

COMMISSION OF THE EUROPEAN COMMUNITIES

SECRETARIAT

**MEDIUM-TERM GUIDELINES
FOR THE ECONOMIC POLICY
OF THE COMMUNITY**

(1971-1975)

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COMMISSION OF THE EUROPEAN COMMUNITIES

SECRETARIAT GENERAL

Memorandum
from the Commission to the Council
on medium-term guidelines for the
economic policy of the Community
(1971-1975)

Brussels

December 1969



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OBJECT OF THE MEMORANDUM

1. For the last eighteen months the Community has been going through a succession of monetary crises which have led to changes in parities and the adoption of emergency measures harmful to the functioning of the Common Market.

Exceptional events in certain member countries and persistent imbalances in international monetary relations have, of course, contributed in good measure to this situation. But the serious difficulties which the Community has encountered are largely the result of divergences which have been evident for some years now between the trends of the economies of member countries.

It is now clear that if the results achieved in the Community and the gradual completion of the economic union are to be safeguarded, progress will have to be made in co-ordinating the Member States' medium and short-term economic policies.

With this in mind the Council, on 17 July 1969, adopted a decision on the co-ordination of short-term economic policies.

It also agreed that a thorough debate should take place at the end of the year, on the basis of a Commission memorandum, on the objectives of the medium-term economic policy, with a view to co-ordinating these between the Member States.

2. The present Memorandum, drafted in close collaboration with the Medium-term Economic Policy Committee, draws the pertinent lessons from the economic development of the Community in the last ten years, indicates the main problems now confronting it and, in terms of indicative orders of magnitude, suggests possible guidelines of overall economic policy for the coming years to achieve a development reconciling the need for growth with the exigence of stability.

These guidelines will primarily constitute a framework for the preparation of the third medium-term economic policy programme. They are also necessary for preparing mutually compatible national programmes and defining and implementing the structural action required to correct the disparities still existing between Member States. They are, in conclusion, essential for any effective co-ordination of short-term economic policies. The objectives and instruments selected for the short-term programmes and policies would hardly be significant or effective if the economies of the Member States were to develop in the coming years as divergently as they have in the past.

II

THE LESSONS OF THE LAST TEN YEARS

3. Since 1958 the Community countries have enjoyed vigorous economic expansion; the aggregate growth rate has been approximately 6% per year. This expansion was encouraged by the rapid progress of intra-Community trade resulting from the elimination of tariff barriers and by the continuous growth of external trade under the stimulus of international liberalization.

Over the same period, important changes took place in the patterns of production and demand. These changes, sometimes judged inadequate in relation to those necessary, and sometimes excessive because of the strains they set up, have posed difficult problems for the Member States in guiding and regulating their economies.

4. For several years, it seemed possible for this general development to take place without the strains it caused seriously jeopardizing the achievement of national objectives or the progress of integration.

The imbalances which existed initially in the Community had been corrected at the end of 1958 by a devaluation of the French franc, and then in 1961 by revaluation of the mark and the florin.

Difficulties appeared from 1963 onwards. The inflationary strains to which Italy, the Netherlands and France were exposed called for severe policies of restriction of demand and price stabilization. In Italy especially the result was appreciable losses of growth potential. Moreover, these strains drew the other Member States irresistibly into an imported inflation process.

However, if divergences then appeared in the trend of prices and costs of the various countries, they had no profound repercussions on the external balances. It proved possible to correct them by internal measures, whose efficacy was often helped by the complementary nature of asymmetrical economic situations among the Member States. During the same period, moreover, the national economies were benefiting from the vigorous expansion of the American economy.

5. The problems of compatibility between the national trends took on an acute form from 1966 onwards. The overheated German economy caused the monetary authorities of that country to apply a restrictive policy which was the source of the recession in the first half of 1967. The sharp drop in German imports had an adverse effect on the economic trend in most of the other Member States. Since weak domestic demand was accompanied by vigorous external demand, the German trade balance registered massive surpluses.

The lively recovery which began in the second half of 1967 in Germany developed in a climate of virtually absolute stability of domestic prices, a fact mainly explained by the existence of available resources and reserve productivity made free by the previous recession; this recovery was of benefit to all the Member States. However, from 1968 onwards, it was accompanied by heavy internal strains in some member countries (brought about in France by the events of May 1968, and aggravated in the Netherlands by the tax reform). The gaps between the Member States in the trend of prices and money incomes rapidly widened. Disequilibria in the balance of current payments, aggravated by speculative movements based on uncertainty as to the maintenance of parities, caused Germany to turn to compensatory fiscal measures at frontiers and France to reintroduce exchange controls and led finally to the devaluation of the French franc and the revaluation of the mark.

The trend of the divergences since the first revaluation of the mark in 1961 is illustrated in very broad outline by the Table below. Despite the differing economic features of the two periods it shows, this indicates clearly the growth of these divergences, particularly between France and Germany, as regards relative prices and external balances during recent years.

6. When the causes of the divergences observed during the last ten years are sought, unforeseeable factors need first to be taken into account, notably unexpected changes in social and political conditions in the Member States. In addition, the disorders of the international monetary system and the massive balance of payments deficit of certain non-member countries notably influenced the conditions of external and internal equilibrium of the Community countries.

However, the basic causes of these divergences are on the one hand disparities in structures and differences in behaviour, and on the other differing attitudes in the choice of medium-term economic policy priorities.

7. The structural disparities between Member States are mainly a result of the demographic situation (in particular the age pyramid), the level and type of industrial development, and the scale and nature of regional imbalances. Here, the costs of converting activities in decline and endowing the underprivileged regions with the necessary infrastructures represent a considerable burden for some countries.

As to behaviour, it is inevitable that the welcome extended to the rules to be observed and the changes needed to achieve balanced development differs in accordance with economic environment and social categories. The need for lasting price stability — too often sought for by short-term measures — is identified by many with restrictive policies engendering unemployment. Such misunderstandings tend to perpetuate inflationary behaviour.

Trend of main indicators since 1961

	G	F	I	N	B	L	G	F	I	N	B	L
	Average rate of annual variation											
	1965/1961						1968/1965					
Gross national product by volume	4.9	6.0	4.5	5.4	5.3	3.2	3.3	4.7	6.1	4.9	3.4	2.0
Prices (index of gross national product)	3.4	4.2	6.3	5.5	3.5	3.6	2.0	3.6	2.1	4.5	3.5	2.8
Relative prices ¹	-0.6	0.3	2.4	1.6	-0.5	-0.1	-1.3	0.9	-0.8	2.0	0.2	-0.1
	Average of the annual figures											
	1962/1965						1966/1968					
Unemployment ²	0.8	1.2	2.9	0.9	1.8	0	1.4	1.7	3.6	1.9	2.4	0
External balance (percentage of gross national product)	0.9	0.6	0.3	0.3	0.2	-3.4	2.7	0.2	2.6	-0.1	0.3	0.9

¹ Quotient for each country of the GNP price index by a weighted index of GNP prices for its twelve leading trading partners (the weighting is done according to the pattern of exports of the country).

² Unemployment:

(a) As a percentage of the available working population for France, Italy, Belgium and Luxembourg;

(b) As a percentage of the wage-earning population (including unemployed) for Germany and the Netherlands.

Differences in the definitior of unemployment according to country makes these figures difficult to compare.

N.B. It was not possible to take 1969 into consideration in the Table owing to the lack of certain figures (in particular, unemployment and international prices). If 1969 is taken into account, the differences observable for external balances and prices would be still more marked, particularly for Germany and France.

8. The diversity of attitudes to be observed in the Member States with regard to medium-term economic policy priorities is mainly a question of the compatibility of domestic objectives with external equilibrium on the one hand, and the reconciliation of growth objectives with the desired stability on the other. It is seen in the unequal success of the Member States in protecting the fundamental equilibria of the economy.

In the Benelux countries, heavy dependence of the economy on external trade inclines national policy towards adaptation to the external environment. Domestic growth objectives are established with reference to the possibilities offered by the trend of external trade, the primary factor in these countries' strategy. Thus external equilibrium is in general reconciled with domestic priorities without too great difficulty.

For the other three Community countries, domestic priorities tend to prevail over external equilibrium.

In Italy the definition and application of these priorities have at certain times, it is true, conflicted with the external equilibrium objective, mainly because of capital movements. Nevertheless, Italy has been able to adapt production and exports actively to world demand. Thus it still has a certain amount of elbow-room for its medium-term policy.

On the other hand, Germany and France have each had more enduring conflicts of compatibility between domestic objectives and external equilibrium.

In Germany the price stability objective, like growth and full employment, was written into the stabilization law of 1967. Its fulfilment, no doubt facilitated by the economic and social conditions proper to this country, has been jeopardized by the process of inflation engendered by the massive balance of trade surpluses.

In France attempts to stabilize prices, a prerequisite for external equilibrium, have repeatedly foundered on various structural rigidities and attitudes conditioned by a long inflationary tradition. Until the expansion versus stability conflict, which in the past has appeared to dominate the medium-term trend of the French economy, has been overcome, the reconciliation of domestic priorities with external equilibrium will remain problematical.

9. The consequences of recent upsets have been serious for the Common Market. Not only has its functioning been affected by exceptional measures, but uncertainties and doubts have grown up as to the irreversibility of the creation of the Community.

These disturbances have also affected the economic development of the Member States, by forcing them to make sometimes profound changes in their economic policies and to adopt measures harmful to the subsequent continuance of their expansion.

It is therefore in the interests of the Community and of the Member States to try to overcome the obstacles which may jeopardize balanced development.

III

PROBLEMS FOR THE FUTURE

10. The Community's balanced development in the years to come will certainly be influenced to a great extent by the trend of world trade, by the way the international monetary system functions and by the progress which the leading non-member countries make towards balancing their external payments.

It will also depend on the success of modernization undertaken by the Member States in the context of their structure policies.

It will however be even more a result of the determination of the Member States to take account, when formulating their economic policies, of the interdependence of their economies, which has continued to increase since the Common Market was created, and which has culminated in the establishment of the customs union.

11. The expansion of intra-Community trade is the most obvious proof of this interdependence. The proportion of intra-Community trade in Member States' total trade increased from 30% in 1958 to 45% in 1968. At this level intra-Community trade represents 8% of the Community's gross product. Thus, one-twelfth of the income formed in the Member States comes from products exported to other Member States; one-twelfth of this income is used in the form of purchases from other Member States.

However, these figures show only the interpenetration resulting from trade. The degree of real economic interdependence is appreciably higher.

Because of the complete liberalization of intra-Community trade, imbalances between the aggregate supply and demand within a Member State have repercussions of greater intensity and rapidity than in the past on the external equilibrium of the country concerned. It is increasingly easy for demand not satisfied by domestic production to turn to products from other Member States; demand from these countries may stimulate the utilization of available production capacity more and more directly.

At the present stage of Community integration, the countries do, it is true, draw each other into the growth process to their mutual benefit. However, each is exposed at the same time to the exigences of external equilibrium, whereas the machinery still available to them for preserving this equilibrium is losing in efficacy.

This loss of efficacy by national policies is the counterpart of the progress resulting from liberalization of external trade and the establishment

of the Common Market. Its consequences may well mask the substantial economic advantages of integration, which are difficult to evaluate as long as they have not been lost.

12. It is therefore necessary now to master the constraints arising from *de facto* interdependence and to ensure the harmonious development of the Community in the years ahead by a medium-term Community strategy. This should have two broad objectives which complete each other.

It should first aim to ensure the economic coherence of the Community, by defining the main medium-term economic policy lines to make economic policies in the Member States converge.

It should secondly tend to eliminate structural, social and regional disparities between the Member States by undertaking or intensifying, along these policy lines, the action necessary for achieving this objective.

13. The definition of general medium-term policy lines for the Community is the necessary starting point for the application of such a strategy.

It is a prior condition for the effective co-ordination of economic policies, on which, moreover, the efficacy of Community monetary co-operation depends.

It is also necessary for defining and implementing structural measures. Although it is true that the objectives of these measures go beyond the specific objectives of the general economic policy, they can be chosen much better if attention is paid to achieving the important medium-term equilibria. Furthermore, their efficacy is conditional upon the regular pursuit of medium-term policies of balanced expansion. Nothing is more dangerous for the success of these measures than discontinuity and sudden interruptions caused by divergent trends and unsettled economic situations. Because of their selective nature, structural measures presuppose the definition of general economic policy lines which give them a framework and ensure their coherence.

14. In defining these medium-term guidelines the Community must be on its guard against two tendencies: the tendency to seek growth at all costs, with the inevitable consequences for external balance and the losses of growth which sooner or later result, and the tendency to seek stability, even at the price of serious risks of recession and underemployment.

Thus, the aim of the medium-term guidelines should be to steer the growth of each member country under conditions allowing the development and optimum utilization of its resources, without losing sight of the general situation of the Community. To this end they should prevent the occurrence of pronounced imbalances which might have serious repercussions on the economic activity of the other members and cause dangerous distortions in the structure of production and trade within the Community.

Whereas the fact that member countries are at different stages in the economic cycle may in some cases have a compensatory effect beneficial for the progress of the whole, medium-term differences — more particularly in the matter of prices and external trade — are always a source of disturbance; they can be remedied only by measures which must be all the more drastic the longer they are delayed.

If the effective harmonization of medium-term policies should prove impossible in the coming years, the development of the Community could well be jeopardized. In order to avoid hasty and unco-ordinated policies of adaptation to the development of the other Member States, with potentially serious economic and social consequences, member countries would be forced to resort either (a) to protectionist measures, which would undermine the unity of the Common Market and ultimately result in a slowdown of growth throughout the Community, or (b) to monetary parity changes, which in principle are contrary to the logic of the Common Market and the prospect for economic and monetary union, or (c) to new types of exchange relations incompatible with the objectives of the Common Market.

The need to harmonize medium-term economic policies, like the need to co-ordinate short-term economic policies, follows ineluctably from the choice made by the Community countries to establish a customs union covering their economies. To abandon this harmonization would in fact be tantamount to calling this choice into question sooner or later.

IV

THE POLICY LINES RECOMMENDED

15. The harmonization of the medium-term policies of the Community member countries will be the more effective if it is given concrete and quantified form. Figures should be used to indicate the conditions of compatibility to be met by the economic trends in these countries if the Community's economic progress is to be coherent and balanced.

Medium-term projections exist in various forms in the Member States and are already being compared in the Community. A further step should now be taken by starting at Council level a process of defining and elaborating Community orientations in accordance with which the national options would be decided on definitely and implemented.

These policy orientations, established for a five-year period, would have to be accepted as terms of reference for the general regulation of the national economies and for the structural measures to be applied to these.

The policy lines would be examined yearly by the Community authorities responsible for co-ordinating medium-term and short-term economic policies. After this examination, recommendations could be sent by the Council to the Member States to bring the national policies more in line with the general objectives embodied in the policy orientations. They could be adjusted where necessary in the light of the evolution of the factors on which they depend.

16. The desired harmonization may be based on a general analysis aimed at showing simply and coherently the fundamental problems of intra-Community compatibility.

The analysis proposed by the Commission takes account of four indicators: growth rate by volume of the gross national product, the unemployment rate, the external balance, the rate of increase in the general level of prices.

These indicators are determined simultaneously, in order to show a compatibility of national economic trends which does not rule out a satisfactory economic performance. They are based on the data currently available for national projections.

17. The external balance and the level of prices are the two indicators which are central to the compatibility analysis. Their trends express the relations appearing between domestic supply and domestic demand. They reflect in particular the strains which occur in production costs. The indicators of prices and external balance are thus representative of all the general strains which occur within an economy.

Past experience moreover shows in most member countries a fairly close relationship, influenced only by factors connected with the structure and dynamism of external trade, between the trend of the external balance and that of prices (measured in relative terms in relation to the main trading partners).

The external balance is defined as the balance of transactions on goods, services and factor income. This definition links it with the aggregates which measure total supply and total demand on the markets for goods and services, since it corresponds to the difference recorded between the gross national product and national expenditure. This balance, which is offset by the general balance of transfers and capital movements, is at a level which, over and above fluctuations in the economic situation, depends on the country's state of development, its commitments to abroad and the medium-term strategy pursued. In their multi-annual projections the member countries allot to it more or less explicitly an order of magnitude to which they try to adhere. In the past it has been significant and persistent divergences of the actual from the desired balance which has jeopardized the Community's economic coherence and forced the member countries to make internal adjustments which often conflicted with the achievement of their national objectives.

The general level of prices is represented by the price index of the gross national product. It is an indicator of the strains between domestic supply and demand, and is of decisive importance when harmonization is intended. Price trends within the Member States determine the Community's ability to function, on the basis of fixed exchange rates, without breakdown or tendency to disintegration. Moreover, if it is true that the price trend in the Community countries depends not only on the overall strains but also on structural factors, it is just as true that better control over internal strains and, consequently, less marked price divergences in the Community, would encourage the regular application and hence the efficacy of structural policies.

The harmonious development of the Community would therefore be all the better ensured if the price trends associated with the trends of the external balances for each member country were compatible with those of its partners.

18. The growth rate by volume of the gross national product and the unemployment rate are indicators of performance. Their magnitude depends principally on the structural conditions specific to each country and can be influenced only by appropriate changes in structures and behaviour.

These rates do not directly raise problems of compatibility at Community level, as long as each country directs the expansion of its demand in money terms and of its production capacity in such a way to ensure full use of its resources while avoiding lasting strains on the domestic markets and on the balance of payments.

On the other hand, Community compatibility could be jeopardized if the growth rate of a member country were voluntarily reduced in order to

obtain a lower rate of price increases than that of the other members, or endeavours made to increase the growth rate without taking into account the risks of inflationary escalation and external payments imbalance.

Community compatibility must be achieved at growth rates which are such that cyclical unemployment in the Member States is reduced to a strict minimum by suitably regulating the short-term trend. Structural unemployment, on the other hand, cannot be lastingly reduced by stimulating aggregate demand, which would temporarily mask its existence and ultimately delay its solution by provoking inflationary strains dangerous to external equilibrium. Only intensive recourse to structural measures (education, vocational training and readaptation, industrial conversion policy, regional policy) will make possible the effective elimination of structural unemployment.

19. The four indicators chosen are sufficient at the present stage to ensure a workable analysis of compatibility.

However, they can subsequently be made more revealing by taking others into account.

Thus, it would be profitable to establish quantified guidelines covering monetary and financial factors, the general balance of external payments and exchange reserves.

The considerable importance of the trend of wages and salaries for determining equilibria might prompt the definition of an indicator for this volume. In the Commission's view, the problem of the wages and salaries trend cannot be dissociated from the problem of other income. To lay down quantified guidelines at Community level for the development of wages and salaries alone would be an incomplete approach difficult to justify. None the less the importance of this problem should not be underestimated. There can indeed be no rapid and balanced growth without an incomes trend adapted to the general situation of the economy. This question will have to be examined in detail in the context of the second medium-term economic policy programme.

20. On the basis of work already done in the member countries and in the Community institutions, the Commission has made a first quantified estimate for 1971-1975. The figures do not aim at complete accuracy; neither can they be considered as definitive. They nevertheless give plausible orders of magnitude. They help to bring out certain risks of divergences between the economic trends of the Member States and the kind of action which should be undertaken to remedy them. Thus, they can usefully serve as a basis for discussion among the competent Community authorities of the objectives and instruments of balanced growth in the Community in the coming years; they

can be a starting point for the process of harmonizing the medium-term policies, which should in particular be done in the context of work on the medium-term economic policy programme.

21. The estimates are based on two external hypotheses:

- That world trade will develop in the coming years without any drastic interruption at a rate of about 7% by volume. This rate would be somewhat lower than in the past (a trend of a little over 8% for the last ten years);
- That prices among the Community's main trading partners (GNP) will increase at an average annual rate of the order of 3%. This rate, which is lower than that for recent years, assumes the success of the anti-inflationary policies currently being pursued in the leading industrialized countries, notably the United States.

22. The medium-term trend of the external balance of each Member State is the starting point for the method of harmonization proposed, since this balance, giving the net real resources transferred outside, results from the country's development strategy.

All the Member States base their projections on the assumption of an external balance in surplus, which will enable them to finance their net external commitments in capital and transfers (notably development aid).

As a multi-annual trend, the external balance expressed as a percentage of the gross national product at current prices would in these circumstances reach the following levels:

- For Germany: 1 to 2% of GNP, depending on the still uncertain effects of revaluation on external trade;
- For France: 0.5 to 1.5% of GNP, depending on how fast the margin of competitiveness made available by devaluation is reduced by price increases;
- For Italy: around 0.5% of GNP. This balance would be insufficient if the high capital outflows continued; a larger external balance does not however meet the needs of Italian growth;
- For the Netherlands: from 0.5 to 1% of GNP;
- For Belgium: around 0.5% of GNP.

23. These trends of the external balance may be read in conjunction with the price trends which would enable the conditions of intra-Community compatibility to be met. Taking into account the assumptions on interna-

tional trade and prices postulated in section 21, the Community countries should adopt a strategy to keep prices stable in the medium-term and produce a mean annual rate of price increases for the Community as a whole of between 2.5 and 3%.

This strategy should be maintained even if the international price trend exceeds 3%. The Community must become aware of the importance of gradually reducing inflation rates to prevent balance of payments crises, to promote private savings and to allow prices to play their correct part in stimulating productivity and innovation. Moreover, a co-ordinated policy to moderate prices in the Community would, because of the very significant share of the Six in world trade, exert a considerable influence on international price trends. In any event, the Community should in future avoid adapting itself passively to inflationary stimuli from outside.

It did not seem realistic to assume for 1971-1975 an average price trend for the whole of the Community lower than that which has been indicated. To obtain such a result in all the member countries without repercussions on growth, a very considerable strengthening of the machinery currently available for co-ordinating economic policies, and the implementation of very vigorous structural measures at both national and Community level, would be necessary. The success of the efforts made between 1971 and 1975 is a necessary condition for deciding on a more ambitious objective for the end of the next ten-year period.

24. The harmonization of price trends in the Community does not need to be strictly parallel and must take place progressively. Account should be taken of the initial situations, modifications in price trends as a result of the recent parity changes and of the economic growth profile of the member countries. The trend of prices in 1970 will be marked by the influence of these various factors. Price rises during the year must be kept on a tight rein if it is desired to have a sound basis for developing a balanced growth strategy in the period from 1971 to 1975.

In maintaining Community compatibility, Germany and France have a great responsibility. Recent experience has shown the gravity of the consequences of divergences in the trend of prices of one or other of these countries from that of its leading partners.

In Germany the DM revaluation, while it cannot prevent the continuance in 1970 of the price rises which began in 1969, nevertheless induces the hope that these rises may be inhibited by preventing any aggravation of adaptation inflation. It also enables a bracket of between 2 and 2.5% — lower than the trend accepted for the Community — to be selected for the mean annual growth of prices between 1971 and 1975, without causing further problems of compatibility.

After the devaluation of its currency, France recovered a margin of competitiveness, the ultimate dimension of which will depend on price increases in 1970. It appears necessary, if the economy is to be placed on a durably sound footing, that the price trend should be more moderate in 1970 than in 1969. If this condition is met, the line to be followed in the matter of prices will depend on the way in which the competitiveness margin resulting from devaluation is used. A policy aiming at gradual moderation of the price rise over the period 1971-1975 and tending towards a mean annual rate of 2.5%¹ or very little more would allow the margin of competitiveness to be preserved, encourage growth based on higher exports and better adapted to the structure of world demand, and thus provoke the structural changes essential for modernizing the French economy. A policy accepting a mean annual rate of price rises in excess of 3% would relatively quickly cause the competitiveness margin provided by devaluation to disappear, would fail to stimulate the structural changes necessary to sustain a healthy and regular growth of the French economy in the longer term, and would give rise in the medium term to a further problem of compatibility.

For the Netherlands and Belgium, which are very much exposed to external influences and tend to adapt to them, the general price level should increase at a mean annual rate of not more than 2.5 to 3%. It would even be best to aim at a rate around 2.5% for the end of the period. A more moderate price trend (from 2 to 2.5%) would be necessary in Luxembourg because of the structure of its exports.

In the last twenty years or so Italy has carried out considerable structural changes. These changes will continue, but the same does not seem to be true of the relative advantages in terms of wages and salaries and of costs which Italy has enjoyed. Because of the part played by external trade in Italy's development process, a mean annual rate of price rises slightly lower than the international trend, i.e. between 2.5 and 3%, seems desirable.

25. The policy lines envisaged for prices and external balances do not seem likely to affect the medium-term growth rate of the gross national product in the Community countries. The growth rate by volume will probably follow previous trends, corrected in accordance with the trend of the working population specific to each Member State.

For Germany, in view of the slight reduction in domestic supplies of manpower and, conversely, a considerable flow of immigration, a mean annual growth rate of the order of 4.5% may be envisaged.

¹ In this case, as for the other countries, the GNP price and not the gross domestic production price is meant. The annual rate of fluctuation of this index is a little higher than that of "gross domestic production" as used in French national accounting.

In France growth of the gross national product at a mean annual rate of between 5 and 5.5% seems possible owing to the expansion of the total population and of the working population. Growth could be all the more vigorous during the 1971-1975 period the more completely economic and monetary recovery has been achieved in 1970, and provided vigorous structural measures are taken in the years ahead.

For Italy a mean annual growth rate of 5.5 to 6% would make it possible further to reduce the leeway which Italy still has to make up in certain sectors. Here too the achievement of a higher rate depends on the extent of the structural changes which take place in production and exports and on the efforts made to solve regional imbalances.

In the Benelux countries, the mean annual growth rate might be over 4.5% for the Netherlands, between 4% and 4.5% for Belgium, and about 3.5% for Luxembourg.

26. It is very difficult to give an indicative figure for the unemployment rate.

The statistical analysis of employment is imperfect, if not inadequate, in many member countries. Definitions of unemployment differ from country to country and the figures available vary greatly in accuracy. It is moreover almost impossible to make a distinction between the various components of aggregate unemployment (frictional unemployment, cyclical unemployment, structural unemployment). Gaps in information prevent any objective study of the unemployment problem, keep alive misunderstandings and affect the choice of means of action.

It seemed preferable in the context of this Memorandum not to shirk this problem and, in spite of the difficulties, to try to delineate it in conjunction with the indicative volumes previously established.

The studies made show that if the growth outlook sketched is achieved normally during the period 1971-1975, cyclical unemployment should be reduced to a strict minimum. Only frictional and structural unemployment are likely to remain; the former results from changes in a dynamic economy; the disappearance of the latter depends more on a policy of education and vocational training and a policy of industrial development than on systematic expansion of total demand, which would be inflationary and inevitably give rise to policies restricting growth.

It appears moreover that the situations are very different from country to country in the Community. The figures obtained for the various Member States are therefore not comparable, not only for statistical but also for economic reasons. Each of them is significant only in relation to the demographic and economic conditions of the country concerned.

In Germany the trend of the working population and immigration possibilities indicate that the total unemployment rate for the whole of the period 1971-1975, will be around 1% of the paid working population (including the unemployed).

In France the employment situation in the coming years will be influenced by the more favourable age pyramid and by the problems of adaptation of production structures and regions. In view of the anticipated growth rate of GNP, an active policy of employment and vigorous action on structures should keep unemployment during the 1971-1975 period at an average rate of less than 2% of the available working population.

In Italy reduction of unemployment depends mainly on efforts to solve the problem of regional and structural imbalances. Intensification of these efforts would bring the average unemployment rate for 1971-1975 well below the relatively high rate of 3.5% in recent years.

In Belgium and the Netherlands unemployment is mainly due to regional difficulties. The average rate as a percentage of the available working population will probably be between 1.5% and 2% in Belgium. In the Netherlands, the average as a percentage of the paid working population (including the unemployed) is likely to be of the order of 1.5%.

The average rates indicated should not be wrongly interpreted; they do not indicate the unemployment which has to be accepted in each country to obtain a balanced growth compatible with that of the other Community countries. They serve to put the problems of unemployment in objective and realistic terms and constitute points of reference for assessing the extent and nature of the efforts which need to be made to obtain the most satisfactory normal and lasting level of employment in the Community countries.

V

CONCLUSIONS

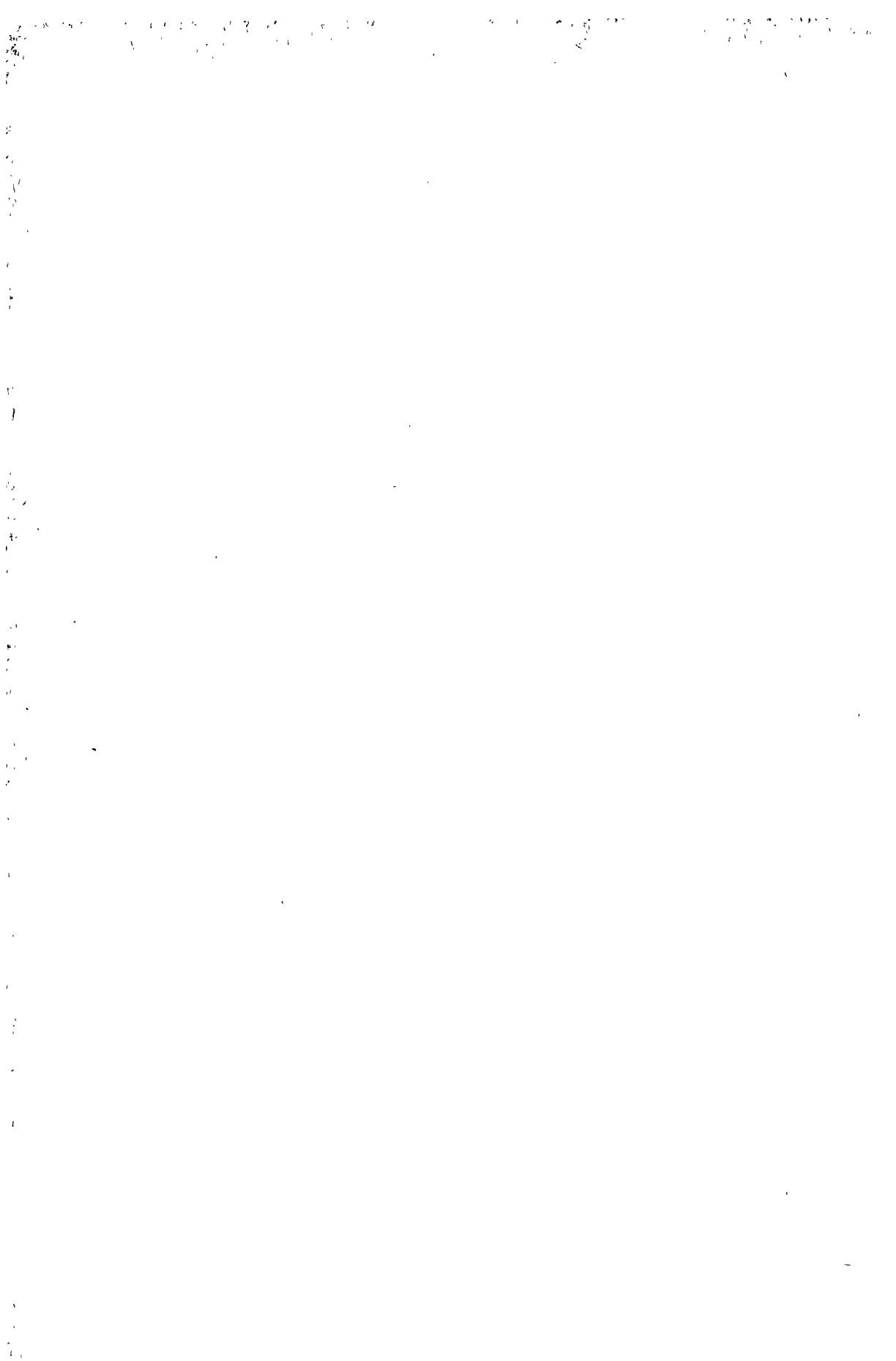
Realistic and coherent medium-term lines of approach will enable economic policy to contribute effectively to economic and social progress in the Community.

If they are supplemented by the necessary action gradually to reduce structural disparities between member countries, they will encourage harmonious development of the Community.

The Commission requests the Council:

- (a) To approve the principle of concerted quantified medium-term policy lines for the Community and to accept the indicative volumes given in this Memorandum as a guide for a first rough determination of the national options for the 1971-1975 period;
- (b) To instruct the Commission, in conjunction with the Medium-term Economic Policy Committee, to submit to it by 1 July 1970 the final policy lines for incorporation as indicative standards in the third medium-term economic policy programme.





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