COUNCIL DECISION

of 16 June 1975

adjusting the economic policy guidelines for 1975

(75/361/EEC)

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Economic Community;

Having regard to Council Decision No 74/120/EEC [1] of 18 February 1974 on the attainment of a high degree of convergence of the economic policies of the Member States of the European Economic Community, and in particular Articles 1 and 2 thereof;

Whereas the Council agrees with the analysis of the economic situation set out in the communication from the Commission concerning the adjustment of the economic policy guidelines for 1975,

HAS ADOPTED THIS DECISION:

Article 1

The Council adopts the guidelines which are specified in the Annex for the Member States in the elaboration of their economic policy.

Article 2

This Decision is addressed to the Member States.

Done at Luxembourg, 16 June 1975.

For the Council

The President

R. RYAN

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[1] OJ No L 63, 5. 3. 1974, p. 16.

ANNEX

ECONOMIC POLICY GUIDELINES

A. General guidelines

Economic policy priorities

1. In 1975, the Community will have to resolve some major economic policy problems :

— how to reduce unemployment, fight inflation and correct the balance of payments ;

— how to bring about the progressive reduction of divergent trends which threaten its cohesion.

Complementarity of short-term economic policies

As regards the latter problem, the deficit and surplus member countries bear a joint responsibility for following complementary policies. Albeit not negligible, the Community's room for manœuvre in this area will nevertheless be limited.

Three groups of countries

2. The present situation precludes the member countries being classified according to general criteria. Nevertheless, they can be divided into three groups on the basis of their external positions and the intensity of the inflationary pressures to which they are subject.

Restrictive policies in the countries with heavy deficits

3. As far as the countries with heavy deficits (United Kingdom and Italy) are concerned, it is important that, while maintaining generally restrictive policies, they should actively encourage the transfer of resources which is essential if they are to bring about a lasting improvement in their external accounts ; such a transfer of resources should be into the export sector, and, internally, into those investments which will yield the highest return in the long-term and which are most urgent from the point of view of regional policy and the support of employment. This process requires a slower rise in the standard of living, since otherwise inflation will continue to have a harmful effect on economic activity and employment. Moreover, the prospect of bringing about a lasting improvement in their balance of payments would become extremely uncertain and those countries would experience increasing difficulty in borrowing abroad to finance their excessive expenditure on consumption.

Disequilibria are also very pronounced in Ireland but that country is, at the present time, subject to external factors and, moreover, has such a high level of unemployment and underemployment that its position must be considered as a case apart.

Reflationary measures in the countries with large surpluses

4. The Member States with large balance of payments surpluses (the Federal Republic of Germany and the Netherlands) have already introduced budgetary and monetary measures to stimulate economic activity. These measures will have the desired effect only if they are given the support of all economic groups, with undertakings availing themselves of investment incentives and trade unions forgoing excessive wage claims. If it becomes evident in the months ahead that these groups are not responding sufficiently to the reflationary programmes, appropriate means will have to be found and applied promptly in order to increase the effectiveness of the programmes while not giving a further impetus to inflation at a later stage in the upswing in activity.

Intermediate position of other Member States

5. Other Member States are in a situation between these two groups on both the external and internal fronts, especially as far as prices are concerned. In particular, their balance of payments on current account is moving towards the elimination of surpluses (Belgium) or is improving, at a varying rate, (Denmark and France). Owing to uncertainties in the world economic situation and to the danger of an insufficient slowdown in the rise of prices, the overall tenor of economic policy must remain cautious for these countries.

Support for investment

6. Short-term economic recovery and the reduction of unemployment will only last if progress is also made in slowing down rises in costs and prices and modifying the economic structure. Thus, an appropriate investment support policy, where necessary with the help of Community funds is needed in all Member States. However, the nature and extent of such action should be differentiated according to the adjustment of income and demand needed in the different groups of countries and regions thereof. In general, greater selectivity of economic policy is required especially to prevent the waste of resources which unconditional support for declining sectors would bring about. In particular, encouragement should be given to the spontaneous restructuring made necessary by the energy crisis, by developing those forms of investments most closely geared to new demands (public transport, energy production, oil-saving technology, scientific research, etc.). To this end, particular encouragement should be given to entrepreneurial spirit, mainly by giving clear guidance as to the type of development to be undertaken.

Active policies on employment and to protect incomes

7. Specific and concerted policies are also needed to improve the employment situation by increasing the mobility of labour to the benefit of expanding sectors, and establishing effective arrangements for vocational training and retraining, where necessary with the help of Community means. In addition, changes should be made in some Member States in the social security systems, particularly as regards unemployment insurance, so as to provide the unemployed with adequate benefits. In general, effective protection of the incomes of the least affluent social groups would permit further concentration of effort on the adjustments made necessary by the energy crisis.

Financial solidarity

8. The process of eliminating the main balance of payments disequilibria cannot be other than gradual. The orderly financing of deficits should therefore be arranged until such time as the adjustments in real terms can take place. This would avoid the danger of deficit Member States being impelled to take protectionist measures likely to retard the recovery of world trade. The Community instruments of financial solidarity have an important rôle to play in this context, in conjunction with international instruments and the capital markets. In addition, the Community must itself adopt the measures needed to avoid any set-back to the orderly development of world trade, and also press for the adoption of such measures at international level.

B. Guidelines for the individual States

DENMARK

1. In Denmark, the current phase of near-stagnation of the economy is likely to persist throughout most of the year. Unemployment might rise further for some months before stabilizing at a high level. The principal problem for economic policy makers will be to mitigate the effects of the slowdown in economic activity on the employment level without endangering the improvement already under way in foreign trade and domestic equilibrium. The authorities should therefore continue to help reduce the pressure of costs, which is still heavy, while not ruling out recourse to selective and gradual action to revitalize the economy. The policy measures to be implemented should be adjusted in the light of the degree of moderation shown by the two sides of industry.

2. In the budgetary field, the easing of personal taxation has already provided an appreciable stimulus, as have the measures taken in the construction sector; this may have set the stage for a more moderate rise in wages and salaries. If this prospect is fulfilled and if, at the same time, the balance of payments on current account continues to improve, some of the proposed cuts in expenditure could be cancelled in order to sustain the level of economic activity.

3. In the monetary field, domestic liquidity has increased at a slightly faster pace during recent months. A further relaxation of monetary policy, and particularly of credit policy in order to improve the financial situation of undertakings, will depend on the success of any incomes policy and on developments in public finance.

FEDERAL REPUBLIC OF GERMANY

4. Since the middle of the past year economic growth in Germany has steadily weakened and has increasingly diverged from the guidelines laid down by the Council. The Federal Government decided, last December, to launch a programme to encourage private and public investment and to get the unemployed back to work. Powerful stimuli should be provided by the sharp increase in the public authorities' borrowing requirement, which is partly due to the tax and family allowance reforms: the deficit in 1975 should be some DM 50 000 million, as against DM 25 000 million in 1974 (5 and 2·5 % of gross domestic product respectively). At the same time as the Federal Government took these measures, the Bundesbank appreciably relaxed its monetary policy.

5. These measures together should bring about a gradual upturn in the economy. Indeed there are already some signs of a recovery in business confidence. Although it is very difficult to evaluate the strength of this improvement, the annual gross domestic product growth rate could reach 3 to 4 % by the end of the year. The employment situation should improve. The increase in prices should further slow down, although the foreign balance will remain high.

6. If the economic upturn is delayed, the economic impact of the budgetary measures adopted should be reviewed. In the monetary field, the goal adopted by the Bundesbank will stimulate expansion while continuing to act as a brake on prices. The Bundesbank should maintain this approach during the months ahead and encourage the continued fall in interest rates in the banking sector, especially if the upward movement of prices goes on slackening.

FRANCE

7. In France, the current period of economic stagnation is likely to be followed by a gradual upswing during 1975. The labour market situation will probably improve. Fresh progress will no doubt be made in reducing disequilibria. The rise in consumer prices will continue to slow down during the year; it will probably be less than the annual rate of 10 % recorded in recent months. Also the trade balance could reach equilibrium before the end of 1975, but some caution is still needed in assessing the opening for exports provided by France's main trading partners.

8. The cautious economic policy stance recommended in the annual report on the economic situation in the Community [1] remains essential if achievements in the fields of prices and external equilibrium are not to be endangered. Accordingly, the upswing of economic activity depends as much on the growth of

[1] OJ No C 149, 28. 11. 1974, p. 1.

investment — and particularly on having a further run-down of stocks — as on export growth.

9. The 1975 Finance Act forecasts a slight surplus of the order of FF 500 million. It is desirable that the outturn of the budget should not depart too far from this neutral line. Should the revival in economic growth be slow in materializing it would be appropriate to consider fiscal measures, for example the deferment of the collection of company taxes.

10. The present course of monetary policy, without being especially restrictive, seems well suited to the current economic situation.

IRELAND

11. In Ireland the level of economic activity may remain depressed until the end of the year. The labour market situation will probably improve very little in the coming months. The rate of increase in prices will remain among the most rapid in the Community. In this period of slow growth, the balance of payments on current account is likely to go on improving. Economic policy should therefore sustain employment through specific measures which do not accentuate the internal pressure of rising costs.

12. On the incomes front, the wage and salary increases for 1975 written into agreements concluded last year are already very high. It is therefore important that the new national pay agreement does not result in excessive increases, especially in the industries already suffering from special difficulties.

13. The 1975 budget presented on 15 January 1975 provides for a very high net borrowing requirement (equivalent to some 13 % of gross domestic product) although the increase in capital expenditure represents little growth in real terms and appears to be too small in the light of foreseeable employment trends. The objective of budgetary policy should therefore be to restrict public consumption.

14. Monetary policy, although largely dependent on external factors, should remain cautious in view of the growth in liquidity which will be brought about by the monetary financing of the budget deficit.

ITALY

15. In Italy, the fall-off in economic activity, which began towards the middle of last year, will no doubt continue until the summer, owing to the persistently low level of private consumers' expenditure and the even lower level of investment. However, there is a chance that total demand will pick up somewhat towards the end of 1975. The upward trend in prices during the year, though still very strong, will be slower than 1974. The balance of payments deficit on current account will be significantly lower than last year's level.

16. Short-term economic policy faces a difficult problem : the fight against inflation and the improvement in the external position must remain the prime objectives ; but it is also equally important to stop, and gradually reverse, the process of recession. The solution to this problem requires close cooperation with the two sides of industry, especially in view of the negotiations which will begin towards the end of the year for the renewal of numerous collective agreements.

17. In the field of budgetary policy, the Council Directive of 17 December 1974 on the granting of medium-term financial assistance requires the 1975 treasury deficit to be held to Lit 8 000 000 million and the increase in total Government expenditure to 16 %. Within these limits, expenditure linked with investment must be raised. It will be easier to observe the ceiling fixed for the treasury deficit if the fight against tax evasion is stepped up.

18. As regards monetary policy, a ceiling of Lit 24 700 000 million was laid down in the abovementioned Council Directive for the growth of total lending during the period from 1 April 1975 to 31 March 1976. Within this ceiling, which must certainly not be exceeded but which it seems desirable should be used to its full extent, there appears to be a strong case for giving priority to financing productive investment, particularly in agriculture, residential construction, and the energy and public transport sectors. Furthermore, the monetary authorities should support the current tendency for interest rates to fall, while ensuring that these rates remain well above those ruling abroad.

NETHERLANDS

19. In the Netherlands, the implementation of the important package of reflationary measures decided on last November and strengthened in February (protection of real personal incomes, support for business investment, easing of wage costs, stimulation of activity in the building sector and in the regions) should allow some increase in production in the second half of the year and curb the growth of unemployment. The rise in consumer prices during the year should not exceed 8 to 9 %, the rate at which it has

been running for several months. The improvement in the terms of trade, due in particular to the higher export prices of natural gas, could lead to an increase in the already considerable balance of payments surplus on current account.

20. In recent months the upward movement of wage costs has slackened distinctly. It is now essential that this trend should continue and become more pronounced if the relative success in combating inflation is to be consolidated and if there is to be an upturn in employment and in business investment.

21. In the budgetary field, the measures already taken must first be given time to have their full effect on economic activity and employment. For the time being, therefore, these measures, which are reflected in an appreciable increase in the net borrowing requirement, likely to rise from about 1 % of gross domestic product in 1974 to about 3·5 % in 1975, should be rigorously implemented. However, in order to combat unemployment, the implementation of investment expenditure provided for in the budget should be speeded up.

22. In the monetary field, a substantial increase in the central government deficit and a continuing balance of payments surplus would suggest that the money supply will grow sufficiently to support the recovery.

BELGIUM

23. In Belgium, where the economic climate has deteriorated noticeably since the autumn and economic policy was relaxed at the end of last year, the growth of activity could be very small in the second half of 1975 and unemployment may become even more widespread. The upward movement of consumer prices, which remained very rapid up to February, may slacken appreciably; the external balance could also deteriorate somewhat.

24. In the budgetary field, the reflationary measures taken in late 1974 and early 1975, and also the appreciable rise in unemployment, will mean that the fall in the net borrowing requirement will be distinctly smaller than initially forecast. The budget must be implemented in such a way as to help promote the recovery of investment. To this end, clear priority should be given to the major job-creating investment programmes already planned under the budget. In addition, the authorities should, if necessary, promote business investment in priority sectors.

25. The budgetary measures to combat unemployment should go hand in hand with the maintenance of the recent tendency to ease monetary policy. In this respect, the money supply should be allowed to increase sufficiently and the conditions should be created for a further lowering of interest rates. However, a slower rate of increase in wage cost is an important condition for achieving the desired improvement in the labour market situation.

LUXEMBOURG

26. In Luxembourg where the recent fall-off in new orders is likely to continue, especially in the iron and steel industry, activity may slow down during the first half of 1975. The rate of growth of consumer prices should fall. The surplus on external account will probably give way to an appreciable deficit.

27. As taxable incomes will not grow on the scale expected earlier, there will be a deterioration in the net budgetary position.

28. In order to maintain activity in building and construction, credit restrictions should be eased, but care should be taken to avoid the resurgence of inflationary strains.

UNITED KINGDOM

29. The prospects for the British economy seem to be virtual stagnation between now and the end of the year, continued unemployment, further rapid rises in prices and wages and a slight reduction in the substantial balance of payments deficit on current account.

30. The reduction of the balance of payments deficit should continue to be one of the principal aims of economic policy in 1975. To achieve this, it is essential to contain the growth of private consumption. This means that care should be taken to avoid any large increases in real incomes and in particular, increases designed to offset anticipated price rises.

31. Given the impact of the upsurge in prices and wages on public authority spending and assuming that policies remain unchanged, the public sector net borrowing requirement must be expected to grow in the 1975/76 financial year. Vigorous efforts should therefore be made to reduce the share of the public sector deficit in the gross domestic product, put at some 8 % for 1974/75. To this end, it is particularly important to follow the budgetary policy guidelines

announced last November with a view to making substantial cuts in subsidies to nationalized industries. If necessary adjustment of certain indirect taxes to price movements could be considered.

32. The present course of monetary policy should be maintained. In order to help finance the external deficit, interest rate policy should preserve the relative attractiveness of the London money market.