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Report

drawn up on behalf of the Economic Affairs Committee

on the draft second medium-term economic policy
programme presented to the Council by the
Commission of the European Communities (Doc. 19/68)

Rapporteur: Mrs. Elsner

ENGLISH EDITION *)

*) This translation must not be treated as an official text. Readers are reminded that the official texts exist only in the Dutch, French, German and Italian languages.

By letter of 8 April 1968 the President of the Council of the European Communities asked the European Parliament for its views on the draft second medium-term economic policy programme.

This draft was circulated as working document 19/68 and forwarded by the European Parliament on 11 April 1968 to the Economic Affairs Committee, as the body responsible, and to the Committee for Finance and Budgets, the Committee on Agriculture, the Committee on Social Affairs and Health Protection and the Committee on Energy, Research and Atomic Problems for their views.

At a meeting held on 29 April 1968 Mrs. Elsner was appointed Rapporteur by the Economic Affairs Committee.

The Committee studied this report at its meetings of 20 September and 11 and 31 October 1968, at the last of which it adopted the report with one abstention and the motion for a resolution with five abstentions.

The following were present: Mrs. Elsner, Chairman and Rapporteur; Messrs. Starke and Schaus, Vice-Chairmen; Apel, Battaglia (deputizing for Mr. Ferretti), Behrendt, Berkhouwer, Boersma, Bousch, Califice, Colin, Corterier, De Winter, Fanton, Hougardy, Miss Lulling and Messrs. Moro, Ramaekers, Riedel, Sabatini and Wohlfahrt (deputizing for Mr. Oele).

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A

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

Motion for a resolution

with the Opinion of the European Parliament on the draft second medium-term economic policy programme presented to the Council by the Commission of the European Communities

The European Parliament,

- (a) having regard to the draft presented by the Commission of the European Communities (COM (68) 148 fin.);
- (b) having been consulted by the Council in accordance with paragraph 2,4 of the Council's decision of 15 April 1964⁽¹⁾;
- (c) having regard to the report of the Economic Affairs Committee and the Opinions of
 - (i) the Committee for Finance and Budgets
 - (ii) the Committee on Agriculture
 - (iii) the Committee on Social Affairs and Health Protection
 - (iv) the Committee on Energy, Research and Atomic problems;

A—on the submission of the programme

1. Welcomes the fact that the gaps in the first programme have been filled and congratulates the Commission, the Medium-term Economic Policy Committee and the experts on agreeing among themselves on a basic approach to issues so far largely contested;

2. Points out, however, that the second programme—like the first—covers only the years 1965 to 1970, a period already approaching completion;

3. Hopes, therefore, that the third programme will be submitted soon enough *before* the start of the period considered to serve as an effective guide to industry and not merely as confirmation of an already completed development;

4. Urges that the next programme should include, in addition to the member States' public investment programmes spanning several years, a synopsis of the financial requirements of the Community's various funds over a number of years, so as to present to member States a clearer overall picture of their financial commitments;

B—on the guidelines drawn up

5. Accepts the proposals for the establishment of larger and more profitable enterprises in the Community, and urges the Commission to keep up its efforts to ensure that legislative provisions on taxation, competition, patents and licences are harmonized and the legal form of a "European company" finally settled;

⁽¹⁾ *Official Gazette of the European Communities* of 22 April 1964, p. 1031/64.

6. Considers it a matter of urgency to decide how workers are to be adequately represented in enterprises employing them;
7. Recommends that a searching study be made of the ratio of investment to earning power in the Community;
8. Hopes that the pattern of Community exports will be investigated more closely and compared with the competitive position of other exporting countries;
9. Agrees that strenuous efforts are required to adapt outdated economic structures in the member States to new developments;
10. Draws special attention to the proposals for improving agricultural structures and increasing farmers' incomes, aims that can only be achieved by progressively reducing the numbers employed on the land;
11. Urges, therefore, that a suitable social programme be worked out, covering not only farmers but also comparably placed workers in other industries, and that new provisions be prepared for the European Social Fund;
12. Hopes that the Maréchal working party will resume its activities and submit a programme for practical co-operation in the science and research sectors;
13. Approves the setting up of a European documentation centre, to start with in the sphere of research;
14. Recommends that the problem of reciprocal recognition of periods of study and degrees and diplomas be promptly settled;
15. Notes that investors in non-member countries have benefited more than those in the Community from the abundance of funds on the European capital market, and calls for more closely concerted efforts to set up a Community capital market;
16. Regrets, therefore, that the Council has still not approved the third directive, adopted by the European Parliament in 1966, on the removal of restrictions on the free operation of the capital market, and invites the Council to do so without further delay;
17. Welcomes the news that the Commission is working on new measures for bringing the conditions governing the capital market in the Community more closely into line;
18. Recognizes the need for concerted action to reach agreement on a set of standards to serve as a guide to governments, trade unions and employers in the matter of incomes policy, and invites the Commission to stimulate and encourage any initiatives by employers and workers aimed at the conclusion of collective agreements at European level;
19. Hopes, however, that the third programme will contain more detailed proposals as to the definition of the rôle of productivity and of the tax treatment to be given to married couples, as well as of the effective application of Article 119 of the EEC Treaty (equal pay for men and women);
20. Again draws attention to the fact that forecasts and programmes spanning more than five years are essential for employment policy and occupational training, and calls once more for a jointly organized labour market in the six member States;
21. Considers that, for the reasons given, the vouchers required to determine unearned income should be stipulated, on a proposal by the Commission, in a manner binding on the member States;
22. Emphasizes that, except in the case of agriculture, State intervention in price policy matters should be avoided as far as possible, and that competition should be intensified to such an extent as to enable it to exercise its regulating influence on prices;

23. Considers that the Commission ought to put forward outline proposals for a social security system;

24. Feels it desirable to promote the accumulation of wealth by enabling broad sections of the population to participate in the profits of enterprises and in the formation of public wealth, and hopes that a study group will assemble the experience acquired in this field and put forward proposals;

25. Requests the Commission to check whether the guidelines established in the first two programmes for a common economic policy are being complied with by the member States and to report to it on this subject at the latest within one year;

26. Invites its President to transmit this resolution, together with the Committee's report, to the Council and to the Commission of the European Communities.

B

EXPLANATORY STATEMENT

I—Introductory remarks

1. The draft of the second medium-term economic policy programme submitted by the Commission in April 1968⁽¹⁾ deals with the additional inquiries and problems mentioned in the introduction to the first programme. The subjects covered are the structural adaptation of enterprises, structural policy in specific sectors, agricultural policy, policy on scientific and technical research, policy for encouraging savings and the financing of investment, and incomes policy. At the same time suggestions made by the European Parliament were taken into account. In this respect the draft is a welcome supplement to the first programme, which covered a somewhat restricted sphere.

2. The new draft, however, spans the same period as the first, namely, 1966 to 1970. As this period has not very long to run, one can hardly go on speaking of forecasts. It would have been less confusing had the second programme been described simply as a supplement to the first.

3. Two years separate the presentation of the first programme from that of the second. As the Commission assured the Economic Affairs Committee, it proved impossible during this period to carry out Parliament's suggestion that the Community's medium-term economic policy programme be presented regularly from year by year. Moreover, it is not yet known whether and when this could be done. Such a procedure would require member States to draw up their national programmes accordingly, something they have not so far done. Moreover, both the methods of drawing up programmes and the facilities existing for that purpose in all member States still leave a great deal to be desired.

The Economic Affairs Committee has taken this into account but remains convinced of the need for drawing up programmes in such a way as constantly to provide a general view of the prospects for the ensuing five years.

4. The second programme, like the first, describes its recommendations as "guidelines". Although this fits in with the Council's decision of 1964 on the way in which such programmes ought to be drawn up,⁽²⁾

it falls short of what Parliament had hoped. All it involves indeed is laying down principles to serve as a guide for the Community's policy. The policy itself remains undetermined.

5. Now, the Treaty already contains principles (guidelines) for co-operation as well as the objectives—the promotion throughout the Community of harmonious development of economic activities. These are set forth in Articles 2, 6, 105 and 145 which call categorically for co-operation and for co-ordination of economic policies. The five-year forecast certainly amplifies these principles in that it goes further in determining their application in specific industries and establishes a common code of good conduct in the matters concerned, but the programme neither assigns joint tasks nor lays down any form of co-operation for their performance. The Economic Affairs Committee hopes to see this deficiency repaired in the third programme.

6. The Commission took over and passed on the draft drawn up by the Medium-term Economic Policy Committee just as it was presented. The assurance having been given that it was drawn up in close collaboration with the Commission, it may be regarded as fully coinciding with the Commission's own views.

This is a point in favour of the draft. The Economic Affairs Committee would, however, have preferred the Commission's contribution to have been more clearly brought out. It is, after all, the Commission that carries responsibility for the draft. As a Community organ, it alone takes part in the dialogue with Parliament. It is its duty also to resist the aggregation of national interests—almost inevitable in a body such as the Medium-term Economic Policy Committee—in favour of the Community interest.

7. The Economic Affairs Committee realizes in what an awkward position the newly-formed Commission found itself in the first year of its activity. What follows, therefore, ought not to be regarded as a criticism but as a requirement which should in general be satisfied by any medium-term programme for the Community.

Every chapter of such a programme should indicate the proposals the Commission is likely to make during the period covered. The Economic Affairs Committee stressed the importance of this in its report on the first draft medium-term programme; only if it contained this information could the programme guide

⁽¹⁾ The text was communicated to members of the parliamentary committees on 9 July 1968.

⁽²⁾ Council Decision of 15 April 1964, reproduced in an annex to the first programme.

the decisions of all those engaged in running the European economy.

8. The Committee was therefore glad to learn, in the meantime, that the Commission is negotiating with the Council of Ministers on a new action programme—supplementing the present programme—and will shortly submit proposals on agricultural structure policy, the creation of a European capital market and the promotion of mergers of “European companies”.

9. Article 2 of the Council’s decision of April 1964, which led to the setting up of the Medium-term Economic Policy Committee, provided for the services of a group of experts from the Commission to be enlisted in drawing up forecasts. This group, whose membership has since been slightly modified, has carried out a review, as instructed, of projections from the year 1966 and concluded that the GNP likely to be attained by the Community by 1970 would be slightly less than forecast (annual growth rate 4.2 per cent instead of 4.3 per cent). It appears that this rate will be attained in spite of the events in France.

10. The Economic Affairs Committee would again point out that it looks to the group of experts to draw up projections offering more alternatives for the third programme. This would make it much easier for Parliament to sum up the merits of the draft programme, particularly as it lacks both the technical facilities and the credits to enable it to obtain such facts and figures. Only thus could Parliament secure sufficient elbow-room and make a contribution on a sounder basis than is available at the moment.

11. It should also be recalled that these projections should also include an analysis of the Community’s external trade and of its future prospects. This is all the more important in view of the inevitable effects on external trade relations of the increase in internal trade and of agricultural surpluses. (See Chapter III, Nos. 31 ff.).

12. In its resolution of November 1966⁽¹⁾ the European Parliament dwelt on the importance of investment forecasts and budget estimates in the public sector extending over a number of years, and asked the Governments to see these were drawn up as soon as possible and incorporated when the programmes were co-ordinated. As the Commission points out, not all member States have yet carried out this request. Government financing, the cornerstone of medium-term economic policy, will therefore first be dealt with in the third programme.

13. At the same time the Community itself should draw up a programme covering its own revenues and expenditures over a number of years and embody it in the medium-term economic policy programme. This would above all give member States a clearer idea

both of the financial commitments which the Community and the decisions it takes will involve them in, and of the credits that will be allocated to them and to certain organizations or sections of the population through the Community institutions. This would also bring home to the public the extent of the Community’s financial jurisdiction and hasten the creation of an independent source of revenue for the Community.

14. It is of course true that the working out of a medium-term economic policy programme for the Community has, for various reasons, run up against great difficulties and that even today important statistical, scientific and institutional problems have not yet been everywhere satisfactorily solved. Nevertheless the third programme for 1971–1975 ought to be submitted early enough for it to be judged *before* the start of that period. Only then could the programme be regarded as a series of objectives to be achieved and become worthy of the interest of the general public. The latest programme was not capable of arousing such an interest.

15. The Economic Affairs Committee does not want to deal in detail with the programme presented. While it is in broad agreement with the trends and aims underlying the proposals, which as a whole underline the need for better conditions of production and for greater structural balance, it feels that the time has come for much more concrete arrangements. The following observations are aimed therefore solely at rounding out the description of the programme and in some cases place the emphasis elsewhere. For the sake of clarity they are presented in the same sequence as the chapters of the programme.

II—Policy on the structural adaptation of enterprises

16. The programme attributes the weakness of enterprises in the member States mainly to the inadequacy of earning capacity and therefore of funds for financing purposes; the difficulty and high cost of securing credits on the capital markets; the excessive number and in most cases inadequate scale of these enterprises—despite a growing tendency towards concentration in the last few years—and, finally, limited co-operation in the fields of research and development. The urgent need for better organization and management is also underlined.

All this is perfectly true, just as one can say that European company law, company taxation and the law on cartels and competition ought to be changed, and that a European capital market must be set up if the necessary process of structural adaptation is to be successful.

17. The programme points out that this process must be carried out in a social climate acceptable to the workers. Any changes must therefore be such as to safeguard in the highest degree the existence and interests of those affected. The European Parliament,

⁽¹⁾ Official Gazette No. 232 of 16 December 1966.

as representative of the citizens of Europe, attaches the highest importance to this.⁽¹⁾ Ways and means must be found which would neither shore up outdated structures nor shift the burden of reconversion on to the backs of the workers. Some of the rationalization agreements already concluded between employers and workers could well serve as a model. It would be as well, however, to broaden this range of measures and to give it the utmost publicity so as to allay any misgivings or opposition likely to hold up progress.

18. On the other hand the Economic Affairs Committee feels that the report has not gone sufficiently closely into the nature and quality of investment. The efficacy of investment depends not only on its ratio to the GNP but also on the way in which capital is invested and on the level of return.

As can be seen from Table 2 in Chapter VI, gross investment by the public authority and enterprises, including housing, accounts for the following percentages of the GNP:

in the US	about 17.6%
in the Federal Republic and in the Netherlands	nearly 27%
in France, Italy and Belgium	about 22%

Compared to the Community, therefore, the US reinvests an appreciably smaller proportion of the GNP and devotes a correspondingly larger proportion to consumption.

19. These substantial differences in the proportion of GNP reinvested could be accounted for only partially by the relative shortage of goods and the technological lag in the EEC member States.

As the GNP of the USA is far higher in value than that of all other States (standing in 1966 at \$3,369 per head as against \$1,373 in the EEC) even though the proportion of the GNP invested is lower, the volume of investment in the USA is still far higher than in other countries. Moreover, the United States is preserving its lead in the technological race thanks to the speed with which innovations in the manufacturing process succeed each other—a circumstance which implies a high degree of willingness to replace old plant before its time. There must therefore be other reasons for the big difference in the percentages of GNP devoted to investment.

20. There is no doubt that a substantial part of the EEC's investments still goes into sectors showing low levels of return, both in the industrial and in other sectors. The Economic Affairs Committee therefore regards it as particularly urgent that a study should be carried out as soon as possible to bring out more clearly the relationship existing between investment and returns in all member States.

21. A recently published OECD report based on a survey conducted by its special committee on engineering⁽¹⁾ shows that throughout the electrical engineering and metal-processing industries (including mechanical engineering, the motor and aircraft industries and shipbuilding) European investment per unit of output is twice as high as in the United States. In spite of this, however, productivity per European worker in the industries named is less than one third of that of the American worker. In other words, the USA use up less capital to produce more finished goods and services. It is this superiority that enables American enterprises to pay their workers so much more than European workers without resorting to price increases.

22. How is all this to be explained? First and foremost by the incomparably greater expenditure on research and development which, far from being confined to solving current production problems, is also geared to long-term preparation for future requirements. In addition, it is a result of the possession of a vast home market. In the USA this absorbs 96 per cent of American production. In Japan, which according to the same comparative study of the OECD is clearly following a deliberate policy of industrial adaptation, 85 per cent of production is disposed of on the home market. No such large-scale internal market exists in Europe in spite of the abolition of customs duties. A host of other obstacles, both of a legal and of a fiscal character, still stem the flow of trade.

23. Another constant drawback is that Europe, unlike the USA, depends more than ever before on imports of raw materials. It is therefore obliged to export. Indeed, the EEC exports about a sixth of its national product.

This high export quota admittedly makes the EEC—in the words of the Commission—the top-ranking world trader. But this position carries with it the obligation to cater for the varied requirements of buyers throughout the world. An excessively broad range of products has therefore to be manufactured, so that production is widely scattered and costs are consequently increased. Investment in this market is therefore insufficiently concentrated, the aim being to satisfy a wide range of demands.

24. On the other hand US exports represent, so to speak, an overflow of products mass-produced for the home market on an extremely profitable basis, while the Japanese have built up a highly specialized top-grade export industry. One should not overlook the danger that, faced with this kind of competition, the Community's export position, so far satisfactorily maintained, could very rapidly become a shaky one. More profitable production techniques could at any moment quite easily downgrade it.

⁽¹⁾ See also Opinion of the Committee on Social Affairs and Health Protection (PE 20.199/déf.).

⁽¹⁾ The Engineering Industries in North America, Europe and Japan 1966-1967, OECD 1968.

25. This is why, as pointed out in the introductory remarks, the Economic Affairs Committee feels that the Community's external trade position should be carefully analysed and the extent to which concentration and specialization could lead to more profitable production techniques enquired into. It may prove necessary to give up positions that are of minor importance or difficult to maintain and to buttress those that really pay.

26. In order to consolidate our competitive position in the field of exports closer co-operation within industry in the Common Market is also necessary. For a number of enterprises concentration has been pushed as far as it will go at national level. But even where this is not the case mergers of enterprises of two or more member States would result in closer industrial interpenetration.

Unfortunately nationalist thinking continues to render it difficult to carry out these much-needed mergers. The recent past has furnished a number of examples of this. So long as this attitude persists, the arguments put forward in this chapter will carry little weight.

Where concentrations link together enterprises of several States, an adequate level of competition must be ensured. This, however, applies today to all the concentration processes under consideration.

27. Lest there should be any misunderstanding, it should be pointed out that industrial concentration is not an end in itself. Views are sharply divided as to what is the ideal scale for an enterprise. In any case, many small and medium-sized firms will continue to have a good chance of success, alongside the heavyweights, in the Common Market.

28. The process of industrial concentration in the Community certainly deserves attention and backing. It should however be borne in mind that as a rule it leads to reduced demand for labour. Concentration therefore demands for its success an expanding economy capable of absorbing redundant labour.

29. Similarly, if large enterprises are to have the sort of home market their scale demands, the purchasing power of the public must be increased in many regions. In other words, this policy on enterprises calls also for an active regional policy.

Unfortunately the only progress made in this field is the setting up of the Commission's Directorate-General for Regional Policy. Member States, on the other hand, have still taken no steps to co-ordinate their regional policies. The comments made on this point in the report on the first medium-term economic policy programme have therefore lost none of their force.

III—Structural policy in specific sectors

30. This leads us to the next chapter of the programme in which individual sectors are compared at Community level for their contribution to the GNP and their annual growth rate. The comparison clearly shows how far some of these sectors are lagging behind. The three major sectors—agriculture, industry and services—made the following contributions to the GNP in 1965:

Agriculture:	7.3%
	(with 15.9% of the active population),
Industry:	47.9%
	(with 43.5% of the active population),
Services:	44.8%
	(with 40.6% of the active population).

31. A recently published OECD table brings out even more clearly the outdated pattern of our economic structures. With the GNP and the population of each of the 21 OECD member States set at 100, the figures for 1966 were as follows:

USA with 29.5% of the population	= 55% of GNP
EEC with 27.4% of the population	= 20.8% of GNP of the OECD.

A difference of this magnitude cannot be explained solely by an excessively high proportion of farm workers. It also implies a great many unsolved problems of industrial adaptation as well as failure, or unsuccessful attempts, to foresee future trends. To put it bluntly, there is immense scope for improvement and full advantage should be taken of it.

32. The programme approves the rôle to be played by the public authorities in steering the process of adaptation of the EEC's economy but calls for closer co-ordination of measures taken by the member States so as to keep support measures within reasonable bounds. This is all the more important as the same applies to regional development programmes. Lack of co-ordination is liable to lead to ill-judged investment and excess capacities.

33. Nevertheless, as pointed out in the programme, aid measures for outdated economic structures should not aim at their preservation. They should be of a temporary nature and merely such as to facilitate adaptation and redevelopment, particularly of the workers affected.

34. Which sectors, however, call for aid measures, and in which sectors are they unnecessary? On this point the programme has nothing to say, merely suggesting that as detailed an analysis as possible should be made of the structure of the various sectors of the economy and of the development they have so far undergone. Once again there is a demand for further investigations but no agreed programme.

35. In this case, however, the fault can hardly be said to lie with the political representatives of the member States. Analyses of specific sectors demand an insight into the internal conditions of enterprises, and few industries are prepared to permit this, even though anonymity is fully guaranteed. In general the industries which are prepared to co-operate in this respect are those beset by special difficulties or unlikely to be able to expand without assistance from the State.

It is therefore not surprising that for the time being the programme concentrates on two industries: shipbuilding and electrical engineering.

36. Of these, shipbuilding, an old European industry, though passing through structural difficulties, is not in a desperate condition. Japan and Sweden have shown us how the patient can be cured.

The programme, with its recommendations of closer co-operation, specialization, harmonization of aid policies etc., has nothing new to say on the subject. All this had already figured in the Commission's proposals of 13 April 1965—strongly backed by the European Parliament—regarding aid and the structural programme for shipyards.⁽¹⁾ What is regrettable is that no Community programme has so far been built up around these proposals and the Council has still not brought itself to approve them. Shipbuilding in the EEC therefore owes its survival mainly to the unaided efforts of enterprises or to the subsidies granted in individual member States. Of co-operation at Community level there is no trace.

37. Another passage in this chapter merely repeats an old requirement raised by the European Parliament. As far back as 1965 Parliament proposed in a report⁽²⁾ that the sphere of application of the European Social Fund be widened to include the retraining of workers of enterprises (here shipyards) preparing to close down, so as to fit these workers for employment in new enterprises—a measure which would encourage new enterprises to set themselves up. The idea was that any wage differences could, over a transitional period, be made up out of the Fund. This proposal too is hanging fire at the Council.

38. The proposal to co-operate in the field of *electronics* could open up new vistas for the Community. This is a new industry which in all member States is passing through the difficult stage of construction in the teeth of wholesale competition from third countries already in possession of a large slice of the market. If it is to expand and hold its own it must be able to count on substantial funds and on govern-

ment backing. Success would be jeopardized right from the outset if attempts were made to tackle the problem from the too narrow national standpoint. The earning power of the electronics industry will ultimately depend on the size of the market for which it can cater. This means that there should be, right from the start, a certain amount of specialization and of division of effort both in research and in manufacture.

39. But in this case too—at least to judge from the plan submitted—no detailed arrangement could be agreed upon by the member States. Parliament, therefore, cannot but endorse the principle and trust that member States will shortly apply it in the form of the closest possible co-operation.

IV—Agricultural policy

40. The remarks made in this chapter can be summarized in a few lines. Agricultural structures remain a problem for the EEC because there are too many farm workers on too many farms, most of which are unable to provide farmers with a living. In addition, many farms are over-capitalized, to the detriment of their revenue-earning capacity. The attempts so far made, through a policy of high prices and guaranteed outlets, to bring the farmers' living standard closer to that of the rest of the population have resulted in a degree of overproduction that not only threatens the system itself but at the same time imposes burdens on member States' budgets that bid fair to become intolerable in the long run.

41. The Committee's proposals therefore quite rightly concentrate on a better structural policy for agriculture. This subject merits a few comments.

42. Already in its first Opinion on the first programme the Committee had observed that the contemplated cutback in the farming population, i.e. 3.3 per cent per annum over the period 1965–1970, was not enough. It would still leave 13.2 per cent of the Community's active population on the land in 1970—a very high percentage for such a highly industrialized economic bloc as the EEC. Particularly striking is the slow decline in the farming population in Italy where farm workers will still represent 21.3 per cent of the active population in 1970.

43. Events must unfortunately be expected to confirm these figures, particularly as the recession which began in Italy and then spread successively to the Federal Republic of Germany and the Benelux countries, has not encouraged farm workers to seek a change of occupation. An economic policy programme, however, should do something more than confirm events that would in any case have occurred regardless of policy measures. Indeed it is at this point that the task of a Community programme should commence.

⁽¹⁾ See resolution of 25 November 1965, *Official Gazette* No. 209/65; Armengaud report drawn up for the Internal Market Committee on the EEC Commission's proposal to the Council regarding a directive on the introduction of a Community aid system to smooth out distortions in competition on the international shipbuilding market (Doc. 103/1965–66) and annexed Opinion drawn up by Mr. Dichgans for the Economic and Financial Committee.

⁽²⁾ See report drawn up by Mrs. Elsner for the Social Affairs Committee on the EEC Commission's proposals to the Council (Doc. 152/1964–65) regarding regulations aimed at rendering interventions of the European Social Fund more effective (Doc. 53/1965–66) of 14 June 1965.

44. From discussions about the proposed improvements in agricultural structures it becomes apparent that farmers pin on these proposals hopes quite as unjustified as those they at one time attached to pricing policy. A radical overhaul of structures should result in fewer but bigger farms. Production should be stopped on poor soils and tiny farms, and not be taken over by larger farms. The aim should be not to step up production, but purely and simply to increase revenue-earning capacity.

45. If those concerned were to recognize the hopelessness of their situation, a major step would have been taken in this direction. Bringing this home to the persons in question is far and away the most ticklish part of the task, particularly when one reflects that the hopes aroused by the recognition that agriculture has a social as well as an economic rôle have become unattainable with the rapid onset of the redevelopment process. If it is desired to cease creating illusions, all Community programmes and all aid from member States for agriculture should be kept constantly geared to rapid and adequate reduction of the numbers employed on farms.

If possible the scale of help for this purpose should be still further increased. It could include bounties for farm-leavers, all kinds of support and security for the retraining of those concerned, and an industrial redevelopment programme for areas whose agricultural structure would otherwise stand in the way of conversion. Bounties for farm-leavers have proved to be an effective means of speeding up redevelopment in Sweden, and have in the meantime also been awarded in France and in the Netherlands. Experience has shown that the degree of immobility of the population is particularly marked in agricultural areas remote from industry. In such cases bounties would act as an additional incentive. Moreover, in the long run they would be cheaper than continuous subsidies. At all events, regional and agricultural policies ought to be co-ordinated as closely as possible. For this purpose, amendment of the regulation concerning the European Social Fund—now long overdue—is also essential (see No. 37).

V—Policy on scientific and technical research

46. The programme gives the following figures for expenditure on research and development:

USA: \$110.5 per inhabitant

EEC: \$19 per inhabitant

(see Chapter V, Table I).

The other figures quoted in the same table on the number of trained researchers, engineers and technicians in Europe have, on the other hand, since been corrected by more recent OECD surveys, which embrace in addition engineering colleges and other institutions.⁽¹⁾ According to these, the EEC and Great

Britain are currently training more engineers and technicians than their industries need, a circumstance that enables the United States to procure the extra “brain-power” it requires.

47. It appears therefore that what the Community lacks is not so much the intellectual, scientific and technological potential needed to close the technological gap as adequate funds and a soundly organized system of research.

At a meeting of the European Parliament held on 1 October 1968 the Commission singled out four weaknesses in co-operation which it had already pointed out in a memorandum on technological co-operation submitted to the Council on 15 May:

1. the utterly unsystematic piecemeal approach;
2. the lack of continuity due to the absence of programmes and financing schemes covering several years;
3. the tardy establishment of an organization for co-operation with industry;
4. the general problem arising from the fact that research is too often considered in isolation and not in terms of markets and potential outlets.

Apart from all this, one cannot but deplore the fact that the memorandum has not yet elicited any response from the Council.

48. As a result of these shortcomings, not only are we obliged to pay substantial sums to the United States for patents and licences—about eight times what we obtain for our own—but the USA has taken the lead in all branches of industry that depend on continuous research. The danger alluded to in Nos. 14 ff. above is already heralded by the export figures.⁽¹⁾

49. Under these circumstances it is disappointing that the Medium-term Economic Policy Committee has done no more than sketch out the lines along which co-operation in the field of scientific and technical research could be carried out in the Community. Mention is made, among other things, of joint projects, comparison of national programmes and budgets, joint exploitation of the results through the participation of industry, the co-ordination of public contracts, discarding bilateral agreements in favour of co-operation among the Six in the technological field or even in a still wider context. The spheres singled out by the Council in autumn 1967 as lending themselves to co-operation—information science, telecommunications, new means of transport, oceanography, metallurgy, abatement of nuisances and meteorology—should, according to the second programme, be investigated as a matter of priority.

50. Unfortunately, the prospects of this being done remain as bleak as ever. The Maréchal working group, set up from among members of the Medium-term

⁽¹⁾ Technological Gap, *OECD Observer*, April 1968.

⁽¹⁾ Technological Gap, *OECD Observer*, April 1968.

Economic Policy Committee to work out "a policy in the field of scientific and technical research", has not met since February and has therefore not submitted the co-operation programme awaited from it. This break in its activity is known to be due to the clash of views among member States as to the enlargement of the Community.

Although it does not intend to go into the motives underlying the different attitudes of the member States, the Economic Affairs Committee deplores the fact that co-operation is being blocked in this of all fields. Co-operation in science and research is becoming more than ever a life-and-death issue for the Community. If the technological gap separating its economy from that of the United States is to be closed, there is no time to be lost.

51. This is not to say that the Economic Affairs Committee wants to see technological co-operation confined to the member States. On the contrary, it feels that such co-operation, wherever possible and desirable, should be extended to other States.

52. The Committee does not believe that it is lack of mutual trust that is blocking this development. It therefore suggests that the Community should take the first vital step towards technological co-operation by setting up a European information centre which, through the storage and comparison of data, could provide a bird's-eye view of current research work as a whole and, under conditions to be determined, make the results available to all.

53. Finally, the Medium-term Economic Policy Committee points out in its second programme that the extension of scientific and technical co-operation within the European Communities should be governed by special rules. This idea was obviously inspired by the Euratom Treaty but overlooked when the Treaties were merged. But even in the absence of special rules of this kind, it may well be felt that scientific and technical research is today so vitally necessary for industrial development that, unless suitable provision is made for it, it will be impossible to promote the continuous and balanced economic expansion required under Article 2 of the EEC Treaty. The Economic Affairs Committee considers that the adoption of special rules would merely hinder this sorely needed co-operation still further.

54. Equally astonishing is the statement (Chapter V, No. 24) that "the creation of a European university, which could act as a powerful stimulus to fundamental research in Community countries, could be considered."

The European Parliament is unlikely to derive much satisfaction from the fact that this, one of its oldest demands, is at last being looked into.⁽¹⁾ The time has passed for a single "model university" of this kind.

⁽¹⁾ As long ago as 14 May 1959 the European Parliament unanimously passed a resolution calling for the creation of a European university "as tangible evidence of the desire of the six countries to foster the European idea and the construction of Europe".

European students have long taken it upon themselves to abolish national frontiers. Anyone who wants to be taken seriously by the younger generation must invest a large number, if not all, of our universities with a European character. We must also take into account periods of study carried out in other member States—something that is still not being done—and recognize the diplomas and certificates awarded even if they are not identical in every respect.

VI—Policy for encouraging savings and the financing of investment

55. In the Community it is not only the proportion of the GNP devoted to investment that is greater than in the United States; the share of savings is also larger. Households in the USA save scarcely 4 per cent of the GNP, as compared with 11.5 in Italy, between 8.5 and 9.5 per cent in the three Benelux States and in the Federal Republic of Germany, and just under 6.5 per cent in France.

Equally striking are the differences in gross national savings (public authorities, businesses and households). Over the period 1962–66 these averaged:

in the USA	barely 19%
in the Federal Republic and the Netherlands	nearly 27%
in Italy	24%
in France and Belgium	just over 21%.

The theory that the percentage of savings rises with the GNP is therefore not borne out by these figures. (In the Community, France has the highest GNP per head of the population). If, in spite of this, the Medium-term Economic Policy Committee considers that the savings quota ought to be further increased, it does so in the light of the large-scale investments that must be made by public authorities and private enterprises alike if the Community is to be enabled to bring its adaptation process to a satisfactory conclusion.

56. At all events, the use made of savings needs overhauling, a point to which we shall be returning. The ready acceptance of Euro-dollar loans on the Community market supports this view. Instead of being invested in the Community, accumulated capital is exported. Even the heavy capital exports currently practised by the Federal Republic to offset export surpluses tend to find their way to third countries rather than other member States of the Community. In this respect hard facts and the requirements of the medium-term programme stand in sharp contrast.

57. This is why the "more efficient operation of European capital markets" ought to be brought more into the foreground. This calls not only for better use of savings in private deposit accounts (commercial and savings banks claim that the system operated by them is well-nigh perfect, which—that being their

business—is quite believable); it also implies abolishing the privileged access to savings capital which still exists in a number of member States. Above all it means refraining from whipping up hysteria over gold, the hoarding of which prevents capital from being used to good purpose. In addition—particularly if it is desired to encourage the small saver to go in for long-term investment—far closer attention should be paid to maintaining the market value of securities. On this point, the second programme contains a number of interesting suggestions which it is to be hoped will be promptly followed up.

58. It is also important to ensure that demand on the capital market is carefully regulated. Even an unexpectedly keen response to loan issues should not be allowed to disturb such a policy. It seems that the conditions necessary for balancing supply and demand are not everywhere present in this field. According to the second programme, the responsibility for this should lie with public borrowers, who are in a better position to adjust their investment programmes to the volume of capital available.

This in turn means that the public authorities must operate an investment programme stretching over a number of years. Only thus could the demand for and the use made of credits be rendered sufficiently flexible. As already pointed out, however, this important step has still to be taken in most of the member States.

59. But all such improvements which member States make to their own capital markets will not bring a common European capital market into being. They will stimulate progress towards a merger of the six capital markets only by making more satisfactory arrangements for and by accentuating the trend towards more uniform interest rates.

60. From the experience of the past few years there is no reason to assume that the interpenetration and ultimate merging of the six capital markets will occur automatically. On the contrary, capital investment in third countries clearly offers, under the present circumstances, a greater attraction.

The circumstances alluded to include the fact that the Community's capital markets exhibit such marked differences in currency legislation and in provisions on publicity, access to the market, taxation, etc., that little encouragement or benefit is offered to individual member States to continue dealing on Community territory. Here everything, or nearly everything, remains to be done on Community lines.

61. It should be borne in mind, however, that the Council has still not adopted the third directive on the abolition of all obstacles arising from nationality to the movement of capital, although this was approved by the European Parliament as long ago as 1966. The Council should make good its omission as soon as possible.

62. Apart from listing the fields for which common rules should be drawn up, the second medium-term

economic programme does not include a specific programme for the capital market. In the meantime, however, the Commission has announced its intention of submitting to the Council in the course of the next few weeks proposals for the approximation of conditions on the capital markets. The Economic Affairs Committee welcomes this move, which it regards as an important step in the Community's progress towards economic union, and hopes that the Council will not once again set up obstacles in the path.

VII—Incomes policy

63. The chapter devoted to this subject represents on the whole a balanced attempt to analyse all the features of an incomes policy. Dealing as it does with all classes of income, it brings out the difficulty of influencing them and the variety of measures that have to be resorted to in the process. Wages policy involves taxation policy, monetary and credit policy, external trade policy and competition policy.

64. Few today would close their eyes to the relationship existing between economic growth and incomes policy. The economy undergoes more and more rapid changes. A high rate of growth is necessary if manpower released on the market by structural unemployment is to be absorbed.

65. Since labour costs and profits directly affect competitiveness, one must endorse the suggestion that they should be discussed increasingly "at European level". The programme states that "the levels of labour costs (wages and social expenditure) as well as of prices in the various sectors have already become appreciably closer in all member States." While this assertion may be true of wages in large industrial centres and of producers' prices, it does not unfortunately apply to prices to the consumer, as the Commission itself pointed out in its last (as in the previous) annual report.

The Commission has so far been unable to provide the Economic Affairs Committee with a satisfactory explanation for this. Although the price to the ultimate consumer does not blunt the competitiveness of industry in the Common Market, it does have a decisive influence on the cost of living and is therefore a major aspect of wages policy. The Economic Affairs Committee therefore again calls for:

- (a) a comparison of retail prices from which taxes and other charges have been deducted;
- (b) a survey of the competitive position of goods in respect of which, even after such adjustment, substantial differences exist in the price to the ultimate consumer.

66. The guidelines for an incomes policy, as set out in the second programme, can be broadly approved. As pointed out by the Committee on Social Affairs, however, certain suggestions ought to receive special emphasis or to be supplemented.

67. The Economic Affairs Committee favours "concerted action" in the form of a continuous dialogue between the governments and employers and workers on a wages pattern related to economic trends. No member State, however, has yet devised a satisfactory way of drawing up guide data for such a policy. Employers and workers ought to work together in preparing such data and not confine themselves to drawing conclusions from them. This is why the Medium-term Economic Policy Committee suggests that they should each be invited to put forward a coherent outline of an overall medium-term economic policy.

68. This might be conceivable in member States where the trade unions (and it is with the trade unions that we are here mainly concerned) are not widely scattered and are therefore sufficiently organized to perform such work. This is why it will not be easy at first to follow up the suggestion in every member State.

Moreover, some members of the Economic Affairs Committee voiced doubts as to whether a joint exchange of views would prove adequate in the form proposed. If collective bargaining was not always to degenerate into a trial of strength between companies and trade unions, these talks between governments and employers and workers should be institutionalized on a permanent basis.

69. The Medium-term Economic Policy Committee does not consider that the rôle of productivity has yet been satisfactorily defined and regards fresh studies on the subject as essential. The connexion between wages and rationalization also appears not to have been adequately explained and should also, in the view of the Economic Affairs Committee, form the subject of investigation.

70. In the first programme it was recommended that more women should, if possible, be absorbed into the production process. This presents incomes policy with a number of problems which should have been dealt with in the second programme. These include:

- (a) fixing a definite target-date for the introduction of equal pay for men and women throughout the Community (Article 119 of the Treaty). (Under the Treaty, this should have been done by the end of the first third of the transitional stage);
- (b) the submission of income tax proposals abolishing handicaps resulting from the progressive taxation of the combined income of husband and wife (e.g. splitting as practised in the Federal Republic of Germany or other measures).

Unfortunately the programme has nothing to say on this subject, important as it is both for the labour market and for the pattern of incomes.

71. The long-term aim should be to conclude European wage agreements and to fix minimum wage-levels throughout the Community. This, however,

would necessitate more balanced regional economic structures without which the levelling process (encouragement of industrial resettlement in developing areas) might be brought prematurely to a halt.

72. Although, however, the inclusion of an incomes policy would help to stabilize economic trends, this would not automatically solve all labour problems. Structural changes could set in so suddenly and in such numbers as, at least temporarily, to threaten full employment and, therefore, workers' incomes. The Committee on Social Affairs therefore rightly dwells on this problem. In the first programme it was treated as but one aspect of regional redevelopment, but it is assuming an urgent character with the progress of industrial concentration and the restructuring of certain economic sectors described in the second programme.

73. To deal with such structural disturbances on the labour market, two measures appear to be urgently needed:

- (a) a prompt and longer-term analysis of trends in occupational and earnings structures;
- (b) wider anticipatory retraining facilities under a long-range programme. Retraining should be carried out during a decline in economic activity so that the retrained workers would be available when the situation picked up. This would make for an improved supply of labour better adapted to the economic conditions prevailing.

74. In this connexion it should be recalled that Parliament called years ago for a jointly organized labour market of the six member States. This should and would make it easier to deal with the problems of occupational training, structural adaptation and redevelopment.

75. Better statistics are needed on the incomes of enterprises and of self-employed persons. The Council recognized the need for this in 1966 in its recommendations on medium-term economic policy, but it certainly looks as though member States are still uncertain as to what is the minimum of facts and figures necessary for such an incomes policy. The Economic Affairs Committee therefore suggests that the Commission should submit a further recommendation on the subject to the member States.

76. The second programme sets out a range of possibilities for adjusting income other than wages: influencing profit margins, fees, rents, etc., amending the rules of depreciation for tax purposes, measures to combat unjustifiable speculative profits, excessive entertainment expenses, etc. To all these cases, the approach should be as uniform as possible throughout the Community, if only to ward off further distortions of the terms of competition. It would therefore be as well to supplement the programme, specifying where and when proposals are to be expected from the Commission.

77. Farming incomes are a special problem. The Committee on Agriculture is right when it says that the "aim of agricultural policy remains to assure farm workers a level of income and a social standing comparable to those enjoyed in other sectors." Such an aim can, however, only be achieved in the manner described in Chapter IV (Agricultural policy).

78. The success of any incomes policy largely depends on the stability of prices. Here again there is no evidence in the programme of any agreement; on the contrary, it clearly brings out the widely divergent views of member States on price policy. These range from imposing a price freeze to leaving price formation to the free play of the market. The Economic Affairs Committee feels that the aim should be to allow prices to be fixed freely on the market against a background of intense competition. Both the member Governments and the Commission ought therefore to devote special attention to competition. Governments must therefore keep a close watch on prices and, if necessary, resist increases by suitable means (imports, stiffer competition, banning of price maintenance, etc.).

79. The comments made on social security legislation make depressing reading. It appears that "at the present stage of investigation it has not been possible to draw up any guidelines on the subject", although it is recognized that the level and volume of social insurance benefits have an important bearing both on income trends and on production costs.

On the other hand it is good to learn that social policy continues to progress. In all member States the social security systems have been improved, even though substantial differences exist as between one country and the other.

The Commission can of course refer to the Treaty which does not assign to it any special task as regards the approximation of social security benefits throughout the Community. But, wherever the blame may lie, it is regrettable that it has so far proved impossible to devise a common framework or to lay down a definite objective in the social security field. It should be one of the main tasks of the third medium-term economic policy programme to make good this deficiency.

VIII—Policy on the distribution of wealth

80. The EEC has still to prove that it is really open to new ideas in the field of social policy. The peoples of Europe are becoming more and more critical of it for pursuing a policy aimed at preserving things as they are. The "pull" exerted by it on the public, and particularly on the younger generation, has consequently slackened considerably.

81. A new approach to social policy could win back for the EEC the ground it has lost. This, according to the second programme, would include ensuring

"a better distribution of income and wealth among the various classes of the population and preventing an excessive concentration of property in the hands of individuals... At all events an active policy on the distribution of wealth must be pursued in all member States."

82. A wealth of literature is available in this field but so far the efforts made to tackle the problem in individual member States have been of a relatively modest nature. They should be encouraged therefore to take the plunge. It is precisely because nothing has so far been done in this direction that ways and means should be jointly sought to introduce such a policy in favour of the workers.

83. As regards the resistance such a policy is bound to encounter, two observations may be made:

- (a) A policy of full employment (demanded by the Treaty but in any case an absolute must for any government) requires the workers not to exploit their strong position on the labour market to the limit—in terms of wage increases—at the expense of price stability and of a sound economy. In the event of the economy becoming overheated they might even be induced to cut down on consumption temporarily. If this is to succeed over a long period, workers will have to be compensated either through a profits-sharing arrangement or through some other form of participation in the formation of national wealth.
- (b) Enterprises themselves—and particularly the large ones—are today not only taxpayers but also often recipient of all kinds of State aid. (This will also be the case with the large-scale European enterprises it is desired to create). Such aid is granted as a spur to investment as a means of stimulating or maintaining expansion, to help finance research, and in the form of public contracts which serve to stabilize sales and as a springboard for further investment. Government aid of this kind is vital to an economy exposed to international competition; in the Community it still falls far short of the support given, for example, by the United States to its industry.

The profits of enterprises are thus increasingly acted upon by a variety of influences, quite apart from that exerted at entrepreneurial level, which should not be underestimated. (In large enterprises financing and management are no longer, as a rule, in the same hands). What grounds can there be, therefore, for refusing in principle to allow a worker to share in these profits, provided that he saves his share and invests it in the business?

84. As only workers in certain enterprises would be eligible for such direct participation, this policy will have to be supplemented either by offering some other form of participation or by alternative measures to encourage savings by other workers and by other individuals falling within a less favoured income bracket. Here again there has been no lack of ideas.

Unfortunately those held by employers on the one hand and by workers on the other still differ widely. Not even the trade unions of the member States have yet decided upon a common attitude.

85. The Economic Affairs Committee is therefore more than ever convinced of the urgent need to assemble and analyse all the experience so far gained relating to workers' shares in the capital of enterprises and to the various means of encouraging savings. This would give member States a closer grasp of the social policy implications and spur them on to take action in this field.

IX—Summary

86. The Economic Affairs Committee found more and more grounds for criticizing the second programme as the end of the transitional period came in sight. By that date all the obligations imposed by the Treaty ought to have been carried out—not yet the case with all the commitments entered into—and a programme of additional co-operation presented. The Committee had hoped to find these uncompleted and additional tasks set out in the programmes of the Medium-term Economic Policy Committee.

87. Even though a certain amount still remains to be done in this or that sphere (for example, in connexion with energy policy and transport policy) the guidelines of the two programmes provide a useful framework for an economic policy likely to meet European needs. Unfortunately, a framework is all it is and the building has still to go up. All they establish is a basis for a common approach by the Six to the economic problems they will have to solve. But even when the Six have undergone complete harmonization the stage they will have reached will merely be one where they can compare their respective states of development more satisfactorily, understand each other better and be able more easily to embark on joint action.

88. Such joint action which, beginning in certain priority fields, should be carried over beyond the limits fixed by the Treaty if something more than a customs and an agricultural union is desired, is not

provided for in either programme. It is either governed by special regulations, which should surely have been covered by the programme (such as the common agricultural programmes) or so enmeshed in the toils of national resistances or linked requirements (for example, mergers and co-operation in the field of science and research) that it is difficult to discern the path to be trodden and the prospects held out by further co-operation.

89. The term "guidelines" unfortunately does not of itself imply anything of a binding obligation. Such an obligation ought of course to arise with the adoption of the programme by the Council. Since, however, the question of compliance (or failure to comply) with the guidelines arises at the moment only at the national level, the Economic Affairs Committee hopes that the Commission will keep a close watch on how the programmes are applied and invites it to submit its observations on the subject to Parliament within a period of, say, one year.

90. Now that the two programmes have drawn up for the member States an almost flawless code of good conduct for the EEC in all social and economic policy matters, the Economic Affairs Committee hopes that the third programme for the period 1971–1975 will include concrete proposals for co-operation, more especially in fields in which the consolidation of the Community's position and of its economic success mainly depends on the combined action of all the forces involved. Only thus will the Community be able to fulfil in the social policy sphere the hopes pinned on it by the citizens of the member States.

91. In conclusion, the Economic Affairs Committee would point out that in certain fields—education, transport policy, energy policy etc.—it is becoming more and more a matter of urgency to draw up longer-range forecasts permitting prompt and satisfactory adaptation to structural changes which in future are going to set in very swiftly. In view of the difficulties already presented by the preparation of a five-year programme for the EEC, it is not without some hesitation that the Committee puts forward this proposal. It could, however, perhaps be carried out if the Commission—as it did in the case of the Uri report—were to instruct a neutral body to prepare such forecasts. These would be of immense help in the work of drawing up the five-year programmes.

Opinion of the Committee for Finance and Budgets

Draftsman: Mr. Borocco

By letter of 11 April 1968 the President of the European Parliament instructed the Committee for Finance and Budgets to draw up an Opinion for the Economic Affairs Committee, as the body concerned, on the draft second medium-term economic policy programme submitted by the Commission to the Council of the European Communities (Doc. 19/68).

At a meeting held by the Committee for Finance and Budgets on 17 May 1968 Mr. Borocco was appointed Draftsman of the Opinion.

At its meeting of 10 September 1968, the Committee unanimously adopted this Opinion.

The following were present: Mr. Spénale, Chairman; Mr. Borocco, Vice-Chairman and Draftsman; Messrs. Aigner, Artzinger, Boertien (deputizing for Mr. Westerterp), Battaglia, Corterier, De Bosio, Gerlach, Leemans, Radoux (deputizing for Mr. Wohlfart) and Rossi.

Introduction

1. The medium-term economic policy programmes are based on Articles 6, 105 and 145 of the EEC Treaty.

Articles 6 and 145 require member States, in close collaboration with the institutions of the Community, to co-ordinate their respective economic policies to the extent necessary to attain the objectives of the Treaty; and the Council to ensure that the general economic policies of member States are co-ordinated.

Article 105 lays down as the objectives of such co-ordination the maintenance in each member State of a balanced payments position, of confidence in its currency and of a high level of employment and the stability of price levels. To this end member States are required to introduce a policy of collaboration between their appropriate administrative departments and their central banks, a monetary committee with consultative status being set up for this purpose.

2. On 15 April 1964 the Council decided to set up a medium-term economic policy committee to prepare a preliminary draft of a medium-term economic policy programme.

On 25 May 1966 the Council consulted Parliament concerning a draft medium-term economic policy programme covering the years 1966-70.

Mrs. Elsner drew up the report on this draft for the Economic and Financial Committee. This was discussed by the European Parliament in November 1966.

The programme was adopted by the Council on 11 April 1967 and published in the Official Gazette (No. 79) of 25 April 1967. It was not intended to be exhaustive. As pointed out in the preliminary draft:

“It is intended, in the course of an annual review of the programme, to go more deeply into matters not yet sufficiently explored. Essential aspects of the Committee's routine work and of future programmes will therefore be to look more closely at the degree of consistency between national and Community policies and to give priority to problems connected with research, the structure of specific sectors in industry and

agriculture, the size of enterprises, public finance, incomes policy and the capital market.”⁽¹⁾

3. The Council submitted the draft second programme dated 20 March 1968 to Parliament for its views. This new programme covers the same period—1966-1970—and merely supplements the first.

4. The first programme was not referred to the Committee for Finance and Budgets which at the time had another name and not quite the same terms of reference. Now the first programme contained important information about budgetary policies and public finance. Although, therefore, the former Budget and Administration Committee was not consulted, it is none the less fortunate that its successor, the Committee for Finance and Budgets, has been asked for its views on the supplementary programme.

I—Nature of the problem

5. In outlining the problem that is of special concern to the Committee for Finance and Budgets, one can hardly do better than quote from the first programme. This singles out the twin aspects of any budget, the raising of the funds considered necessary and their sound allocation.

“The work so far done by the Budgetary Policy Committee confirms that the public authorities will tend, in the years ahead, to take up a larger share of the GNP to meet the needs of the community.

Serious problems will therefore arise in the years to come in the sphere of public finance. Public demand will have to be aligned to overall economic resources and sufficient funds raised to cover financing requirements. . .

It is hardly likely, however, that the rise in expenditure could be curbed to the point where all financing problems would be solved. Two possible remedies ought therefore to be considered: resorting to credits — in this instance the issue of long-term domestic loans — or increasing taxation. If recourse is had to the capital

⁽¹⁾ Official Gazette No. 79 of 25 April 1967, p. 1514.

market it must be borne in mind that the interests of the public authorities, as issuers of loans, could clash with those of enterprises which may, for their part, be in even greater need of finance. In so far as higher taxes prove to be inevitable, they should be of such a nature as to have the least possible effect on enterprises and private saving. In the process, account would also have to be taken of the requirements of tax harmonization between the member States.

The soundest allocation of public funds would be facilitated by the introduction of budgetary forecasts or programmes covering several years and laying down, in the light of total economic resources, specific priorities, as to timing and areas, for the various classes of expenditure. Such forecasts or programmes would at the same time have to serve as a basis for co-ordinating the budgetary policies of governments and local authorities. The need for such co-ordination is all the greater because it is the public authorities, which are going to continue to expand in the coming years, that account for the vast bulk of public investment in most member States. Chapter V of this programme goes more deeply into some of the problems of public finance.”⁽¹⁾

II—Comments on the first programme

6. Before turning to the second medium-term policy programme, it is worth while recalling the comments made both in the report drawn up by Mrs. Elsner in 1966 for the Economic and Financial Committee and in a resolution passed by Parliament.

a) Report by Mrs. Elsner

7. The Economic and Financial Committee considered that the utmost economy ought to be exercised in all areas of public consumption, and that the policy on subsidies needed completely overhauling because it was often out of line with the Treaties and served to featherbed economic and social structures which needed shaking up.

It was stated earlier on that the public authorities will be obliged to raise taxes to make up for shortages on the capital market. The Economic and Financial Committee commented on the oracular nature of the guidelines laid down in the draft of the first programme. It went on to say:

“Tax increases should fall mainly on consumer expenditure and as little as possible on private savings and on the investments of enterprises. In order not to impede tax harmonization in the Community, taxes on production ought to be increased in member States where these are low, and “taxes on wealth and incomes” in the remainder.

Now an increase in taxes on wealth and incomes not only affects consumption but narrows still further the already slim margin of income available for savings, its effect being therefore the opposite to that intended. Consumer habits are preserved at the expense of savings. Clearly, the Commission shares these misgivings, for it expressly recommends, alongside tax increases, fiscal policy measures to encourage savings, particularly among wage-earners.

The Economic and Financial Committee has also often raised this point. In the meantime, however, it has become convinced that in a tight budgetary situation such

as now prevails in all member States, such tax benefits are liable to be quickly sacrificed.”⁽¹⁾

8. The Economic and Financial Committee requested the Commission to consider whether those benefiting from collective investments could not in some cases be made to participate more directly in financing them.

9. It stressed the important effect the depreciation authorized can have on the pattern of investment, and the need to standardize the tax provisions of the Six accordingly.

10. Finally, it put the case for budgets covering several years which would more clearly bring out the challenges facing the modern industrial state. The Committee wanted member States (i) to draw up long-range budgets in a standardized form right from the start; (ii) to append to them investment programmes covering the same period; (iii) to enter the tax concessions awarded to the various groups as expenditure items in these long-range budgets; (iv) to ensure that these budgets extend beyond the lives of the national parliaments and that these have an opportunity to put forward criticisms and proposed amendments, even if these are not binding.

b) Resolution of the European Parliament

11. Several items in the resolution passed in November 1966 are of interest to the Committee for Finance and Budgets, namely:

“The European Parliament,

...

4. Considers that increased public investments and directly productive investments, kept at a high level, are indispensable during the coming years to ensure economic growth while safeguarding internal and external balance;

5. Accepts therefore the objective defined in the programme according to which consumers' expenditure should be maintained at an appropriate level, to the benefit of investments;

6. Urges that public investment programmes and forecasts extending over several years should be established showing the intentions of the Governments in the matter of economic policy so that the rest of the economy can obtain guidance from them;

7. Recommends, in view of an evitable and rapid expansion of public investment, more economic management of budgets, a review of subsidies and a fiscal policy which makes it possible to cover expenditure, without however provoking inflationary trends in the economy at large;...”⁽²⁾

III—Contents of the first programme

12. The first programme notes numerous flaws and gaps in the medium-term forecast proposed for public finance policy in the six States.

“One of the next tasks in the matter of medium-term economic policy will be to step up the work already

⁽¹⁾ Official Gazette No. 79 of 25 April 1967, p. 1547.

⁽¹⁾ Doc. 129/66, Nos. 43 and 44.

⁽²⁾ Official Gazette No. 232 of 16 December 1966, p. 3907.

started and to carry out a number of quantitative comparisons hitherto found impracticable. In the process forecasting techniques must be improved and basic assumptions about economic development more clearly defined.”⁽¹⁾

The first programme hints at “a marked upward trend in the demand for finance in the public sector”.

The programme underlines the need to adjust such demand to what is economically feasible and to allocate the necessary funds to specific priority sectors—education, scientific research, backward areas, roads, ports and hospitals. To cover these costs the first programme envisaged a budgetary policy which—in so far as it was impossible or undesirable to draw more heavily on the capital market—would either slow down the rise in expenditure or boost revenue by fiscal policy expedients. Expenditure could be braked selectively by giving priority to investments of public interest, ensuring that the pay of civil servants kept pace with general economic progress and curtailing expenditure on transfers and above all budgetary subsidies.

On the assumption that there would be no change in tax legislation, the first programme foresaw further calls on the capital market. The fear was expressed, however, that savings would not meet public demand and that taxes would have to be increased. An effort would no doubt be made not to damp private savings or investment by enterprises, and preferably to increase outlay taxes with due regard for the effects of tax harmonization.

The first programme called for long-range budget forecasts that made allowance for cyclical trends. It also laid down a number of financial policy guidelines for regional policy. The comments made on financial aid and on the arrangements for interventions by the European Investment Bank also deserve attention.

Broadly speaking, however, the first programme did not touch on the second budgetary aspect, namely the efficient use of funds and, in particular, of aid and subsidies.

IV—Draft second programme

13. The second programme is submitted as a supplement to the first and covers the same period. Its purpose is not to present a complete projection of the Community’s likely development. As the President of the Commission pointed out in a letter to the President of the Council:

“The Commission hopes that, as a result of the close co-operation which has grown up between the responsible national administrations and its own departments, the projections to be drawn up for the third programme will be more accurate and comprehensive, so that the effects on the Community’s development of external trade on the one hand and savings and investments on the other can be investigated.”⁽²⁾

14. The subjects dealt with in the draft second programme touch only incidentally on public finance.

The Medium-term Economic Policy Committee had to make some changes to the first projections, as can be seen from the general outline. It then concerned itself mainly with the structural adjustment of enterprises and with exploring the possibilities of development in one or two major industries.

Finally the Committee made a start on a survey of the capital and money markets and sketched out the broad lines of an incomes policy as essential factors of structural development. It is, however, worth while to analyse the few scattered observations made by the Committee in the second programme on the subject of financial and budgetary policies.

(a) *The financial tools of economic policy*

15. The draft second programme makes a fresh approach to the problems affecting financial and budgetary policies. This concerns the promotion of public savings, referred to in the chapter on savings and investment.

The first programme took into account the possibility of a clash between the public and private sectors on the capital market and of imposing fresh tax burdens on consumer goods.

The draft second programme modifies the prospect. It recognizes that the financial needs of the public authorities will continue to grow and that it will scarcely be possible for them to restrict their expenditure on consumption and increase their savings. But it asks whether a policy of increased taxes will not rapidly run up against economic and psychological limits.

“Under these circumstances and in view of the abnormally rapid growth of the volume of public investment in most member States expected for the period 1966–70, it is not certain whether public savings will always be able to keep pace. The public authorities would at all events be liable to find themselves—as was the case in most countries up to 1962 and in France and Germany up to 1965—without the surpluses needed to help finance investments in other spheres. As they will have to continue making transfers of capital for the benefit of households and enterprises—notably public enterprises, despite the need stressed in the first programme for these ultimately to stand on their own feet—it seems unlikely that the public authorities in all member States will be able to cover their direct or indirect investment burdens without resorting to external sources of finance. If inflationary trends are to be avoided, the necessary funds will have to be secured on the capital markets.”⁽¹⁾

Because, for various reasons, the capacity to save of enterprises is so restricted that they too have to resort to the capital markets, the Committee considered how the operation of these markets could be improved—for instance by gradually “decompartmentalizing” them—and whether they might not be better organized.

16. Fearing that adjustments in the demand for capital might, while benefiting the public sector, leave the needs of the private sector unsatisfied, the Committee states that “greater elasticity exists nevertheless among public borrowers.” It adds:

“These therefore carry a special responsibility to ensure a reasonable balance on the capital market. This, moreover, is in keeping with the guidelines laid down by member States for public finance in the first programme, which also advocates (i) long-range budget forecasts or programmes; (ii) a scale of priorities for specific classes of expenditure; (iii) closer co-ordination of the budgetary policies of the various public authorities; and (iv) a more balanced financial position of

⁽¹⁾ *Official Gazette* No. 79 of 25 April 1967, p. 1558.

⁽²⁾ Letter accompanying the second programme, p. 2.

⁽¹⁾ Second programme, p. VI-3.

public enterprises. By reducing recourse by public borrowers to private savings or by making public finance policy more flexible, these measures could do a great deal towards restoring and then maintaining the desired balance.”⁽¹⁾

It may, however, be asked if in this way the Committee has forestalled a possible clash between the public and private sectors or that arising from the choice of new taxes. When and to what extent, for example, will it be possible to cut down the privileges that enable the public authorities so easily to secure for themselves the funds they need for their investments?⁽²⁾

(b) *Allocation of aid and subsidies*

17. In April 1964 the Internal Market Committee heard a report by Mr. von der Groeben, a member of the EEC Commission, on aid and subsidies in the EEC. This analysed Articles 92, 93 and 94 of the Treaty and discussed their significance for competition policy. As customs barriers were progressively lowered, the effect on trade in the Common Market of aid and subsidies would make itself increasingly felt. The principle underlying this policy was “not to hamper the operation of the Common Market or, more particularly, of the customs union” and “to create fair conditions of competition”.

The submission of this report coincided with the Council of Ministers’ decision to set up a committee for the medium-term economic policy. Mr. von der Groeben concluded his report as follows:

“It is thus perfectly logical to bring the implementation of aid provisions within the general framework of economic policy. This conclusion is an obvious one in spheres where the Treaty of Rome or the Community institutions provide for a common policy, but it appears just as essential in respect of the Community’s commercial and regional policies.”⁽³⁾

18. In Strasbourg a year later, i.e. on 16 June 1965, Mr. von der Groeben made a full report on “competition policy as an integral part of the Common Market’s economic policy”.

With regard to economic policy tasks that could not be automatically dealt with by means of competition policy and more particularly to State subsidies, he said:

“In so far as it is impossible here to hand over the wheel to competition, the tools of competition policy must be supplemented by the medium-term economic policy proposed by the Commission. Apart from the need for co-ordinating public investment, the interventions of the public authorities should be checked both for their usefulness and for their desirability. Interventions recognized as necessary must be co-ordinated and so designed as to interfere as little as possible with the free play of the market. The medium-term economic policy thus also serves to brace and round off competition policy. It is an economic policy based on competition and aims not at more, but at fewer and more effective interventions.”⁽⁴⁾

19. The Medium-term Economic Policy Committee, in the firm belief that the States should pursue a structural policy sector by sector, co-ordinating the measures taken by member States in this field, laid down the following aims in its draft second programme:

“The structural policy in specific sectors must be to bring about these changes under the best possible conditions. Priority should be given to sectors that hold the key to the Community’s industrial development and to economic growth in general, and which enterprises cannot satisfactorily expand by their own unaided efforts. This also means promoting enterprises that seem the most likely rapidly to achieve the ends in view, while avoiding any aid of a discriminatory nature. In the case of enterprises faced with falling demand for their products or unable to step up productivity sufficiently to withstand keener competition from substitutes and competitors from other countries, steps should be taken to facilitate a switch-over to lines of production with a more promising future.”⁽¹⁾

The Committee then deals with measures in specific sectors. In its view efforts should be concentrated on a handful of sectors: (i) those which suddenly encounter a crisis in their development and cannot be left to their own devices without serious economic and social harm, and (ii) sectors in the vanguard of technological progress. State action should aim at modernizing declining sectors and promoting particularly promising techniques. The following criteria should be applied:

- (a) selection of one or more sectors that could derive the greatest benefit from the measure in question;
- (b) budgetary balance;
- (c) structural character of the difficulties encountered by an entire sector;
- (d) the key position of a sector whose growth appears unlikely to keep pace with expected developments;
- (e) the supplementary nature of State assistance;
- (f) maintenance of competition in the sector assisted;
- (g) prospects of lasting effects from measures of adaptation or promotion;
- (h) temporary nature of aid;
- (j) total or partial reimbursement of aid;
- (k) the public disclosure of promotion measures; recourse to direct measures that are easily grasped, and publication in the accounts of beneficiaries of the subsidies they have received.

20. It can be seen, therefore, that the competition policy based on Articles 92 to 94 could not be successfully applied so long as the economic policy provided no growth criteria and alternative ways and means.

The meaning of the phrase “the sound operation of the Common Market”—i.e. the content of an economic policy—had to be defined before the rules of competition governing aid and subsidies could be applied to it. The work so far done by the Medium-term Economic Policy Committee is thus to be welcomed. But some means must be devised for comparing national budgetary policies, so as

⁽¹⁾ Second programme, page VI-21.

⁽²⁾ Second programme, page VI-17.

⁽³⁾ Minutes of meeting of the Internal Market Committee of 23 April 1964 and PE 11.653.

⁽⁴⁾ Session of 16 June 1965, Debates No. 79, p. 111.

⁽¹⁾ Second programme, p. III-7.

to follow up how these principles are applied in each of the member States and avoid any clashes between the policies pursued by them.

The suggestion made by the former Economic and Financial Committee concerning long-range budgets is worth noting at this point.

21. As regards the other aspects of financial and budgetary policy the second programme has nothing really new to say.

Already in the first programme the Budgetary Policy Committee was asked to provide more details about probable developments in public income and expenditure. The work of this committee had not yet reached the stage where a precise forecast could be made for the years ahead.

It was therefore to be hoped that the second programme would give an overall view of financial and budgetary policy embodying the ideas put forward by Parliament for long-range budgets, for which it had already sketched out the broad lines, as well as for Community standards applicable to the national budgetary policies of the six member States.

At all events the committee is at work on fuller and more accurate projections which are to be the subject of a third programme. It is to be hoped that the foregoing views on financial and budgetary policy will be gone into there at greater length.

22. The Economic Affairs Committee feels it cannot conclude this opinion without underlining the importance it attaches, given its concern with the financial and budget policy aspects of the matter, to regional economic policy.

In its first general report on the activities of the Communities the Commission states, under No. 258, that "over half the public investments in the member States are made by the local authorities".

23. Regional policy therefore raises a budgetary problem and possibly that of budgetary co-ordination.

24. Lastly, Parliament and its appropriate committees should be kept more closely informed of the work of the Budgetary Policy Committee. The Committee for Finance and Budgets has therefore asked the Commission to let it have details above all of the budgetary structures of member States and of the budgetary standards established by the Budgetary Policy Committee.

Opinion of the Committee on Agriculture

Draftsman: Mr. Richarts

By letter of 8 April 1968 the President of the Council of the European Communities asked the European Parliament for its views on the draft second medium-term economic policy programme. The President of the European Parliament, in a letter of 11 April 1968, invited the Committee on Agriculture to submit an Opinion.

At a meeting of the Committee held on 8 May 1968 Mr. Richarts was appointed Draftsman of the Opinion.

This Opinion was discussed at meetings held on 24 and 25 September and 9 and 10 October 1968, at the last of which it was adopted by six to two votes, with four abstentions.

The following were present: Messrs. Vredeling, Acting Chairman; Sabatini, Vice-Chairman; Richarts, Draftsman; Baas, Bading, Carboni, Dewulf, Dröscher, Estève, Kriedemann, Müller, Vals.

Preliminary remarks

Like the other committees consulted on the draft second medium-term economic policy programme, the Committee on Agriculture adopted the present Opinion to enable the European Parliament to make known its views at the Council's request. During its discussions, however, the Committee was faced with the difficulty of having to pronounce on current problems of agricultural structure without having access to the Commission's new proposals on structural policy. It would emphasize therefore that this Opinion in no way prejudices its attitude to the memorandum announced by the Commission on the future pattern of agricultural policy, and that it considers itself at liberty to submit a more detailed Opinion on a number of questions as soon as the said memorandum has been passed to the European Parliament.

I—Introduction

1. Chapter IV of the draft second medium-term economic policy programme, submitted by the Commission to the Council in the form drawn up by the Medium-term Economic Policy Committee, deals with the agricultural policy problems facing the Community during the period 1965–1970.

2. In a letter dated 20 March, 1968 submitting the draft second programme to the President of the Council, the President of the Commission pointed out, as regards agriculture, that no other sector had received so much support, and over so long a period, from the Governments. In no other sector, however, were the living conditions and income levels offered to the majority of workers so unsatisfactory. The immense efforts made by the Community to ensure free movement of agricultural products had, of course, helped in this respect; it was already apparent, however, that the *price support policy*, despite its already high and steadily rising costs, was not alone capable of improving the living conditions of the vast majority of farmers to the extent required. It ought therefore to be supplemented by a *structural policy* aimed at increasing the earning capacity of farms capable of being brought up to a high level of technical development, and at improving the quality of products in the light of trends in demand. It ought also to be accompanied by a series

of *social measures* designed more especially to assist farmers desirous of taking up a new occupation, to adapt the training of young people and adults to the needs of the economy as a whole and, by grants of personal aid, to provide suitable living conditions for farmers unable to adapt themselves to the current situation of the agricultural economy. Any attempt to raise incomes *exclusively through price support measures*, quite apart from the fact that the cost would rapidly become intolerably high, would finally run counter to the economic and social aims of the agricultural policy. The President of the Commission emphasized in his letter that the draft programme submitted is intended to help break this vicious circle.

3. The Committee on Agriculture fears that the President's letter might give rise to some misunderstandings. The Commission's remarks might lead some to think that the aid and interventions of the public authorities have been concentrated solely on the agricultural sector. The support given to other sectors—coalmining, transport, shipbuilding, etc.—is not mentioned.

The Committee has therefore expressed certain reservations as to the Commission's desire to publish this letter together with the second programme in the "Official Gazette of the European Communities".

The Committee cannot help wondering whether the Commission's assessment of price policy may not perhaps be somewhat on the negative side, and is curious to know what, in the Commission's view, the future rôle of this policy ought to be.

It would point out that a radical overhaul of price policy would have particularly grave social consequences at the present juncture, not only because of the structural weaknesses of agriculture but also because farming—at least in some member States—has been faced with a substantial rise in production costs. The Committee cannot help wondering, therefore, whether stepping up measures aimed at improving structures might not end up by confining the Community's agricultural policy in another vicious circle. The authorities in the member States have certainly not been idle in the structural policy field over the past twenty years. Thanks to substantial funds from the national budget and the farmer's own efforts, considerable improvements have been made to agricultural structures. Although, however, most structural measures taken so far have helped to step up productivity, they have also led to a considerable rise in output.

The Community should guard above all against the danger that price policy and structural policy may pull in opposite directions. This danger is heightened by the fact that while price policy falls within the Community's province, member States are still largely responsible for structural, regional and social policy. Member States are still trying to practise structural policy at national level although they can no longer determine prices on their own. They should therefore no longer confine themselves to taking note of proposals put forward by the Medium-term Economic Policy Committee and the Commission aimed at closer co-ordination of structural policy, but put these proposals into practice.

4. The Committee on Agriculture has made a careful study of the draft programme prepared by the Medium-term Economic Policy Committee—and, more particularly, of Chapter IV (agricultural policy)—and noted that agricultural problems are also mentioned in other chapters, e.g. Chapter III (structural policy in specific sectors) and Chapter VII (incomes policy).

It is glad to see that the framers of the draft programme have made a real effort to consider agriculture against the background of economic policy and social policy. The committee long ago recognized the existence of this interrelationship.

The following comments relate to the analysis of the situation and to the conclusions as to policy reached in the draft programme.

II—Analysis of the situation

5. The Medium-term Economic Policy Committee drew up the aims and guidelines of the agricultural policy to be followed during the next few years on the basis of an analysis which seeks to sketch out the broad outlines of likely trends in production, external trade, employment and productivity in the agricultural sector. These forecasts were worked out by an *ad hoc* working party on forecasts in agriculture composed of experts from the member States and the Commission.

The Committee regretted the paucity of facts and figures in this part of the programme. It would have liked to see the analysis rounded off with statistics on the age pattern of the active farming population.

a) Sales outlets

6. The most important result of the forecasts of the experts concerns the possibility of increasing the sales of agricultural products in the Community up to the year 1970. According to the experts, *expenditure on food*, which governs the demand for agricultural products, is likely to go up more slowly in the next few years than in the past. This is explained by:

- (a) a slower rise in the population growth rate;
- (b) a drop in the rate of increase of private consumption per head;
- (c) a steady contraction of the proportion of total expenditure accounted for by food consumption.

The experts consider that the proportion of expenditure on food in most member States in 1970 will be around 33 per cent, save in Italy (42 per cent), and that the steepest drop in the period 1965–1970 will occur in France.

7. The Committee on Agriculture warns against drawing exaggerated conclusions from these forecasts as to future sales outlets for farm products. True, expenditure on food in highly industrialized countries rises more slowly than expenditure on industrial products. But the tendency towards a relative decrease in expenditure on food is far less uniform than might be inferred from these general forecasts. The operative factor is the *shifts* that have occurred in the *pattern* of this expenditure, i.e. in the make-up of the demand for food. These may be summed up in terms of:

- (a) an aversion to basic foodstuffs;
- (b) the popularity of processed products.

In the United States, for example, total home consumption of wheat has remained virtually at a standstill since the turn of the century, despite the enormous increase in the population and in income per head. In all the developing countries, on the other hand, consumption of high-grade agricultural products, e.g. beef and veal, has shown a sharp rise.

8. The draft programme takes this trend into account so far as increased demand for processed products is concerned, but makes no distinction between the various agricultural products. All it does is to forecast in a general way a decrease in the proportion of food expenditure accounted for by agricultural products, due in part to the efforts made by the food industry to create new wants among existing or potential consumers.

9. The Committee on Agriculture is alive to the risks which changes in the consumer pattern may present for primary agricultural production. It was with some concern that it took note of the comments made under No. 7 of the chapter of the programme devoted to agriculture—according to which a reduction in the agricultural component of total expenditure on food is to be expected—as this means that the outlook for agricultural production is even less promising than for food consumption. The Committee feels that such a trend could only be countered by suitably organizing agricultural production and particularly by setting up producers' co-operatives and concluding long-term contracts with the food industry.

The Committee looks to the Commission to present its detailed views on these problems in the report on the situation of agriculture in the Community announced by it as well as in its report on structures.

The Committee also suggests that the Commission follow up consumption trends and advise farmers about them in sufficient time to enable them to adapt their production programmes accordingly, both in qualitative and in quantitative terms. Such regular briefings would make it much easier for producers' co-operatives to take the necessary decisions on production and investment.

(b) Production and external trade

10. The working party on forecasts in agriculture expects that for the period 1965–1970 the rise in final agricultural production in the Community will be maintained at the same rate as for 1960–1965, i.e. at about 2.8 per cent. Only France and the Netherlands reckon with a higher rate of growth for 1965–1970 than in the previous five years.

As regards intermediate consumption—that is, current purchases by farmers from other industries (feeding stuffs, fertilizers, power, transport, veterinary services, etc.)

—the experts forecast a tendency for this to rise more slowly between 1965 and 1970, in the period 1960–1965. Nevertheless the need to adapt itself to Common Market conditions could oblige EEC farmers, particularly in France and Italy where wide scope still exists for expanding production, to increase their intermediate consumption more rapidly than expected.

11. As regards external trade, the experts reached the conclusion that in 1970 the Community will remain a *net importer* of agricultural products. Its *degree of self-sufficiency* for 1970 is estimated at nearly 90 per cent (1965: 89.2 per cent). The situation varies, however, from product to product. In 1970 the Community will be a *net exporter* of milk products, sugar and soft wheat, almost self-sufficient in pigmeat, eggs and poultry, and a net importer of beef and veal, hard and forced wheat, feed-grains (overall), vegetable fats and fruit and vegetables (including, of course, all tropical and sub-tropical fruit and vegetables). The Committee on Agriculture wonders whether the degree of self-sufficiency throughout the period covered by the programme (1965 to 1970) may not, as a result of the application of modern production techniques, exceed that forecast by the experts.

12. On the other hand, the scope for expanding production in sectors in which the Community is a net importer—even where this would be economically or financially feasible—is clearly limited.

The Committee on Agriculture feels nevertheless that it would be possible, with a view to *modifying price relationships*, to reduce surpluses of soft wheat and increase the production of feed-grain. In this connexion it would refer to the European Parliament resolution of 11 May 1967 on the common market organization for cereals.⁽¹⁾ As regards surpluses of dairy products, on the one hand, and import requirements of beef and veal on the other, changes in the relative prices of these two groups of products could also help to improve the situation

(c) Level of employment and productivity

13. The experts forecast that the number of persons engaged in agriculture in the member States will continue to fall (by about 1.8 million). The decline during the period 1965–1970 is expected to be more gradual than in the preceding five years. The Committee would point out that changes in the active farming population will depend both on the agricultural policy practised in the economic and social spheres and on the employment policy in others. The decline in the numbers engaged in agriculture will probably lead to an annual increase of about 5.6 per cent in agriculture's contribution to the GNP, reflecting a rise in productivity higher than in other industries.

14. The Committee would emphasize, however, that no direct conclusions as to a rise in farm *incomes* can be drawn from these figures. This is also mentioned in the draft programme which points out that real incomes from farming can develop on lines different from those followed by the contribution to the GNP at constant prices. The Committee would also recall the repeated references made by the Commission to the unsatisfactory

state of agricultural incomes in the EEC, and hopes that in its report on the situation of agriculture the Commission will provide detailed information on this subject.

The Medium-term Economic Policy Committee did not have sufficient information to enable it to forecast relative price movements of agricultural products. Moreover it was impossible to forecast capital charges, which will rise steeply owing to the need to modernize farms. In this connexion the Committee on Agriculture underlines the degree of indebtedness in agriculture—on some farms extremely high. Despite this, further investment is essential but requires that farmers be offered credits on reasonable terms and over sufficiently long periods.

III—Policy conclusions

15. In studying the draft programme and the policy conclusions that flow from it, the Committee has not confined its attention to the chapter on agricultural policy. It has also considered other parts of the programme, among them Chapter III on *structural policy* in specific sectors and Chapter VII on *incomes policy*.

The Committee shares the views expressed under No. 8 Chapter III, as to the close connexion between structural policy in specific sectors and *regional policy*. The relevant passage reads:

“The close interrelationship between structural policy in specific sectors and regional policy emerges strikingly where difficulties are encountered in highly localized sectors situated in given areas and crucial to their structure; the problems of specific sectors then become the problems of whole areas. This is the case, for example, with agriculture, shipbuilding, coal and iron-ore mines, iron and steel and the textile industry in certain areas of the Community.”

16. As regards *incomes policy* (Chapter VII), the Committee would refer more especially to the following passage from that chapter:

“Incomes policy must... play a major rôle in ensuring a more balanced development of incomes among the various social classes and in the different areas of the Community.”

The Committee wonders whether it might not be better to devote more attention in future to the possibility of *direct transfers of income* as a means of dealing with certain structural problems of agriculture in the EEC.

17. The general remarks under No. 14 of the chapter on agriculture start off with the statement that decisions taken pursuant to the Treaty had created *important elements of the common agricultural policy*. It is now for the Community to lay down directives and take the steps necessary for implementing such a policy, within the context of the medium-term economic policy. The decisions taken during the last few years on agricultural questions have already imparted a distinctive slant to the common agricultural policy; what is now required are measures, conceived as part of an overall approach to structural, regional, social and general economic policy, to deal with problems that cannot be solved solely in terms of price policy and of policy on agricultural structures.

18. The draft programme recalls that the Treaty requires the Community to ensure a fair standard of living for the

⁽¹⁾ *Official Gazette* No. 103 of 2 June 1967, p. 2063.

agricultural population, particularly by increasing the individual earnings of persons engaged in agriculture. The drafters of the programme note that, in theory, this can be done by resorting to one or more of the following measures:

- (a) increasing sales;
- (b) raising the relative prices of agricultural products;
- (c) reducing production costs;
- (d) direct transfers of incomes.

(a) *Sales policy*

19. As to *practical* measures, the drafters of the programme point out that an *increase in sales of agricultural products* requires either a substantial cut in imports or a rise in exports. The Committee on Agriculture believes that greater efforts should be made to reduce the deficit in external trade in agricultural products between the Community and the rest of the world, particularly by stepping up exports of processed products (e.g. high-grade meat products, top-quality seeds, livestock for breeding, fine wines).

Of course the ability of the world market to absorb agricultural products on a commercial basis is limited; nevertheless the Community has not yet made the most of the chances offered by pursuing an *aggressive export policy* in this field. Moreover, food consignments to the developing countries have so far been financed mainly out of public funds, and an appeal to producers and consumers to participate in this form of aid on humanitarian grounds would certainly have a good chance of success.

20. Agriculture's position on the market is a weak one and in need of constant improvement. All measures that might be of help—including concentration of production and of demand and the setting up of suitable *marketing bodies*—ought therefore to be encouraged within the context of the medium-term economic policy. Such measures would strengthen the farmer's hand in his dealings with buyers and increase the share he obtains of the final price of his products. Member States should embody the suggestions put forward to this end in the medium-term economic programme in their own structural programmes.

(b) *Price policy*

21. The Committee on Agriculture feels that the draft programme does not fully bring out the importance of price policy for agriculture in the Community. True, not all the structural and social problems now being encountered in this sphere can be resolved through price policy alone. The Committee also admits that *too high a level of agricultural prices*, coupled with guaranteed sales of the main products under the common market regulations, would lead to excessive production and to structural surpluses. The marketing of such surpluses on the world market would clearly put a growing strain on public finances.

The Committee therefore welcomes the suggestion in the chapter on agriculture that *price structure adjustments* are required for the purpose of adapting supply more closely to demand. It would refer especially to the comments made under No. 14 in this Opinion. On the other hand it

regrets that the chapter on agriculture does not give *market organization measures*—also an important means of steering production—the attention they deserve as the backbone of the common agricultural policy.

22. As regards price policy in general, the Committee emphasizes that the *level of incomes* on Community farms is largely determined by the kind of prices they can secure for their products, and that when prices are kept down to a relatively low level it is solely the reaction of the farmers affected that determines whether production is cut back or expanded.

(c) *Structural policy*

23. At the present stage of the discussion on structural policy in agriculture, the Committee wishes to confine itself to noting the suggestions put forward in the medium-term economic policy programme. This states—under No. 2 of the chapter on agriculture—that agricultural policy should take account of the danger inherent in the tendency for the gap between the following three types of farm to grow wider and wider: "... farms that have attained a degree of productivity that enables them to manage on moderate prices; farms capable of attaining such a degree of productivity; and finally, farms unable to operate on a competitive basis because of geographical, demographic or structural handicaps, and therefore calling for radical organization preferably at regional level."

24. In practice it appears to be very difficult to draw a sharp line between these three types of farms. The Committee therefore warns against making this somewhat arbitrary classification the main basis of structural policy. In view of the *fluctuations* characteristic of current development in the agricultural sector, the above classification should be regarded as nothing more than a general guide. The Committee realizes, however, that agricultural policy should make allowance for the fact that circumstances vary from farm to farm and adjust its measures accordingly.

Market, price and structural policies form an integral whole and their effects are felt in each of the three types of farms mentioned.

25. For the *improvement of production structures* the programme calls for earnest efforts—both on social grounds and for the purpose of increasing productivity and earning power—to enlarge the often inadequate scale of production units. The programme considers two possibilities:

- (a) setting up larger farms;
- (b) stepping up co-operation between farms.

The Committee on Agriculture assumes that the Commission will put forward concrete proposals on this matter in its memorandum on agricultural structures.

26. As regards *switching over labour from agriculture to other sectors*, the Committee endorses as a whole the proposals set out in the programme for a systematic link-up between agricultural policy and economic policy. It feels, however, that measures for creating the necessary jobs outside the agricultural sector should be considered not only from a regional but also from a national and a Community angle.

Experience in a number of member States—e.g. in the Federal Republic of Germany and in Italy—shows that in agricultural “problem areas” there is only limited scope for encouraging industries to settle and for improving infrastructures. The Committee would again dwell on the interdependence of agricultural, social and regional policy and policy in specific sectors.

27. Finally it emphasizes that the structural adaptation of farm workers can only succeed if there is *full employment* in the rest of industry and if the general economic climate offers sound prospects to independent farmers who have decided to switch to another occupation, independent or not. There is no doubt that the economic situation in some member States in 1967 contributed towards slowing down this process of adaptation. What has essentially to be done is to create jobs unaffected by crises—particularly for the heads of families—in structurally weak areas. In this connexion the Committee underlines the growing importance of the tertiary or *services* sector.

(d) *Occupational training*

28. The Committee endorses the suggestion in the draft programme that a real effort should be made to improve the training of farmers as well as to develop research and disseminate knowledge of farming techniques. The existing system of training no longer meets the requirements of efficient farm management. Nowadays farmers should not only have modern production techniques at their fingertips but also be familiar with market requirements. Member States ought therefore to overhaul their occupational training systems accordingly.

Conclusions

29. Giving effect to the various proposals contained in the draft programme will imply, for all member States, a thorough reappraisal of current ideas on agricultural structures, regional policy, social policy and general structural policy. The Committee underlines the need for synchronizing the measures to be taken. A policy that accords priority to measures that would lead to an excessive expansion of production should at all costs be avoided. Measures aimed at increasing earning power should certainly be of a *selective* nature.

Farmers who may be expected to change their occupation and area of residence should receive suitable aid to facilitate the change-over. Those too old to change their occupation but not old enough to qualify for an age bounty or pension should for a time be given personal aid on finally leaving their farms.

30. The Committee on Agriculture has repeatedly urged—notably in an Opinion on the Commission’s proposals concerning Community programmes⁽¹⁾—that the overhaul of the *European Social Fund* be speeded up so as to enable measures to be taken at Community level for the readaptation of agricultural workers, whether self-employed or not, affected by structural reforms.

31. Finally, the Committee emphasizes that the essential aim of agricultural policy remains that of assuring farmers of a level of income and a social standing comparable to those enjoyed in other industries, and of bringing agriculture closer and closer to modern industrial society.

⁽¹⁾ Official Gazette No. C 27 of 28 March 1968, p. 34.

Opinion of the Committee on Social Affairs and Health Protection

Draftsman: Mr. Bersani

By letter of 11 April 1968 the President of the European Parliament sent to the Committee on Social Affairs and Health Protection the draft second medium-term economic policy programme, on which it was asked to submit its views.

At a meeting of the Committee held on 20–21 May 1968 Mr. Bersani was appointed Draftsman of the Opinion.

The Committee studied the programme at its meetings of 4, 11 and 27 June 1968.

The Opinion prepared was unanimously adopted at the Committee's meeting of 11 July 1968.

The following were present: Mr. Angioy, Acting Chairman; Miss Lulling, Vice-Chairman; Messrs. Behrendt, Dittrich, Gerlach, Memmel (deputizing for Mr. Colin), Merchiers, van der Ploeg, Santero, Servais, Springorum.

I—Introduction

1. The programme under consideration is not new in the strict sense of the word but an amplified version drawn up by the Medium-term Economic Policy Committee and adopted by the Commission one year after the adoption of the first programme for 1966–1970.

This amplified text touches only in a limited way on the groundwork of the programme which it is not intended to call into question. Apart from these limited basic amendments, the main feature of the second programme consists of seven chapters and various annexes dealing with a number of specific aspects of the medium-term economic policy.

It should be noted that account has been taken of the Economic Affairs Committee's oft-repeated request that this Opinion should deal mainly with essentially social problems.

2. Parliament, in the resolution adopted following the submission of the first programme, and the Social Committee, in an Opinion, had singled out a number of basic requirements and invited the Commission to put forward definite proposals on certain items.

The Social Committee had more especially underlined the need for employers and workers to take a more active part both in the drawing up and in the implementation of various sections of the programme.

It had also called for a more searching study of incomes and wealth policies with a view to working out practical measures, as well as for a more energetic policy on employment and occupational training. The Social Committee had been waiting to be informed regarding the necessary measures and instruments.

A similar demand was made in the social security sector, particularly as regards the financing problem whose solution is 'a prerequisite of social progress and of harmonization in this sphere'⁽¹⁾ The Committee also called for a genuine policy in favour of the working woman and of her effective emancipation.

The next programme was expected to put forward practical measures, within the context of regional policy, policy on specific sectors, and industrial redevelopment and concentration policy, to safeguard the interests of the workers or social groups concerned.

As will be seen when the various points are discussed, the report arouses a certain feeling of dissatisfaction because it has not devoted to some of the major requirements all the attention they deserve. This is all the more disquieting because some of these have of late acquired an urgent character in the political and social life of member States.

II—General aspects of the programme

(a) *Limits of the revised version*

3. The completion of customs union, of the single agricultural market and of the common external tariff, like certain aspects of the current economic situation (for example, in France) and recent social unrest, undoubtedly call for a more thorough-going updating of the quantitative and qualitative framework on which the programme was based.

The Commission made it known that it shared this point of view, and announced that, beginning with 1970, a new 'framework' could be set up that would embody comprehensive forecasts. While taking note of this, the Committee must insist on being put in possession without delay of even partial information that might be of particular importance.

(b) *Inadequacy of measures to overcome disparities*

4. If it is assumed that "the task of the medium-term economic policy in the Community is to create the best possible conditions for a steady and balanced economic growth, while ensuring a high level of employment and internal and external stability",⁽¹⁾ then the measures to speed up the development of the less favoured social groups and to enable the less developed areas to make up lost ground more rapidly have not been sufficiently emphasized.

⁽¹⁾ Opinion appended to the Elsner report, Doc. 129/66, p. 24.

⁽¹⁾ See first programme, Chapter I, *Official Gazette* No. 79 of 25 April 1967, p. 1521.

The Committee on Social Affairs and Health Protection firmly believes that underdeveloped areas, and particularly the rural population, must be psychologically prepared for structural changes. It notes the Commission's promise to go more deeply into the question in future and deal with it in its third and fourth programmes or, better still, in the process of bringing the programme up to date.

(c) *Development of socio-economic structures*

5. Internal and international factors drive the EEC on to steady economic growth which is inevitably based on scientific and technological achievements. This leads to constantly expanding processes of structural conversion which—if measures are not taken in good time—could result in unemployment, changes of residence, a switch to another occupation etc., for workers and their families.

6. These measures do not appear to have been sufficiently considered. For example, it is not enough to say, as in Chapter III, page 7, of the Commission's draft:

"It would be running directly counter to this aim to attempt, in the light of short-term social considerations, to shore up existing structures or to ensure for this or that industry, whether in individual countries or in the Community as a whole, a given share of the GNP, of the labour force, or of income, regardless of market conditions."

What is wanted is a broad-based policy in which social and economic aspects are always closely co-ordinated.

In this connexion, the second programme too appears to lack a suitable forecast regarding the vast structural changes of the economic system and of European society for the period covered (1966–1970) and for that immediately following. The Committee hopes that the third programme will contain more detailed forecasts regarding structural changes in individual industries.

(d) *The need to see beyond the period under review*

7. A great deal has been said and written over the years about the influence of automation and technological progress in the social sphere, particularly as regards such fundamental aspects as employment, specialization, working hours, etc.

The Committee has followed with interest the investigations carried out in this field in other countries, and particularly the research findings of the National Commission on Technology, Automation and Economic Progress in the USA. This institution, which was set up by the US Government in view of various aspects of technological progress to investigate employment trends, published two years later a report entitled "Technology and the American economy" containing a number of recommendations backed by a wealth of statistics.

As regards the United States, the National Commission felt that, with a probable yearly rise in productivity in the private sector of 3.2 per cent, corresponding to the rise for the period 1947–1965, a 22-hour working week was to be expected within the next twenty years; on the other hand, if the present working week were maintained, only 27 weeks would be worked each year. In 1985 the pensionable age could be reduced to 38.

The National Commission has sought other ways of making use of the additional resources made available by

increased productivity. These include the improvement of public services: education, scientific research, social security, public transport, telecommunications, the prevention and suppression of air and water pollution, housing, leisure etc.

Alternatively, the increase in productivity could be exploited by increasing aid to the developing countries.

As regards the influence of technological progress on employment, the National Commission stressed that this is not the sole cause of unemployment.

The main cause is to be sought in the fact that a "passive" economic policy—above all in the social sphere—is not always adjusted to incessant technological progress. The fact that unemployment does not *inevitably* result from technological progress should serve as a warning to public authorities and industrialists alike to draw up accurate forecasts, both in quantitative and qualitative terms, and to prepare the necessary instruments for any changes, making full use of the resources available.

Particular interest attaches to the facts and figures quoted in the American report relating to shifts from the primary to the secondary sector (the numbers engaged in agriculture in the USA fell from more than 8 million in 1947 to 4.8 million in 1964, a shrinkage of 42 per cent) and from the secondary to the tertiary sector.

The forecasts made suggest that over the period 1964–1975 the rural population will decline by 21 per cent, i.e. from 4.8 million to 3.7 million.

In industry the number of persons employed rose from 18 million in 1947 to 20.9 million in 1964, an increase of 13 per cent. The forecasts see a further increase of 17 per cent, bringing the figure to 24.6 million in 1975.

In the services sector the numbers employed rose from 25.4 million in 1947 to 37.2 million in 1964, an increase of 46 per cent. According to the forecasts it should rise to 51.3 million in 1975, an increase of 38 per cent.

The report in question has gone beyond these basic forecasts, drawing up projections for thirty different sectors, some expanding, others declining or marking time.

In 1964 there were 14 million unemployed some without jobs for an indefinite period. Important changes occurred in the pattern of employment: the percentage of manual workers fell from 41 per cent in 1947 to 36 per cent in 1964. Non-manual workers, on the other hand, increased in 1964 from 35 per cent to 44 per cent.

In 1964 workers in highly automated enterprises accounted for 40 per cent of total employees; in those where production was automated only to a minor extent the percentage was 65 per cent.

In the United States one person in every fifteen changed jobs in 1964. More than a quarter of the population live in a State other than that in which they were born.

As regards mobility of labour, it should be noted that between 1955 and 1960 10 per cent of the population moved from one State to another. In some States this figure was higher than 20 per cent.

As regards levels of skills, the National Commission drew up forecasts extending to 1973 for nine main categories and twenty-eight specific occupations. These show that qualitative changes are likely to be such as to alter the structure of employment to a marked degree.

8. Having regard to the above-mentioned facts and figures, it is a good thing that the Medium-term Economic Policy Committee has set up from among its members a sub-group for the study of structural trends.

The investigation carried out by this sub-group is aimed at gauging the extent of structural changes in the various countries and singling out the problems of sectors that demand special attention. The first task concerned the development undergone during the past ten years of the main structures in specific sectors of the member States and of the United States. The work was rendered harder by the inadequacy of the statistics available and by the difficulty of finding a satisfactory basis for comparing them.

It should be noted that the Commission has instructed a group of four independent experts, under Mr. Uri, to prepare a survey on the competitiveness of the Community's economy in the face of its rivals.

9. All this brings out the immense range of the tasks and responsibilities falling upon the Community authorities in respect of the problems raised.

As to the problems themselves, it does not appear to suffice to "inform" the workers of the measures to be taken; these should also be discussed beforehand with the trade unions.

This falls in line with the views of the Committee on Social Affairs and Health Protection and with the economic and social situation of the Community as a whole.

(e) Need for economic and social measures to balance out and supplement each other

10. It appears that in the second programme too—which, incidentally, contains perfectly valid and acceptable ideas—both the drafters and the Commission, which endorsed the programme, have at times allowed themselves to drift towards an essentially economic view of the situation, as though they had somehow lost sight of the real aim, the creation of a more justly run society in which a high value is set on the individual as such.

The Committee on Social Affairs and Health Protection has no need to repeat what it has already so often said regarding the close relationship existing between the economic and social sectors. In the Opinion it drew up on the first programme it went searchingly into the whole question. The conclusion it reached was that "any distinction between the economic sector and the social sector may, in some degree, be quite arbitrary since they are but twin aspects of a single process. In order to ensure general progress, an economic programme must also be set in a social context. In this way the interplay of economic and social factors would be part and parcel of the overall development undergone by a given society."

III—Special aspects of the programme

(a) Employment—occupational mobility

11. The remarks that have just been made may also be applied to the occupational mobility of labour, which is undoubtedly a major aspect of the Community's current, and above all its future, economic policy.

It should be regarded primarily as an important achievement of an advanced society and as a means of strengthening and giving effect to free rights.

A number of statements, particularly in Chapter III of the programme, ought therefore to be amplified, as it does not appear that aspects of occupational mobility other than the economic have always been fully appreciated.

In the Opinion it submitted on the first programme the Social Committee pointed out how thoroughly employment policy and occupational training were being handled.

As regards the remarks on page 11 of Chapter III of the second programme to the effect that government measures that hampered labour in areas affected by a crisis ought to be avoided, the Social Committee would have welcomed a clearer indication as to how to prevent the requisite changes from leading to unemployment and, where this occurred, how the workers thrown out of a job could be given fresh employment.

The experience of some Community countries ought to be taken into account. This has shown that even far-reaching structural overhauls can be carried out safely if measures are taken in advance to ward off the danger of technological unemployment. It has also shown that, even where some unemployment occurred, the countries in question took suitable social measures on behalf of workers seeking fresh jobs.

Unfortunately a great deal of experience has been on the negative side, as a result not only of the failure to take adequate preventive measures but also of the resistance put up in various quarters and by enterprises themselves both against gaining some insight into the problems of structural overhauls and against investigating the possible consequences.

(b) Incomes policy

12. A reasonable and systematic policy of expansion calls for a higher level of investment both for economic and technical development and for the steadily mounting needs of the Community.

As the problem of investment in incomes policy—to which the whole of Chapter VII of the programme is devoted—is considered in close connexion with prices, wages and profits, the Commission should express more clearly defined views on the latest trends in this policy in the six member States.

In the Opinion of the Committee on Social Affairs and Health Protection appended to the Elsner report (Doc. 129/66, p. 22), the Committee expressed doubts about the *guidelines* on incomes policy laid down in the first programme. The Committee pointed out that the possibility of some form of incomes control was not entirely ruled out in the programme. Although there could be no question that wages were by far the largest item of the national income, the Committee felt that "it would not be fair to sacrifice it for that reason in the interest of equilibrium" (p. 22).

13. In 1966 the Committee pointed out that "the conditions that have to be satisfied before the incomes policy can become acceptable are still described in the programme in too general terms". In 1968 this judgement has lost none of its force. Although some improvements and a number of interesting points are made in the second programme, the basic situation remains unchanged: the

only income regarded as readily identifiable and on which action is in the end taken is that of the wage-earner.

While the Committee welcomes the fact that, following its repeated requests, the Commission has launched on the study of income structure,⁽¹⁾ it feels that the results still leave something to be desired and that disparities in the distribution of incomes persist.

14. It must be assumed that owing to the difficulty of identifying other incomes and of influencing them accordingly—always, of course, with due regard for the contractual independence of employers and workers—it is still somewhat difficult to speak of an actual incomes policy.

The Committee on Social Affairs and Health Protection underlines the need for taking the necessary measures, both at Community and at national level, to ensure that the various classes of income are accurately assessed with a view to establishing a basis for a sound incomes policy.

Only if the full range of instruments to which the Commission refers in the programme are put to work can a measure of control be exercised over the incomes of non-wage-earners.

The Committee is following with interest the work being done by the working party set up from among members of the Medium-term Economic Policy Committee, and has asked the Commission to keep it posted on the findings of that body.

In spite of the Commission's views on the subject, it is not considered that, in its attempt to arrive at a practicable incomes policy, it has made a clear-cut choice of instruments to enable it to follow up trends in the incomes of non-wage-earners.

15. Price policy calls for special comments. The Commission recognizes (Chapter VII, p. 20) that wide disparities exist between member States as to the ways and means by which the public authorities can directly influence prices. Some member States want to leave it entirely to *heads of enterprises* how prices are formed; others favour State intervention.

No clear-cut conclusion can be drawn from the Commission's highly qualified formulation of the policy to be followed as regards other incomes with a view to balancing off the measures—usually restrictive—it is desired to take on salaries and wages.

The choice lies between (i) giving incomes policy a real meaning and (ii) leaving it in an utterly vague state by declining to take up a definite position or—even worse—by interpreting it one-sidedly, when it becomes unfair and unacceptable.

The Commission has stressed that the statements contained in the programme belie any intention to interpret incomes policy one-sidedly so as, in effect, to curb wages.

(c) *The task of the trade unions*

16. In connexion with the first programme—as pointed out in the introduction—the Social Committee and the European Parliament had already drawn attention to the

need for both employers and workers to assist actively in drawing it up and subsequently implementing it.

The Commission—and especially Mr. Marjolin, then its Vice-President—had given assurances on this point.

The Commission's recent announcement—echoed in the interesting statements made by Mr. Rey before Parliament on 1 July 1968—of starting up this vital "dialogue", deserves recognition.

Mention should also be made of Mr. Rey's announcement that the Commission "intends to organize this winter three exchanges of views with qualified representatives of the existing large organizations",⁽¹⁾ e.g. with employers and workers, farmers'-representatives and youth organizations.

This meets the Committee's repeatedly expressed wish for clearly-defined practical measures. The Commission intends in these talks to go thoroughly into the situation of Europe and into the matter of concrete short- and medium-term action programmes.⁽²⁾

In connexion with other important aspects of the programme such as structural changes and the creation of a "European" company, the important bearing of the views of those directly concerned on the practical application of the programme is therefore recognized.

It does not appear, however, that all the logical conclusions have been arrived at in the programme.

17. On incomes policy, for example, the Committee considers that guidelines and decisions directly affecting wages policy and social policy can only be made acceptable through agreements with the trade unions. It would be more logical to secure the participation of both sides of industry in working out guide rules for assessing incomes before these were settled by experts "enjoying the confidence of employers and workers" (Chapter VII, page 10).

The Committee was glad to note that a meeting was held on 29 April 1968 between the Chairman of the Medium-term Economic Policy Committee and representatives of employers and workers.

It is understood that employers and workers shared the view that the programme should offer something more than a catalogue of good intentions. They also wanted to know how much of the first programme had been carried out.

The workers' representatives asked whether excessive curbing of consumption on the lines set out in the first programme might not lead to unemployment and other disturbances.

The programme was also criticized for dwelling on a high level of employment rather than on *full employment*. How important this is can be better appreciated in the light of what has been said regarding the effects the application of more and more advanced productive techniques could have on employment.

The workers' representatives asked to be allowed to take part in drawing up the structural redevelopment programme.

As to incomes policy, it was noted that a great deal remained to be done before the recommendations

⁽¹⁾ See first report on social trends in the Community during 1967, Doc. 2/68, Nos. 45, 176 ff.

⁽¹⁾ See Debates of 1 July 1968, p. 210.

⁽²⁾ loc. cit.

contained in the appropriate chapter could be followed up.

It was also pointed out that the guide standards applicable to wages should not be set too low as this could hinder their steady and uniform rise.

Both sides insisted on preserving their independence and asked that statistics on incomes should be more widely published.

The employers' representatives then pointed out that price controls, if carried too far, could damp the propensity of enterprises to save.

18. The Committee on Social Affairs and Health Protection believes that wider use should be made of the services of the Economic and Social Committee, although it ought not to be treated as the only means for holding negotiations between the various bodies concerned.

The Committee attaches great weight to direct contacts between trade unions and the Commission.

The Commission should follow up all the suggestions it makes on page 15 (Chapter VII) and, as it has already attempted⁽¹⁾—and this is one of the most striking features of its recent activity—encourage and support initiatives by employers and workers aimed at concluding collective agreements at European level.

(d) Policy on the distribution of wealth

19. The Commission recognizes the importance of an effective policy on the distribution of wealth for the development of the European economy and our society. This policy is again closely bound up with investment policy.

The Committee feels that such a policy should be worked out on a grand scale so as at the same time to ensure effective redistribution of wealth throughout society. The necessary studies should be continued jointly with representatives of both sides of industry.

As the situation is constantly changing, it is clear that wages policy alone does not hold the key to all the problems. Such a situation raises a great many problems, and not only in the field of national legislation or of industrial relations (see recent debate in the Bundestag on the relationship between co-management and the "European" company).

There is, of course, general agreement as to the need to provide poorer people and the workers in general with a better opportunity to acquire property, and to take steps to link up the domestic and automatic savings of wage-earners on the one hand and investment policy on the other. Opinions differ widely, however, on other aspects of participation policy. It appears, therefore, that no action should be taken in this respect without first carefully studying what has been done and written in this field and, above all, consulting the employers and workers concerned and securing their approval.

On no account should one underestimate the importance attaching to trade union negotiations—to be closely investigated at European level—with respect to numerous problems.

20. As to the part to be played by the workers in steering economic activities, certain contradictions in the attitudes of the Commission and the Council alike ought to be pointed out. On page 21 of Chapter II it is stated:

"The member States and institutions of the Community should jointly investigate ways and means of dealing with the problem of workers' representation in the various departments of the "European" company."

The Commission thus realizes that workers must be represented on the management bodies of companies. When one reflects that large multinational companies may quite soon be set up, the issue raised by the Social Committee of representation of *all* workers—including non-nationals—not only on works councils but also on the management bodies of enterprises is seen to be of burning interest.

(e) Youth

21. The Governments of member States, like those of many other countries, are confronted with a situation of social turmoil in which youth is seen to be very much to the fore.

In reports drawn up at its suggestion the European Parliament has long been insisting on the need for an effective youth policy. As some of the younger generation's demands link up with important items of the programme, the Committee on Social Affairs and Health Protection feels that the time has come to pass from words to deeds.

Although youth questions fall, strictly speaking, beyond the scope of this Opinion, from the social point of view they cannot be ignored in the ever-wider context of medium-term economic policy.

At the root of the some times disorderly and not always consistent demonstrations lie deep-seated needs which cannot be dismissed out of hand. They should be closely investigated so as to get down to the underlying causes of the trouble and resolve as far as possible a state of conflict of whose existence there can be no doubt. It may well be wondered how far the nature of current economic and social policies is to blame, directly or indirectly, for these disturbances. This question must obviously be dealt with fairly and squarely.

However the various aspects of the phenomenon may be interpreted, there can be no doubt that, if only because of its proportions, it constitutes a major social factor involving the responsibility of European, national and local authorities.

It calls, for example, for appropriate economic and social measures designed to guarantee jobs for the young commensurate with their abilities and the years spent by them in study and preparation. These were problems which the Committee was able to study directly. For example, during its recent visit to Liège it was struck by what representatives of the province had to say about the rise in unemployment among young people.

Admittedly, the Committee accepts the need for greater occupational mobility; it feels it to be undesirable, however, that young people should be compelled to leave their home town for lack of a suitable job. Geographic mobility is a useful adjunct to occupational mobility but only where it involves a free choice and not an obligation.

In addition, a great many measures are required to bring antiquated school and university structures up to date. It would be a striking achievement if the Community were to find a really original solution based on an impartial

⁽¹⁾ See agreement on the harmonization of working hours for wage-earning and salaried workers permanently engaged in agriculture, concluded, at the Commissions' suggestion, between COPA, CISC and CISC representatives.

survey of the situation in the various States and regions and on a combination of the best and most progressive aspects of experience in and outside the Community.

A feeling of immense satisfaction and interest was aroused by Mr. Rey's announcement that "particular attention" ought to be paid to the problems preoccupying students in European universities, such as their education and training and university exchanges (see Debates of 1 July 1968, page 210). Particularly welcome and deserving of support is the proposal that direct talks should be held with youth representatives. Such talks are of course almost certain to arouse a host of conflicting reactions and to run up against considerable difficulties; but it is precisely for this reason that Parliament should back this highly promising proposal of the Commission.

(f) *Women at work*

22. As pointed out earlier, in an Opinion submitted on the first programme the Social Committee laid stress on various questions it hoped the Commission would enlarge upon in its second programme. These included the problem of women workers on which the Commission failed to suggest any concrete measures, if it considered it at all.

More recently a member of the Committee on Social Affairs and Health Protection put a written question to the Commission⁽¹⁾ in which she stressed the need to remove the various obstacles hindering women's employment. One of these concerns tax on the income of married women which, if progressive, makes it well-nigh pointless for them to go on working.

As regards the second programme the Committee can only repeat the comments it made on the first. Women's employment and their emancipation are practical examples of the social requirements an economic programme ought to satisfy.

It is precisely in its protection and support of a class of the population that has until now laboured under a serious handicap that lies the originality of a Community-wide programme which must aim at levelling up the conditions in the various member States.

(g) *Regional and redevelopment policy*

23. In the past the European Parliament has taken note of the studies carried out by the Commission on regional policy matters. At the same time it has repeatedly invited the Commission to put forward concrete proposals defining not only the essential aims but also the ways and means of achieving them. Unfortunately little progress appears to have been made on regional policy, declarations of principle apart.

With regard to current studies on the subject, the results of some of these are still not available, e.g. those on the triangular area embracing Limburg (Netherlands), Limburg (Belgium), Liège province and Aachen, and on Schleswig-Holstein. This is all the more regrettable because the local authorities are impatiently awaiting Community action on which they pin considerable hopes.

The Committee feels that the moment has come to draw up an effective action programme and to lay down ways and means of implementing it.

⁽¹⁾ See written question No. 116/68 put by Miss Lulling to the Commission

It fears that unless practical ways and means are found of achieving a balanced and effective regional policy in the Community, a good deal of the medium-term economic policy programme will lose its value.

The Committee again draws attention to the need for overhauling the European Social Fund which is intended to become the basic instrument of regional and redevelopment policy. Co-operation between the European Development Fund, the European Agricultural Guidance and Guarantee Fund and the European Investment Bank, combined with aid granted under Article 56 of the ECSC Treaty, would provide the financial facilities needed for achieving the social and economic aims of this policy.

(h) *Other sectors; problems of the rural population*

24. These comments apply equally to the agricultural sector.

For three years the Council has declined to approve the only two instruments which, though incomplete, would permit effective social action to be taken under the common agricultural policy, i.e. two regulations aimed at (i) facilitating job retraining in agriculture and (ii) financing education centres for agriculturalists.

Together with the contributions of the EDF and the other measures referred to, these regulations could do a great deal to promote job retraining not only in agriculture but also in other sectors.

It appears therefore that the Community institutions (the Council and the Commission) are once again contradicting themselves in stressing the need for occupational training and the dissemination of farming techniques while refraining from providing the means of achieving these objectives.

Subject to these reservations the Committee endorses the statement in Chapter IV to the effect that structural reforms provide the key to bringing agriculture up to the level of other sectors.

This chapter is often on the vague side, particularly as regards practical ways and means of intervention.

In committee it was agreed that special action ought to be taken at all levels, and particularly on the initiative of the Community institutions, to prepare the rural population psychologically for the necessary structural changes, so as to bring home to them the need for such changes and for the appropriate measures of the public authorities.

This observation, though it relates more particularly to agriculture, also holds for all other sectors and underdeveloped areas.

In the light of these remarks the announcement made by President Rey—earlier referred to—regarding direct talks between the Commission and representatives of the rural population, acquires special significance.

25. Without wishing to encroach in any way on the province of the Economic Affairs Committee, the body mainly concerned, the Committee on Social Affairs and Health Protection must keep an eye on developments in certain particularly vulnerable areas of the Community's economic structure. These are in the main those sectors to which the Committee devoted special attention in the past, taking up clearly-defined positions, e.g. mining, textiles and shipbuilding.

It is only natural that, from the social point of view, special importance should be attached to industrial sectors affected by structural crises and in which social measures should on no account be divorced from economic measures.

Opinion of the Committee on Energy, Research and Atomic Problems

Draftsman: Mr. Brunhes

The Council of the European Communities requested the European Parliament to make known its views on the draft second medium-term economic policy programme (Doc. 19/68). On 11 April 1968 the President of the European Parliament passed this document to the Economic Affairs Committee as the body mainly concerned, and to the Committee on Energy, Research and Atomic Problems, the Committee on Social Affairs and Health Protection, the Committee on Agriculture and the Committee for Finance and Budgets for their Opinions.

In the absence of Mr. de Broglie, originally appointed Draftsman by the Committee on Energy, Research and Atomic Problems, the Committee decided on 27 May 1968 that Mr. Brunhes should prepare its Opinion.

At meetings held on 27 May and 12 July 1968 the Committee discussed the draft second medium-term economic policy programme with the Commission of the European Communities.

The following Opinion was unanimously adopted by the Committee at a meeting held on 12 July 1968.

The following were present: Messrs. Bousch, Acting Chairman; Brunhes, Draftsman; Angioy, Arendt, Bech, Behrendt (deputizing for Mr. Mitterrand), Berthoin, De Winter (deputizing for Mr. Burgbacher), Kulawig, Lautenschlager, Leemans, Lenz, Lucius; Miss Lulling (deputizing for Mr. Radoux); Messrs. Marengi (deputizing for Mr. Scarascia Mugnozza), Micara, Naveau (deputizing for Mr. Oele), Raedts, Scelba and Springorum.

1. The draft second medium-term economic policy programme submitted to the Council by the Commission on 20 March 1968 is an important document supplemented by annexes clarifying the actual text. The draft comprises a general survey and six chapters of which one—Chapter V—falls within the Committee's province as it deals with policy in the field of scientific and technical research. Annexes III, IV and V supplement that chapter. This Opinion therefore relates to all these texts.

2. The report begins by noting that the contribution made by research to the development of modern societies is constantly increasing because it acts as a spur to innovation, a major stimulus of the fresh needs, demands and techniques without which progress would cease.

Innovation, besides being a source of cultural and material well-being, spreads its influence further afield. Scientific and technical research has become an economic factor.

3. A comparison between research in the US and in Europe reveals a prodigious gap. In 1964 the United States spent on research and development a total of \$21,000m., i.e. 3.4 per cent of the GNP; in the same period expenditure in France and in the Federal Republic of Germany was in each case less than \$1,500m. (1.5 per cent of the GNP) and for the Community as a whole \$3,500m. There can be no question then of "catching up" America or of taking up the "American challenge"; Europe must become alive to the different aspects of its deficiencies and try to remedy them.

4. As pointed out by the Commission, although the Six have in recent years intensified their efforts the results in terms of production and industrial structures have been disappointing. The chief obstacles to efficiency are the dispersion of effort, the unsettled nature of commitments and the inadequacy of sales outlets. It is not the custom on the old European continent to expect research to be

lucrative, and many scientists are still shocked at the idea that their work may serve a useful purpose and be a source of profit for industry—an attitude which is the direct opposite to that adopted by the Americans.

5. These problems are only discussed because it may help us to mend our ways. For it must not be forgotten that the Community, with its institutions and closely-knit economic structure, offers an excellent basis for joint technological projects. The existence of the Council and the Commission should enable efforts to be pooled, above all through the co-ordination of public contracts and the comparison of national programmes.

6. The Committee welcomes the Council's decisions of 31 October 1967 covering a survey of national plans, programmes and budgets, and exchanges of information between the member States.

On the basis of the activities of the "Maréchal Group" (a working party so called after its chairman) the Council has singled out seven sectors for priority attention: information science, telecommunications, new modes of transport, oceanography, metallurgy, the abatement of nuisances⁽¹⁾ and meteorology. This does not of course mean that other investigations should not be carried out if the circumstances so demand.

7. The first step in improving co-operation within the Community is to harmonize legal and fiscal provisions so as to facilitate scientific advances and their industrial implication. This would imply creating a "European" company, introducing a body of European patent law, and harmonizing tax systems. The existence of a European form of company would open the door to joint research centres, and a European patent and legislation governing industrial property would smooth the way for Community-wide exploitation of the fruits of research.

⁽¹⁾ Especially air and water pollution across the frontiers.

8. The Committee welcomes these trends running through the second medium-term economic policy programme all the more because it has itself long advocated such measures, urging Parliament, Commission and Council alike to accept the need for a great European effort. It suffices to mention the following documents:

- (a) report by Mr. Oele on technological progress and scientific research (Doc. 97/66);
- (b) interim report by Mr. Bersani on the European policy on scientific and technological research (Doc. 146/67);
- (c) Opinion drawn up for the Committee by Mr. de Lipkowski on the first general report on the activities of the Communities in 1967 (PE 19.607 of 14 May 1968).

9. Research in Europe will continue to trail behind and waste its efforts unless radical steps are taken—particularly by co-ordinating national programmes—to endow it with a Community character and steer it along economic paths, without, of course, reducing the important rôle of fundamental research. The American system of active collaboration between universities, laboratories and industry could perfectly well, with the exercise of a little boldness, be made to triumph over our outdated European routines.

The US Government, by awarding research contracts to firms and universities, has helped to set up a scientific community in which discoveries made in laboratories and public establishments find industrial outlets. American scientists regard it as no sin to earn money with their discoveries.

10. The Commission rightly dwells upon the decisive rôle played by universities in the field of research in training new generations of scientists and contributing so much to the spread of fundamental knowledge, and on

the social arguments for the closest relation between the work done in the universities and the new knowledge needed by industry and the community.

11. At the moment our universities are not always able to perform their task as effectively as we should like because they have few links with suitable enterprises and industrial and commercial organizations. The current squabbles between professors and students in most European countries may perhaps induce our governments, at the Council's request, to (i) investigate university structures more closely adapted to research and to exchanges with those that exploit the results of such research, and (ii) ensure the free movement of professors, students and research workers.

12. It far from suffices to say that the Commission "could consider the desirability of setting up a European university which could play a major rôle in promoting fundamental research in the Community countries".

In the ten years of activity of the institutions established under the Rome Treaty this question has been frequently raised in the European Parliament, which has constantly urged that such a university should be created. The matter is again drawn to the attention of the Council and of the Commission.

But a single European university will not suffice; it must serve as a model for national universities run on European lines. Plans must be made for several universities attended by professors and students from the six Community countries.

13. In conclusion, the Committee expresses a favourable view of the section of the draft second medium-term economic policy programme dealing with research. But its members are of one mind in urging that all these good intentions be translated into deeds: only the political will to create a Community-based Europe can sweep away the obstacles of which we have spoken.