could also further European export gains in third countries. However, high US interest rates and the strength of the dollar have in general created a less favorable financial climate in Europe. High world interest rates restrict the capacity of developing countries to import. Furthermore, the relative weakness of the yen has limited overall European competitiveness, the report concludes.

The Commission recommends that 1984 be the "pivotal year" in efforts to transform the Community's economy. The report makes these observations:

--Member states must make further efforts to reduce budget deficits, which will help bring down interest rates. This should be done by controlling public expenditures, rather than by increasing the tax burden. The tax environment for business should be improved to encourage investment and create a larger supply of risk capital.

--Because the relatively low profitability of the European business sector is a fundamental problem, there should be little or no expectation of real pay increases - and in some cases, negative wage adjustments are still necessary. Europe might benefit if pay were more often linked to profitability and performance, a practice that is more developed in Japan.

--Further regulatory reforms are necessary. Many financial services and professional activities are "needlessly compartmentalized and sheltered from competition, imposing higher costs on the economy."

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Some industrial monopolies are outdated because of technological change, and some labor laws that were introduced during times of full employment are not relevant in today's economy.

--Member states must pursue active policies for reducing unemployment, including training and retraining schemes and job-creation initiatives, with particular emphasis on young people; efforts to reduce and reorganize working hours, and incentives for small-scale employment ventures at the local level.

--The Community's internal market must be opened up. It is now severely burdened by national restrictions and resistance to the efficient use of Community power. "Almost all trade in manufactured goods is severely impeded by multiple non-tarriff barriers, including failure to agree on common technical standards, restricted public procurement and frontier delays and costs." Fast-growing branches of the service sector - such as civil aviation, road transport, insurance and financial services - are seriously restricted by regulations across the Community.

--The European Monetary System should be strengthened and extended to the whole Community. That would give European economic policy greater room to maneuver within the international monetary environment. The Community should also encourage work toward an international monetary regime that is more stable in its exchange rate behavior and that provides for an adequate supply of reserve assets.

--The Community should coordinate efforts to develop technologically advanced growth industries, such as those involving information technology, biotechnology, aerospace and alternative energy sources.

The Annual Economic Report 1983-84 also includes economic reviews for each member state. Copies will be available shortly from the European Community Information Service, 2100 M Street, N.W., Suite 707, Washington D.C. 20037. The price is $9.40.

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