

European Communities

EUROPEAN PARLIAMENT

Working Documents

198³-198⁴

12 March 1984

DOCUMENT 1-1490/83

Report

drawn up on behalf of the Committee on Economic
and Monetary Affairs

on medium and long-term economic prospects in the
Community

Rapporteur: Mr R. DELOROZOY

PE 88.782/fin.
Or. Fr.

By letter of 1 February 1980, the Committee on Economic and Monetary Affairs requested authorization to draw up a report on medium and long-term economic prospects in the Community.

By letter of 26 November 1980, the committee was authorized to report on this subject. The Committee on Regional Policy and Regional Planning and the Committee on Social Affairs and Employment were asked for opinions but decided not to do so.

On 25 November 1980, the Committee on Economic and Monetary Affairs appointed Mr DELOROZOY rapporteur.

On 16 June 1982, the motion for a resolution on the impact of relations with the Third World on the economy of the Community (Doc. 1-366/82) was referred to the Committee on Economic and Monetary Affairs as the committee responsible and to the Committee on Development and Cooperation and the Committee on External Economic Relations for opinions. The Committee on External Economic Relations decided not to deliver an opinion on the matter. On 22 September 1982, the Committee on Economic and Monetary Affairs decided to include the motion in the own-initiative report.

On 11 October 1982, the motion for a resolution on the urgent need to adopt a Community industrial policy (Doc. 1-633/82) was referred to the Committee on Economic and Monetary Affairs as the committee responsible and to the Committee on Social Affairs and Employment for an opinion. The Committee on Social Affairs and Employment decided not to deliver an opinion on the matter.

On 13 January 1983, the motion for a resolution on a study of the growth of demand in the 1980s both within the Community and worldwide (Doc. 1-1127/82) was referred to the Committee on Economic and Monetary Affairs as the committee responsible and to the Committee on Development and Cooperation and the Committee on External Economic Relations for opinions. The Committee on External Economic Relations decided not to deliver an opinion on the matter. On 25 January 1983, the Committee on Economic and Monetary Affairs decided to include the motion for a resolution as a whole.

The following took part in the vote: Mr MOREAU, chairman; Mr DELOROZOY, rapporteur; Mr BEAZLEY, Mr von BISMARCK, Mrs DESQUCHES, Mr FRANZ, Mr HERMAN, Mr LEONARDI, Mr NORDMANN, Mrs THEOBALD-PAOLI, Mr RQGALLA and Mr WELSH.

The opinion of the Committee on Development and Cooperation is attached.

This report was submitted on 27 February 1984.

The deadline for tabling amendments to this report is indicated in the draft agenda for the sitting at which it will be debated.

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The Committee on Economic and Monetary Affairs hereby submits to the European Parliament the following motion for a resolution, together with explanatory statement:

MOTION FOR A RESOLUTION

on medium and long-term economic prospects in the Community

The European Parliament,

- A. having regard to the many important papers, studies and reports on various aspects of the economic crisis which have been produced in recent years by, inter alia, the OECD, the IMF, the World Bank and the Commission of the Communities,
- B. having regard to the various reports on the short or medium-term economic situation, financial and sectoral problems, the internal market and the employment situation, which Parliament has adopted in the course of its present term,
- C. having regard to the report by Mr ALBERT and Mr BALL entitled 'Towards European Economic Recovery in the 1980s' and the work in hand in the Special Committee on European Economic Recovery,
- D. having regard to the motion for a resolution on the impact of relations with the Third World on the economy of the Community (1),
- E. having regard to the motion for a resolution on the urgent need to adopt a Community industrial policy (2),
- F. having regard to the motion for a resolution on a study of the growth of demand in the 1980s both within the Community and worldwide (3),
- G. having regard to the report of the Committee on Economic and Monetary Affairs and the opinion of the Committee on Development and Cooperation (Doc. 1-1490/83),

(1) Doc. 1-366/82

(2) Doc. 1-633/82

(3) Doc. 1-1127/82

1. Notes that the many studies now available clearly show that the world economic crisis affecting most of the industrialized countries and the Community in particular has arisen primarily from the growing inability of economic and social structures to adapt to future needs;
2. Points out that, notwithstanding changes in production capacities and far-reaching changes both in the situation of individual countries and in the industrialized countries' relations with each other and with the Third World, economic, social, cultural, psychological and even political structures have failed to evolve in a satisfactory manner, particularly in the Community;
3. Considers that the need to adapt to economic and technological change is often misunderstood and poorly acknowledged, as a result of a failure to provide all sections of the community with adequate information and training and a deficiency in the educational system;

Notes that much of the blame for this lies with the governments and the social partners, who have all too often misjudged future requirements and the scope for Community action;

4. Notes that, despite the repeated recommendations of Parliament and the action taken by the Commission, the Council of Ministers and the European Councils have usually been content to issue declarations of intent, being incapable of properly implementing measures to advance the work of the Community;
5. Believes that, in view of the work now in progress within the Special Committee on European Economic Recovery and of the numerous reports of the European Parliament which have already been adopted, it should confine itself here to a number of observations on currently discernible trends, the inescapable difficulties associated with present economic developments and likely prospects;

- Trends

6. Notes that the recovery of growth in the United States has been stronger than experts anticipated, notwithstanding the unprecedented size of American budget, balance of payments and trade balance deficits and the movement of the dollar;

7. Stresses that the economic recovery is now apparent in most Community countries to varying degrees, depending on how well the conditions for tighter control over their economic balances (inflation, budget deficits, growth of the money supply, etc.) are being met;
8. Points out that the reduction of unemployment remains a priority objective, but that it cannot possibly be achieved unless the revival lasts longer, and is more extensive, than current forecasts suggest. Among the conditions necessary to achieve this end, mention should be made of the need for greater competitiveness, innovation and technological initiative, the long-term solution of energy problems, the resumption of productive investment and a new awareness of both sides of industry of economic and social realities;
9. Stresses that:
 - instead of adopting an inward-looking stance, the Community should grasp the opportunity afforded by the changes in the international division of labour;
 - the scale of economic growth in the Community in the 1980s will depend on its ability to adapt and stand up to increased international competition without resorting to protectionism;
10. Also stresses that such a radical transformation of the European economy as is required will call for changes and adjustments - on which consultations will be essential - in matters such as social security conditions and contributions, the adjustment of working hours and vocational training;

- Difficulties

11. Reaffirms that, while differences of approach are not to be ruled out, it is essential for the Member States to seek a long-term Community solution to the energy problems, bearing in mind that the availability of supplies cannot be guaranteed and that price trends between now and 1990 are unpredictable;

12. Stresses that the central objectives of the common agricultural policy must be to strengthen the export mechanisms and to reduce the dependence on external supplies, especially of certain agri-foodstuffs or tropical products;
13. Reaffirms that the Community's first duty is to unify its internal market by rapidly eliminating technical and administrative barriers to trade, frontier formalities and fiscal obstacles, and to help undertakings to become integrated into a Community legal, fiscal, social, monetary and financial environment which is conducive to their development;
14. Points out that, under the existing economic and social conditions, it is essential for the Community to open up its market to the fullest possible extent and without further delay and to promote innovation, creativity and competition, on condition that Community preference is developed on that market;
15. Points out that it is imperative for the economic recovery of the Community for the initial work on financial and monetary integration, which is essential to the stability of the market and hence to the revival of investment, to be pursued with determination;

With that in mind, stresses the need for the Community progressively to consolidate the EMS by using the existing mechanisms to encourage the private and public use of the ECU. The ECU should become a Community currency for use between the member countries and, subsequently, in dealings with third countries;

Also stresses the need for simultaneous action aimed at closer coordination of the Member States' economic, monetary and budgetary policies, without which the EMS will be nothing more than an instrument for recording exchange fluctuations, powerless to help bring about greater economic convergence and to establish a monetary stability zone, which is essential for the reconstruction of the international monetary system;

16. Stresses, finally, in view of the rapid pace of current change, the intensity of international competition, the diversity of the strategies adopted, the widening discrepancies in economic growth and the prospect of further enlargement, the need to adopt new and more effective procedures at the institutional level, so that the Commission's scope for making proposals, the decision-taking power of the Council and the role of the European Parliament can be more clearly affirmed than they are today;

- Prospects

17. Is aware, having identified the broad trends and the difficulties to be faced, that the making of medium and long-term forecasts has, in view of the countless variables to be considered and the possibility of events taking an entirely unexpected course, today become a very complex and hazardous task;

18. Considers it essential, however, to take due account of the results of the economic projections so far made as part of the Commission's medium-term planning operations;

Approves, in this respect, the Commission's proposal to equip itself with more effective analytical instruments incorporating new criteria, prior to drawing up the sixth medium-term programme;

19. Reaffirms that the Commission's medium-term planning must not simply be a forecasting exercise; as the Commission demonstrated in the fifth programme, it must also constitute a political act which, once it has been approved by the Council, commits the Community to exercising better control over economic developments and to deploying all the means at its disposal;

20. In view of the obvious disparities in the economic growth rates of the Member States and the differences of approach - a permanent feature of the history of all societies - questions the validity of a systematic attempt to achieve total harmonization, an objective which all too often leads to paralysis and a plethora of rules and regulations;

21. Considers that the next few years will be decisive in determining the future of the EEC:

- its need to be able to meet the challenges of the future will compel the Community, in the absence of total convergence, to seek to take majority decisions;
- a new vitality on the part of Europe will mean restoring a climate of confidence, reducing the excessive bureaucracy that stifles initiative and reviving a willingness to take risks and accept responsibility;
- European economic recovery will not be real and durable until the governments and social partners have accepted the need for Community procedures and new strategies, taking account of the constraints forced upon Europe by international competition;

22. Instructs its President to forward this resolution to the Council and Commission and to the governments of the Member States.

EXPLANATORY STATEMENT

1. Do we need a report by the European Parliament on the medium-term economic prospects for Europe, for 1984-1990?

In a period of rapid change, where short-term forecasts are frequently proved wrong, can a credible longer-term projection be drawn up?

2. The author of this report does not feel bound to answer these questions, which he of course asked himself, before attempting to provide food for thought in a style differing from that of past reports with their emphasis on figures.

3. We must first bear in mind the wealth of major work that has been carried out in recent years in the form of studies, research and reports by various economic research bodies. To quote only a few, there have been the OECD, the European Monetary Fund, the World Bank and the Commission of the European Communities, not forgetting the work of the European Parliament and the report of Messrs ALBERT and BALL on economic recovery in the 1980s.

4. These expert papers have contributed a wealth of analysis of the causes of the decline in economic growth in most industrialized countries and especially in the EEC. Their opinions concur that the crisis is worldwide, that it has hit Europe hard and the damage has gone deep, and, moreover, that this crisis, far from being the result of a cyclical economic downturn, is more of a structural crisis, a crisis of economic, social and even political structures which are proving less and less able to cope with the future.

The crisis has arrived after 25 years of economic growth during which there has been radical political change on a world scale, a shift in the international division of labour involving a redistribution of production capacity, and a transformation of the situations and relations between the industrialized countries, and between the latter and the countries of the Third World.

5. Scientific, technical and technological progress has brought more change to man and his surroundings over the last 25 years than there has been for centuries, while existing structures have remained excessively rigid; none of these changes, which have been of unprecedented extent and speed, have been understood or accepted by the majority of people for lack of adequate information at all levels of society.
6. In most countries the education system has failed to adapt itself quickly enough to changing cultural and educational needs, to help bring awareness of the need for change and change attitudes to cope with new problems.
7. We must also realize that development differs widely from one country to another and from one part of the world to another, by virtue of the differing strategies countries have adopted to produce simultaneous change in all aspects of life, consumption, habitat, cities, etc., and to take account of new social and cultural phenomena. Budgetary, fiscal and financial policies vary, as do economic and social options.
8. Our governments in Europe share the responsibility for this situation for, as Michel ALBERT put it, 'many governments are tempted to have people believe that in order to improve the economic situation of a country it is necessary to rely on them and to mistrust everything that comes from abroad,' while in fact what should be done is to persuade the people of Europe of the efficiency the EEC can create by pooling efforts and applying the EEC multiplier effect to our resources. To be fair we should add that the two sides of industry have done equally little to encourage a change of heart.
9. In this climate of crisis, in which public attitudes are often oblivious of the future, the European Parliament, throughout its present term, has pressed on with its work of analysing developments in the economic situation and making proposals.
10. For the most part it has done so on the basis of documents submitted for its consideration by the Commission or on the initiative of individual Members, in particular under the aegis of its Committee on Economic and Monetary Affairs:

(a) -Economic situation

- von BISMARCK report on the economic development of the Community in the first half of 1980 and the implementation of the Council's decision on convergence (Doc. 1-288/80)
- DELOROZOY report on the adoption of the annual report on the economic situation in the Community and laying down the economic policy guidelines for 1982 (Doc. 1-681/81)
- HERMAN report on the 5th medium-term economic policy programme (Doc. 1-687/81)
- DELOROZOY report on economic trends in the Community during the first half of 1982 and the application of the Council decision on convergence (Doc. 1-421/82)
- RUFFOLO report on the adoption of the annual report on the economic situation in the Community and establishing economic policy guidelines for 1983 (Doc. 1-822/82)
- BONACCINI report on economic trends in the Community during the first half of 1983 and the application of the Council decision on convergence (Doc. 1-474/83)

(b) Financial problems

- RUFFOLO report on the EMS as an aspect of the international monetary system (Doc. 1-63/80)
- RHYS WILLIAMS report on the creation of a European capital market (PE 86.131)¹
- DESOUCHES report on investment policy (PE 86.682)¹

¹ Report adopted by the Committee on Economic and Monetary Affairs, but not yet by Parliament in plenary

- HALLIGAN report on financial integration (PE 86.720)¹
- HERMAN report on the EMS (PE 87.798)¹
- HOPPER report on the international financial institutions (PE 87.989)¹

(c) Sectoral policy

- NICHOLSON/FORSTER report on Community aid for restructuring or conversion investments in the shipbuilding and man-made fibres industry (Doc. 1-623/79)
- BONACCINI report on the European automobile industry (Doc. 1-673/80)
- LEONARDI report on the Commission proposal on microelectronic technology (Doc. 1-137/81)
- DELOROZOY report on industrial cooperation between the Member States (Doc. 1-157/81)
- FRIEDRICH report on restructuring policy for the steel industry (Doc. 1-167/81)
- LEONARDI report on the competitiveness of Community industry (Doc. 1-1335/82)¹
- BEAZLEY report on the European petrochemical industry (Doc. 1-1108/83)¹
- WAGNER report on combating the crisis in the European steel industry (Doc. 1-238/83)

(d) Internal market

- von WOGAU report on the 1981 programme for the achievement of the customs union (Doc. 1-241/81)
- von WOGAU report on the 1982 programme for the achievement of the customs union (Doc. 1-642/82)
- MOREAU and von WOGAU report on the achievement of a real internal market (PE 88.472)

¹ Report adopted by the Committee on Economic and Monetary Affairs, but not yet by Parliament in plenary

(e) Employment

- CERAVOLO report on the reduction of working time (Doc. 1-71/83)
- SALISCH report on unemployment among young people (Doc. 1-86/83)
- PAPAEFSTRATIOU report on the employment situation in the European Community (Doc. 1-87/83)

11. We have to be fair to the Commission; it has gone on trying to obtain decisions from Councils of Ministers and special Councils, from Councils of governments to Summits of heads of State, under the successive six-monthly presidencies, to move ahead with Community action, but without sufficient success or clarity of purpose. There is still a wide gap between declarations of intent at the conclusion of Council or Summit meetings and the behaviour of governments and authorities in the Member States.

12. Over a number of months in 1983 the figures, arguments and priorities were given a further airing at the preparatory meetings for the Athens Summit in December. We know the outcome, and the small hope of change in the near future despite the urgency of the matter.

13. Then why go over the ground covered in existing reports in an attempt to outline the prospects for development in the EEC for 1980 - 1990, especially as they will probably be repeated in the work of the special committee on European economic recovery?

14. At present, growth seems to have resumed at a higher rate in the US than the OECD experts expected, and is occurring in most EEC countries to various degrees, according to whether the Member States by their policies have managed to achieve better control over inflation and their budgetary and monetary deficits and prepare themselves for recovery.

15. Unfortunately, trends in the labour market are still a source of concern. They provide confirmation, if confirmation were needed, of the amount at stake for the EEC, with which its organs are familiar, and which has been set out in working documents and expert papers drawn up by the Commission, such as the draft fifth medium-term economic policy programme of September 1981.

16. One of the prime needs is for long-term mastery of energy problems where, taking into account the uncertainties of the times, a strategy requires the coordination of national energy policies. However, we should not rule out all diversity of approach to the problem by the various Member States, on the basis of their natural resources and existing investment, which their partners should no longer ignore.
17. In view of the geographical imbalance of energy sources and the strong probability of a substantial rise in prices between 1984 and 1990, the security of supply of raw materials is a problem to be approached at Community level and in dialogue with the producer countries.
18. The Community is one of the world's largest agricultural producers, self-sufficient in most essential basic products and even exporting some, but is also the largest importer of certain agri-foodstuffs; it is also dependent on the outside world for other types of tropical product (tea, coffee, cocoa, fruit, vegetable oils and fats) and certain commodities in which home production is inadequate to meet its needs, such as timber, leather and skins. If the EEC wishes to retain its share of the world market, it must reorganize itself, strengthen the export machinery of the CAP and exercise better control over imports.
19. Over the next few years the realignment of international economic and monetary relations is bound to impose constraints, the extent of which needs to be assessed, together with the possibility of new trade outlets. This realistic approach to the future would justify a review of certain agreements such as the GATT, and the Lomé agreements, which should also take into account the vital interests of the new Europe and the development of markets.
20. The increasing industrialization of the countries of Eastern Europe, the Middle East and the Third World will undoubtedly continue and accelerate, aided by the other industrialized countries which, in a climate of relatively free trade, will find new outlets, as well as ways of intensifying competition by setting up production units there.
21. This trend will accelerate change in the international division of labour and will affect the competitiveness of the industrialized countries. In this harsher competitive climate, greater importance could accrue to the more

technology-intensive industries. This would offer the EEC an opportunity if its industries succeeded in moving into sophisticated technology on a wide scale (robotics, computerization, miniaturization). Advanced technology of this kind should improve working conditions. Production lines and lack of training are still features of our industrial methods; in future the aim should be to tailor jobs more to the individual worker, making the best use of his know-how, hence the urgent need for thorough and specific forms of training so that we may play a part in this foreseeable development.

22. The Community is particularly affected by developments in its international environment over the next ten years, not only because of the needs of its own market and its dependence on the outside world for inputs and outlets, but also because of monetary and financial influences on the economies of its Member States.

23. Its potential for economic growth in the eighties will depend largely on its ability to adapt to fierce international competition without recourse to protectionism, and to take the new opportunities offered by change in the international division of labour.

24. Production will, however, have to be increasingly efficient; action by the Commission will have to give priority to developing Community legal, fiscal, social, monetary and financial facilities for cooperation between undertakings, and technical standards. These schemes should take into account the specific problems facing the SMUs.

25. Europe is still a huge market, in which Community preference can and should prevail, but international competition in the eighties will make the achievements of this goal dependent on each Member State's willingness to open up its domestic market, with no restrictions and no vestiges of protectionist policies, however disguised. But it will not be enough to eliminate protectionism. The Community market must also be intensified by the introduction of new products; stimulation and creativity are lasting requirements for a dynamic economy and society. A unified European market will then genuinely emerge. Technical, administrative, legal and fiscal obstacles and barriers to the free movement of capital must be removed as soon as possible, as present economic and social circumstances no longer allow long transitional periods.

26. There must also be greater international monetary stability, to be achieved by the development of the European Monetary System.

27. On this point, Parliament is convinced of the need to widen the EMS and to encourage the use of the ECU as a currency, first between Member States and then in dealings with other countries, but realizes the difficulties of doing so while the Member States still put up with monetary and financial imbalances, which encourage inflation and weaken the EMS through excessively frequent realignment of rates.

28. At this point, where we are considering and putting forward priorities for action, with which all concerned are perfectly familiar, it is still difficult to forecast what will happen between now and 1990. Of course we could always set out three possible scenarios, high, medium and low, but the time is past when, with existing statistical data, it was enough to make tangential projections to forecast the probable course of events without too much risk of error. Today there are too many parameters, too many totally unforeseeable international events affecting Europe, hidden from us but capable of completely falsifying our forecasts.

29. The Community has implemented five-year medium-term economic policy programmes since 1966. A comparison between projections and results reveals very substantial discrepancies in each of the first four programmes - amounting in some cases to as much as 100%. Moreover, owing primarily to an overestimation of the rate of growth of investment and employment, major corrections have to be made to the projections of the fifth medium-term (1981-1985) programme, which is now being implemented.(1)

These errors in the Community's medium-term programmes do not, however, detract from the usefulness of the exercise. There can be no doubt that the uncertainty which invariably characterizes economic forecasting has been made worse by the extreme unpredictability of international trends in recent years; the same holds true for the behaviour and expectations of economic operators within the Community itself.

The Commission should therefore be given every encouragement in its endeavours to further improve its forecasting methods, and it should also be encouraged to use new parameters, especially in the monetary sphere.

(1) See tables annexed hereto

The failure of medium-term planning in the Community is attributable not only to the inherent shortcomings of the forecasting models and mechanisms used, but also to the inability of the Member States' governments to implement their policies in the light of their own estimates and to apply the Commission's recommendations in a coordinated fashion. This is why it is essential for the Community to accept - as it has already begun to do so since the launching of the fifth programme - that it must not in future deviate from the medium-term planning targets which it has set itself. In other words, the medium-term programme must cease to be an exercise in forward planning which is invariably invalidated by actual developments.

Bearing in mind this requirement, and with the customary reservations, the following estimates are suggested for the period 1986-1990(1):

- rate of growth in the Community around 2.8%;
- inflation down to 5%;
- rate of unemployment 9%;
- budget deficits down from - 3.4% to - 2.5%;
- a slight surplus on the balance of current payments(2).

30. Another cause of uncertainty is that, after a severe world crisis such as we have just experienced, it is not unthinkable that Europe might embark on a process of change, in one of two directions:

31. The recovery in the USA is stronger than was thought likely a few months ago. It seems to be having a more pronounced effect on Europe than forecast. If most of the EEC countries at last put together some of the priority requirements for their economic recovery then, without expecting growth rates as high as in the 60s, they might achieve rates higher than those being forecast at present.

(1) These estimates are an extrapolation on the COMET projections - annual world macroeconomic model used by the Commission (see European Economic Review No. 9, June 1981, p. 176)

(2) See annex

32. On the other hand, if the larger EEC countries cannot respond to a recovery in the rest of the world with the ability to compete and to play an active part in international trade, Europe could plunge into a lasting and especially serious recession.

33. Hypotheses of this nature, which are perfectly possible, compel us to wonder once again whether, in view of its chronic inability to take the necessary strategic decisions, there should not be a reform of the way in which the EEC conducts its common policies.

34. The internal disparities between the economies of the best- and worst-placed Member States are greater now than they were during the first ten years of the Community's existence.

35. The difference in the Member States' ability to adapt is greater than in the past; the achievements of some only serve to accentuate the size of the difficulties facing others. Not for a long time will the ten, and one day the twelve, members of the EEC be in complete harmony, with a sufficient degree of convergence and near-uniformity in the fiscal, economic, monetary, social and administrative fields.

36. But is this as vital as it is so often claimed to be?

Today's Europe has been created with constant disparities through transitional periods that have been allowed to become permanent and affect nearly all new arrangements. However, everyone has benefited from progress made, while systematic efforts to achieve greater convergence are now pushing us further and further away from cooperation. 1984 will be a key period for the EEC's future in relation to the rest of the world.

37. The abuse of the need for unanimity (Luxembourg compromise) on many decisions is now an intolerable obstacle against which Parliament must vigorously protest. Community solidarity must be possible without being confused with a drive for harmonization demanding impossible degrees of uniformity.

Differences exist in every region of the world, from one country to the other, from one province to the other and even from one individual to the other. Living together forces us to distinguish between the acceptable and the unacceptable. Perhaps it would be better to embark on a new line of action, seeking compatibility in the largest number of fields rather than complete standardization. The technocrats' urge to regiment everything to an infinite degree frequently brings undesired side-effects and ends up by ossifying initiative, without which no real progress can be made.

38. Firm action is required to pep up the EEC. Confidence in the future must be restored by creating a more favourable climate for the economy by a return to enterprise and responsibility. The experience of the last ten years has shown us the limits to economic management when removed from the realities of the market economy and competition.

39. We therefore need other strategies to give the private sector back the means to play its part and to encourage profitable investment, without which the structural change on which future prosperity depends will come too late for Europe.

40. The two sides of industry will have to realize that the only way of making the Community's economy competitive in the long term is to join forces and exploit the extraordinary potential still available in Europe.

41. It is vital that new Community procedures be established, under which common economic development strategies may be adopted, transcending the present situation of national policy-making.

42. In the next few months the absolute priority for all EEC Institutions should be to produce a change of course, to be adopted by each Member State, providing ways of emerging gradually from slow growth, persistent unemployment and inflation, and laying the foundations for lasting prosperity.

43. Taking due account of the international environment, of what has been said in this report and the fundamental changes required, economic development in the European Community over the next years will depend largely on the behaviour of the two sides of industry and the will of the governments in the various countries to match national decisions to what they have said at European meetings.

Comparison between Projections in the five first Medium-Term
Economic Policy Programmes and the Outcome

The following compares projections or objectives in the five Medium-Term Economic Policy Programmes of the EC with the outcome.

First Programme 1966-70 (O.J. 25.4.1967)

	real GDP/GNP annual rate of growth, 1970/65		Employment, annual rate of growth, 1970/65	
	projection	outcome	projection	outcome
B	4.1	4.7	0.6	0.3
D	3.5	4.2	0	-0.1
F	4.8	5.4	0.7	0.7
I	5.0	6.2	0.8	0.2
L	3.2	3.7	0.4	0.4
NL	4.6	5.5	1.2	0.9
EC6	4.3	(4.9)	0.5	(0.3)

Second Programme (O.J. 30.5.1968)

The Second Programme presents no projections beyond 1970.

¹ As the following tables suggest, the coverage is quite different in the various programmes. So is the meaning of the figures. Those of the First Programme are meant to be simple quantitative indications, but - as stressed explicitly - not objectives. The figures from the Third Programme are also based on - national - projections. On the contrary, those of the Fourth Programme are to be taken as guidelines or objectives. In the Draft Fifth Programme they are projections, but it is stressed that the results can do no more than suggest trends.

Third Programme (O.J. 1.3.1971)

	real GNP annual rate of growth 1975/70		implicit consumer prices annual rate 1975/70		unemployment rate in 1975		current balance in % of GNP in 1975	
	pro- jection	outcome	pro- jection	outcome	pro- jection	outcome	pro- jection	outcome
B	4.8	3.5	3.7	8.2	0.6	5.3	0.1	0.7
D	4.5	2.2	1.9	6.5	0.7	4.1	0.2	1.0
F	5.6	4.0	2.8	8.5	1.3	3.9	0.1	0
I	6.0	2.5	2.5	12.4	2.7	5.3	0.8	-0.2
L	3.5	3.6	2.5	7.0	0	0.2	0	:
NL	4.7	3.2	3.3	9.4	1.3	4.0	0.8	2.5
EC 6	5	(2.8)	-	(8.7)	-	(4.3)	0.3	0.6

Fourth Programme (O.J. 25.4.1977)

Guidelines for GDP growth between 1976 and 1980 (annual averages in %):

	guidelines	outcome
B	4.5 - 5	2.3
DK	4.5 - 5	1.6
D	4 - 5	3.0
F	5.5	2.7
IRL	4.5 - 5	4.5
I	4.5 - 5	3.3
L	3 - 3.5	2.7
NL	4 - 5	2.0
UK	4 - 4.5	1.1
EC 9	4.5 - 5	2.5

Objective for unemployment between 1977 and 1980: Return to full employment. Outcome: The unemployment rate for EC 10 rose from 5.3 % in 1977 to 6.1 % in 1980.

Objective for inflation: Should be gradually reduced, 4 - 5 % by 1980. Outcome: Consumer prices in EC 10 rose by 9.9 % in 1977 and by 11.9 % in 1980.

Objective for external balance (goods, services and factor income) 0.5 - 1 % of GDP by 1980. Outcome: The current balance in 1980 showed a deficit of 1.4 % of GDP (EC 10).

Fifth medium-term programme: results (1981-82)
and current projections (1983-85)

1. Main macroeconomic indicators EC-10
(1) Five-year rates

	5th programme ¹	1981-85 latest version ²
GDP	1.9	1.-
GDP Prices	8.1	6.9
Investment	1.1	- 0.3
Employment	- 0.2	- 0.8
Per capita real wages	0.8	1.1
Corrected wage share	- 1.1	0.7
Rate of unemployment ³	10.2	10.8
Financing capacity of the Administrations (% of GDP) ³	- 3.0	3.3
Balance on goods and services (% of GDP) ³	- 0.2	0.6

¹ Source: European Economy No. 2, July 1981, Chapter 12, Table 12.3

² Source: 1981-1984: Economic Budgets 1983-84 (February 1984)
1985: COMET projection (February 1984)

³ End-of-period level

(2) The current COMET projection goes as far as 1988. By extrapolation, the following figures are obtained for 1986-1990 (with all due reservations):

GDP	:	2.8
Prices	:	5.0
Investment	:	3.7
Employment	:	0.3
Rate of unemployment	:	9.0
Financing capacity	:	- 2.5
Balance on goods and services	:	1.0

Remarks

As regards the average rate for 1981-85, the difference arises from the fact that the depression was deeper than forecast for 1981-83. The average rate for 1984-88 is fixed at 2.2% for the GDP of EC-10.

As regards prices, the 5th programme underestimated the scope for a deceleration of the rate of inflation in the countries with high inflation (Italy, United Kingdom, France). For 1984-88, the rate falls to as low as 5.4%.

The discrepancies found in the other variables arise from an overestimation of growth and inflation rates.

MOTION FOR A RESOLUTION (Doc. 1-366/82)

tabled by Mrs DURY and Mr FUCHS

pursuant to Rule 47 of the Rules of Procedure

on the impact of relations with the Third World on the economy of the Community

The European Parliament,

- A - having taken note of the conclusions of the report drawn up by experts at the request of the French Minister for Cooperation and Development on 'the impact of relations with the Third World on the French economy',
 - B - noting the growing importance of trade flows between the Member States of the Community and the Third World,
 - C - concerned at the economic situation of the Community and in particular the problems connected with unemployment and the restructuring of industry now in progress,
 - D - resolved to promote development cooperation while respecting the Third World's desire for independence and industrialization in line with its own preferences,
 - E - anxious to analyse and gauge the effect of the development of the Third World on the economy and on employment in the Member States,
1. Asks the Commission of the European Communities to undertake a study of the impact of relations with the Third World on the economy of the Ten;
 2. Instructs its President to forward this resolution to the Commission of the European Communities.

MOTION FOR A RESOLUTION (Doc. 1-633/82)

tabled by Mr COUSTE and Mr DELEAU

on behalf of the Group of European Progressive Democrats

pursuant to Rule 47 of the Rules of Procedure

on the urgent need to adopt a Community industrial policy

The European Parliament,

- A having regard to the deterioration in the competitive position of many industries in the Community,
- B aware that the exponential growth in unemployment may represent a danger to democracy in Europe,
- C. noting the absence of any true Community industrial policy after 25 years of the Common Market,
1. Calls solemnly on all the partners in the Community to affirm their determination to develop an industrial policy;
 2. Wishes to see the swift adoption of a 'directive' which will give new direction to the industries of the Ten by placing them once more in a context in which undertakings can be competitive and effective and in which jobs can be created;
 3. Takes the view that Europe should place the emphasis on key industries, should promote the setting up of genuine European industrial groups and should attempt, without outside assistance, to adjust to the world market while at the same time maintaining and modernizing its traditional industries;
 4. Considers that Europe should develop an investment strategy by favouring investments which will create jobs in the 'new' sectors and investments which will increase productivity in highly diversified sectors;
 5. Stresses that small and medium-sized industrial undertakings could make a considerable contribution to a common industrial policy if productive investments were facilitated, if their innovatory capacities were used and if their scope for creating jobs were exploited;
 6. Stresses the importance of the service sector for the creation of jobs, in particular in the field of transport and health;

7. Proposes the creation of a European investment agency with regional branches;
8. Calls for all means to be used to stimulate investment, in particular increases in capital and guarantees against exchange rate fluctuations;
9. Believes that the EIB should envisage the distribution of risk capital and that the NCI should have more funds to supply to industry on more attractive terms;
10. Instructs its President to forward this resolution to the Commission and Council.

MOTION FOR A RESOLUTION (Doc. 1-1127/82)

tabled by Mr MULLER-HERMANN, Mr KATZER, Mr K.H. HOFFMANN, Mr HERMANN,
Mr von BISMARCK, Mr GHERGO and Mr BLUMENFELD

on behalf of the EPP Group (Christian-Democratic Group)

pursuant to Rule 47 of the Rules of Procedure

on a study of the growth of demand in the 1980s both within the Community and worldwide

The European Parliament,

- A - whereas it has repeatedly voiced concern over continuing unemployment and the lack of jobs and places on training schemes in the Community,
- B - whereas there has to be an appropriate supply of goods and services together with the requisite capital and a corresponding demand if this problem is to be solved,
- C - whereas the Community, which is closely involved in the world economy and world trade, is dependent on the expansion of international trade patterns and the stimulation of demand world-wide, with particular emphasis on the Third World countries,
- D - concerned at the situation on the international financial markets in view of the unusually high indebtedness of many countries, amounting almost to international insolvency,
- E - convinced that an initiative by the economically strong countries, including the whole of the Community, and a commitment to the future aimed at a practical world-wide international division of labour, are needed to overcome the crisis in the world economy,

Calls on the Commission to submit a study to Parliament within three months, concentrating particularly on the following three questions:

1. How, according to current information, is demand in the private and public sectors in the Community expected to develop in the 1980's? What are the main objects of private sector demand? What are the main elements of this demand, classified according to regions if possible? What needs can be expected in the public sector, particularly in the fields of transport, energy, environmental protection and communications? What financing facilities are realistically advanced in this connection? What financing facilities can be given serious consideration without jeopardizing monetary stability?
2. Given that the need for goods and services in the poorer countries of the world is virtually unlimited, what does the Commission regard as the most important aspects of the need which must be satisfied as a matter of urgency to overcome hunger and underdevelopment and to establish throughout the world a standard of living worthy of human beings? How, in the Commission's opinion, can the financing or pre-financing of a corresponding worldwide project to bring peace be arranged with the help of the World Bank and the International Monetary Fund together with increased support from the financially and economically strong countries, including the Community? Has any consideration been given to these possibilities and what results have been achieved so far?
3. What possibilities is the Commission considering in conjunction with international institutions in order to act in time to prevent the impending collapse of entire national economies and monetary systems as a result of massive debts with unforeseeable consequences for the world economy as a whole? How does the Commission hope to restore the faith in the world monetary system, which would be a vital pre-requisite in any case for major new financing transactions?

OPINION

(Rule 101 of the Rules of Procedure)
of the Committee on Development and Cooperation

Draftsman: Mrs PRUVOT

On 17 March 1983, the Committee on Development and Cooperation appointed Mrs PRUVOT draftsman of the opinion.

The committee considered the draft opinion at its meeting of 23 November. It unanimously adopted the draft opinion on 26 January 1984.

The following took part in the vote: Mr PONIATOWSKI, chairman; Mr BERSANI, vice-chairman; Mrs PRUVOT, draftsman; Mr COHEN, Mr de COURCY LING, Mrs FOCKE, Mr IRMER, Mr C. JACKSON, Mr SABLE and Mr WEDEKIND.

The Committee on Development and Cooperation

1. Stresses the profound economic interdependence existing between the European Community and the developing countries as demonstrated by both the size and the character of trade between them;
2. Acknowledges that in the last decade the developing countries have been a buoyant market for European Community exports and have thus made a positive contribution to its economic life;
3. Stresses the need for cooperation at international level to find a common solution to the economic recession, emphasizes that there can be no way out of the recession except by a resumption of economic growth in the developing countries and considers that such growth would contribute considerably to the revival of the economy of the European Community;
4. Notes that one of the major obstacles to the economic development of the developing countries, their lack of available financial resources, can only be overcome by a substantial improvement in the level of their export earnings and by making increased financial resources and aids available to them;
5. Stresses the particularly disquieting nature of the debt burden of some developing countries, which further contributes to the interdependence between them and the European Community, and reiterates its opinion that the Community must exert pressure in favour of international action to tackle a problem that - in view of its scale - can only be dealt with by a concerted effort on the part of the developed countries;
6. Reiterates, as regards the question of the level of export earnings, its previous stands in favour, in particular, of:
 - (a) open trading relations between the European Community and the developing countries, including in the agricultural sphere;

- (b) implementing the Common Fund for the stabilization of commodity markets;
 - (c) reaching agreements on commodities;
 - (d) taking appropriate steps to stabilize the developing countries' export earnings;
7. Considers, as regards the question of resources and financial aid, that the implementation of commitments undertaken by the Member States of the European Community and of proposals by the European Parliament and the Commission would lead to a considerable improvement in the present situation, particularly:
- (a) if the Member States were to allocate 0.7% of their GNP to official development assistance, with 0.15% of this sum going to the least advanced countries;
 - (b) if the European Community were to allocate one part per thousand of its GNP to development aid, by stages over the next ten years;
 - (c) if the Member States were to honour their undertakings to the World Bank and the International Development Association, and if the lending powers of the World Bank and the International Monetary Fund were increased;
 - (d) if the sphere of operations and the role of the European Investment Bank were widened;
 - (e) if the New Community Instrument were to be used for the benefit of the developing countries;
 - (f) if steps were taken to alleviate the poorest countries' debts;
8. Stresses the primordial role played by the international monetary system in the harmonious development of trade and asks that the European Community should step up its efforts on behalf of international economic cooperation, so that the problem of the reform of the present international monetary system may be dealt with;
9. Stresses that the European Community must take full account of the need for any increase in its exports to the developing countries to lead to a corresponding rise in their exports to the European Community, particularly so that they will be able to secure the export earnings they require to further their development, and for their economic growth process to lead to diversification in the types of products they export;

10. Reiterates its view that the European Community must fully recognize that its development policy is not confined to assistance work but is intimately linked to the decisions it takes on the other common policies, and that it should therefore considerably enhance the consistency between such policies and its development policy;
11. Acknowledges the negative effects which imports from certain developing countries have and will continue to have on certain sectors of activity and in certain regions of the European Community, and repeats its request for the European Community to set up additional programmes to provide aid for the redevelopment of such sectors and regions;
12. Considers, too, that the growing economic interdependence between the European Community and the developing countries warrants the establishment of a system for the exchange of information and forecasts, and for increased consultation on matters of economic development; therefore emphatically reiterates its call for the European Community to strengthen the mechanisms for and improve the effectiveness of its dialogue with the developing countries, with a view to establishing stable relations which are not at risk from unforeseen developments;
13. Calls on the Commission of the European Communities forthwith to undertake a study of the current impact of relations between the European Community and the developing countries, and of forecast projections as to the effects of a resumption of economic growth in the developing countries on the economy of the EEC.

The Committee on Development and Cooperation requests the Committee on Economic and Monetary Affairs to take these points up in its report.

EXPLANATORY STATEMENT

1. Interdependence between the EEC and the developing countries

1. In 1981, the European Community exported goods worth 123.75 thousand million US dollars to the developing countries as a whole, or 40.8% of all its extra-Community exports. In the same year the European Community exported goods worth 42.53, 6.36 and 21.74 thousand million US dollars to the United States, Japan and the Eastern bloc countries respectively¹.
2. European Community imports from the developing countries as a whole rose to 143 thousand million dollars in 1981 and represented 42.3% of all imports from outside the Community. Imports from the United States, Japan and the Eastern bloc countries were to a value of 54.79, 18.92 and 27.58 thousand million dollars respectively.
3. Commodity imports alone from the developing countries amounted to 120.16 thousand million US dollars - including 90.32 thousand million US dollars for fuels alone - representing 61.5% of all commodity imports from outside the Community. The European Community's dependence on outside sources for supplies of mineral and vegetable raw materials has been the subject of a special report by the European Parliament and of an opinion by the Committee on Development and Cooperation².
4. The European Community exported 100.81 thousand million US dollars-worth of manufactured products to the developing countries, thus achieving a trade surplus of 78.85 thousand million US dollars, which it needed to offset, at least in part, its deficit in commodities.
5. From the point of view of the developing countries, their exports to the European Community in 1981 represented 32.5% of their total exports, not counting trade between developing countries, so that the European Community is the main export market of these countries.

¹GATT, International Trade in 1981/82, Table A22

²OJ No. C 87, 5.4.1982, report by Mrs Moreau, and opinion by Mr Fuchs, Doc. 1-873/81

6. An analysis of the developments in trade relations between the European Community and the developing countries over the last decade shows that the developing countries are turning into more and more important outlets for the EEC.
7. A report drawn up by a group of independent experts at the Commission's request, on the EEC in the face of the changes in the international distribution of labour³ stresses that EEC exports to the industrialized countries went up by 72% between 1973 and 1977, while those to developing countries rose by 169%. While noting that the OPEC countries are the most buoyant markets, this report nevertheless stresses that EEC exports to the non-oil-exporting developing countries rose faster than those to the industrialized countries in the period in question.
8. As regards 1979 to 1981, EEC exports to the developing countries rose successively by 21.6% and 6.1%, while extra-Community exports as a whole rose 17.2% and then dropped by 1.3% between 1980 and 1981.

2. The effect of demand in the developing countries on economic activity, particularly in the EEC

9. The OECD Secretariat, in its recent document on 'World Economic Interdependence and the Evolving North-South Relationship'⁴, says that 'developing countries constituted a buoyant market for exports from industrialized countries during the 1973-80 period,' and the Brandt Commission's second report stresses that 'in the 1970s, the developing countries' imports from the North, partly financed by their commercial borrowing, helped to prevent the recession in the industrial countries from getting worse, sustaining their production and employment. One study described the effect as equivalent to a significant reflation of the West German economy'⁵.
10. The report goes on to stress that 'today the effect is reversed; the downturn of growth in the developing countries deprives Northern exporters of their markets; and the decline in developing countries' imports is accelerating as major countries in Africa and Latin America run short of foreign exchange'⁵.

³ La Communauté économique européenne devant les changements dans la division internationale du travail, Commission, January 1979, VIII/1367/78 - in French

⁴ OECD, C(83) 52, April 1983, p.23

⁵ Common crisis, North-South: Cooperation for World Recovery, Pan World Affairs, 1983, p.25

11. The OECD Secretariat makes the same analysis when it points out that 'a satisfactory solution of the current adjustment problems of developing countries constitutes one of the elements in global non-inflationary economic recovery. The contractionary shift in the current-account deficit of the developing countries contributed to depress OECD exports and world output in 1982. Unless arrested this factor would further depress world demand conditions'⁶.
12. The Commission of the European Communities, to conclude, in its Memorandum on the Community's development policy, says that 'it is becoming increasingly plain that only economic revival in the developing countries, where that same recession has halted growth, can pull Europe out of its crisis'⁷.
13. The European Parliament, for its part, 'believes that economic growth in the developing countries would contribute significantly to economic recovery within the European Community'⁸.

3. Main obstacles in the way of a revival of demand in the developing countries

14. According to the OECD the developing countries' total debts have gone up from 70 thousand million US dollars in 1971 to 180 thousand million in 1975, 465 thousand million in 1980, 530 thousand million in 1981 and 626 thousand million in 1982⁹.
15. UNCTAD, on its side, puts the developing countries' extra financing needs for 1984-1985 at 90 thousand million US dollars, if their growth rate is to be got back to 5% per annum.
16. The European Parliament and its Committee on Development have for a long time been concerned at the growing indebtedness of the developing countries and about the need for urgent steps to be taken to solve their alarming balance-of-payments problems.
17. They have therefore put forward a number of proposals, notably in the resolution on the European Community's contribution to the campaign to eliminate

⁶See footnote 4, p.19

⁷COM(82) 640 final, 30.9.1982, p.2

⁸OJ No. C 242, 12.9.1983, report by Mr Jackson, Doc. 1-475/83

⁹Quoted in Agence Europe, No. 3509, 17.12.1982

hunger in the world, paragraphs 6 to 11¹⁰, the resolution on the Community's policy towards developing countries (Commission Memorandum on the Community's development policy), paragraphs 35, 71 to 73 and 76 to 78¹¹, and in the resolution on the Sixth UNCTAD, paragraphs 25 to 31¹². These proposals must be incorporated into this opinion.

18. The way to an improvement in the developing countries' balance of payments also lies through an improvement in their export earnings. Again, in this field of trade, particularly trade in commodities, we must refer back to the standpoints clearly set out by the European Parliament and its Committee on Development and Cooperation, particularly in the two abovementioned resolutions¹³.

4. Implications for the EEC of economic revival in the developing countries

19. In promoting a revival in the developing countries which will lead to a rise in their level of imports from the EEC, the European Community must, in return, take fully into consideration and accept the need for such countries, if they are to avoid acute balance-of-payments imbalances which would eventually halt the process, to step up their exports to the EEC in proportion, so as to acquire the required foreign currency resources to continue making imports.

20. The European Community will therefore have to look forward to increased interdependence leading both to an increase in trade and to diversification in patterns of trade.

21. If trade with the Third World represents jobs for 5 million people in the EEC¹⁴ and if, according to the OECD, trade between the OECD zone and the developing countries has generally led to net job creation - with job losses through the adjustment process more than offset by job gains - the EEC, as the European Parliament has recognized¹⁵, will have to devise additional policies to supply redevelopment aid to sectors of activity and regions affected by increased competition from the developing countries.

¹⁰ OJ No. C 265, 13.10.1980, report by Mr Ferrero, Doc. 1-341/80

¹¹ See footnote 8

¹² OJ No. C 161, 20.6.1983, report by Mr Cohen, Doc. 1-255/83

¹³ See footnotes 10 and 12

¹⁴ EEC Commission, message in 'Jeune Afrique', No. 1188, 12.10.1983

¹⁵ OECD, see footnote 4, p. 31

¹⁶ See footnote 8

22. To ensure the maximum degree of harmonization between economic developing in the developing countries and its own economic development, the European Community will have to take steps to strengthen information and joint consultation procedures.
23. On the question of ACP-EEC industrial cooperation, the ACP-EEC Consultative Assembly has just recommended that such cooperation be based both on genuine mid-term joint planning and on joint revitalization, in other words a new approach involving 'co-development'¹⁷.
24. On the question of dialogue on the policies proposed by the Commission in its Memorandum on the Community's development policy, the European Parliament considered that such dialogue should be a two-way process, and that an examination of internal EEC policies likely to affect the developing countries should be an integral part of it¹⁸.
25. On the question of fixing the Community's generalized tariff preferences scheme for 1984, the Committee on Development and Cooperation has very recently emphasized, with regard to sensitive products, the desirability of mutual information on major investment projects which allow the Community to anticipate more accurately the new forms of competition that may result from the industrialization of developing countries¹⁹.

¹⁷ ACP-EEC Consultative Assembly, 23.9.1983, Minutes of proceedings CA/204, p.19

¹⁸ See footnote 8

¹⁹ Report by Mr Fuchs, PE 86.683 final