THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

EHG(B2)(82)3 COPY NO. 1
16 June 1982

EUROPEAN COUNCIL, BRUSSELS
28/29 JUNE 1982

ECONOMIC AND SOCIAL SITUATION
Brief by HM Treasury

OBJECTIVE

1. To secure endorsement of the continued need for prudent macroeconomic policies in the Community.

POINTS TO MAKE

2. Community's average inflation rate declining only slowly. Latest available figure (March) 5 points above US rate and 9 points above Japan. Lasting recovery can only follow reduction in inflation, as OECD Finance Ministers, IMF's Interim Committee and Versailles Summit all agreed.

3. Level of output and eventually employment, exhange rate stability and level of interest rates would all benefit by European convergence on prudent monetary policies and smaller budget deficits. Yet Commission's forecast shows divergence of inflation and earnings rates increasing this year. Trends on current balances also diverging.

4. Need for each country to put its own house in order. Noticeable that those with high inflation and large or rising budget deficits are having problems with balance of payments on current account and depreciating value of their currency.

5. Structural adjustment moving slowly; indexation of wages and salaries proving particularly difficult to unwind. This is certainly a factor making Europe's reduction of inflation slower than her competitors.

6. Need for more convergence of economic and monetary policies was a major theme at Versailles. Summit partners agreed to accept responsibility for greater stability of world monetary system; and in particular that the five SDR currency countries should strengthen co-operation with IMF. Need to maintain pressure on US to live up to joint commitment at Versailles to "achieve greater control of budgetary policies".

7. Useful that Versailles summit reaffirmed opposition to protectionism and emphasized importance of avoiding competitive currency devaluations. Some evidence that Japanese are beginning to stimulate domestic demand rather than relying solely on export growth for stimulus, and to feel that pressure on them to change macroeconomic mix may prove hard to resist. We should be encouraged by this to renew our pressure for less restrictive fiscal stance, firmer monetary policy.

8. In meantime, best defence against adverse external developments is to accelerate our own adjustment.

9. Investment. Welcome Commission paper, which correctly stresses need to create right overall economic climate to encourage investment. Emphasis must be on continued success in reducing inflation, improving economic and monetary convergence and securing reductions in real and nominal interest rates - for all of which restraint in public sector deficits is essential.

10. [If proposals to expand New Community Instrument is raiseed] Prepared to study such a proposal without commitment.

11. (Social Affairs Council resolution on unemployment). Pressing need to bring unemployment down, as European Council agreed in March. But, as social affairs resolution recognised, public investment to this end must not jeopardise control of public sector deficits which is of paramount long term importance. Only lasting way to lower unemployment is to get inflation down and keep it down.

12. [Comment on Commission's paper on Economic and Social Situation will follow when Review is received.]

BACKGROUND

References/Annexes

A Notable Features from Commission's May 1982 Forecast by Country.

B Commission report on economic and social situation (not yet received).

C Commission paper on investment (not yet received).

13. The Commission's paper on the economic and social situation [not yet received] will be a background note for discussion as the Council thinks fit. It is not binding on member states: the Community's official position is as noted in the "Guidelines for economic policy in the Community", which were approved by the December Finance Council and published in the Annual Economic Report for 1981-82.

14. The Community's divergence of economic policies is perhaps most clearly illustrated by current inflation rates within the Community and the Commission's forecast for the whole of 1982:

Country	March inflation rate (%)		Latest inflation rate where different (%)	Commission forecast of average inflation rate in 1982 (%)
Belgium	7.1		-	10.2
Denmark	10.6		-	10.1
France	14.1		13.9	13.3
Germany	5.2		5.0	4.7
Greece	20.6		-	24.0
Ireland	18.9	(1)	-	18.5
Italy	16.5		15.6	15.0
Luxembourg	8.4		-	12.0
Netherlands	7.2		-	5.8
UK	10.4		9.4	9.5
EC 10	11.7		-	10.2
USA	6.8		6.6	6.4
Japan	2.8		-	4.3

Note (1) Commission estimate

15. The only countries where significant reductions in inflation seem to be continuing are the Netherlands, Germany, the UK and Italy (down from 20% last June); the forecast decline in French inflation looks suspect given that earnings are currently increasing at an annual rate of around 18%. The Community's average inflation rate is not falling anywhere near as fast as the American rate has fallen in recent months.

16. Annex A gives an annotated summary of current and forcast developments in each member state. The main points to emerge are

- growth prospects look slightly worse in 1982 than at the March Council, partly because of worsening prospects for the USA (though the Commission has a very bad track record in forecsting the US) and reduced growth in Japan;

- the Community's average unemployment rate will probably not stabilize later this year, as Commissioner Ortoli said at the last Council, but could well continue rising until late 1983;

- broad monetary growth (M2/M3) does not on average, look very restrictive (though this is not the object of targetting in many member states);

- the Commission's forecast of French and Italian General Government Borrowing Requirements (GGBRS) is too optimistic (both will rise quite strongly this year);

- earnings increases within the Community look as divergent as ever, ranging from Greece's 27% to Germany's 4.7%; the prevalence of indexation in many countries with high rates of inflation will mean Europe's fall in inflation cannot be as fast as Japan's or America's (though in the prime offender - Italy - the employers' federation unilaterally abolished the 'Scala Mobile' in May);

- a group of three countries is emerging who have low or declining inflation, a current account surplus and declining GGBRS: the Netherlands, the UK and Germany.

17. The Commission report on investment is being produced as a response to the remit given by the March European Council which invited the Commission to make proposals. It will be based on an earlier longer paper which was presented to Finance Ministers on 14 June. This was largely analytical and contained mercifully few proposals. The only substantive point was that the Commission undertook to present a proposal

for a further expansion of the NIC by 3 billion ecus (the figure mentioned in the provisional conclusions of the November European Council); but the Commission have given no sign of when they will make a concrete proposal to this end.

18. The Social Affairs Council on 27 May also passed a resolution on unemployment which refers to public investment, but with suitable hedges on the need to restrain public sector deficits. The Danes, among others, are particularly keen on securing agreement that public investment should play a more prominent role in combating unemployment, but the Germans and Dutch are firmly on our side in maintaining that extra investment involving extra net public expenditure could be counter-productive in terms of jobs.

HM Treasury
10 June 1982

[Annexes B and C will be circulated on receipt from the Commission]

ANNEX A

NOTABLE FEATURES FROM COMMISSION'S MAY 1982 FORECAST BY COUNTRY

Belgium
- Unemployment rising to 12½% this year
- GGBR falling not much, if at all, and not enough to reverse last year's rise
- current account deficit falling at last
- fall in savings ratio

Denmark
- strong growth in second half of 1982
- ¼ million unemployed but not rising in 1983
- GGBR still worsening this year and next
- current account deficit worsening

France
- despite forecast growth unemployment keeps rising
- rise in GGBR understated in '82 - nearer 3½% of GDP (and PSBR is much bigger)
- inflation does not decline much in 83 and may be too low in 82
- current account deficit worsens this year

Germany
- strong growth from now on
- declining GGBR
- declining inflation
- current account returns to surplus
- monetary growth towards top of target range with declining interest rates

Greece
- inflation still 24% in 82 and 22% in 83
- sluggish economy

Ireland
- despite strong growth in industrial output and exports unemployment rises to 12¼% next year
- inflation falls only slightly this year
- GGBR not falling dramatically despite tough budget
- current account deficit not falling despite export growth

Italy
- no output pickup in the summer
- declining GGBR is unrealistic; Italian government now estimates GGBR in 82 around 14% of GDP
- fall in inflation rate continues into 1983
- welcome fall in current account deficit

Netherlands
- unemployment up sharply
- GGBR down steadily
- current account surplus doubles this year

UK - GDP growth 1.3% in 82, 1.9% in 83
- unemployment stabilizes at present level
- GGBR less than 2% of GDP this year
- inflation averages 9½% in 82, 8½% in 83
- current account surplus greatly reduced this year and next

US - From having been more optimistic than OECD or IMF, Commission is now more pessimistic about this year's growth
- some relaxation of monetary targets implied in Fiscal 83.

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

EHG(B2)(82)3 Addendum COPY NO. 1
23 JUNE 1982

EUROPEAN COUNCIL, BRUSSELS
28/29 JUNE 1982

ECONOMIC AND SOCIAL SITUATION
Brief by HM Treasury

1. The Commission papers on the economic and social situation and on investment are attached.

HM Treasury
23 June 1982

REFERENCE B

COMMISSION PAPER ON THE ECONOMIC AND SOCIAL SITUATION

I. In line with the conclusions reached on 29 and 30 March, the Commission has sent to the European Council an initial report on investment which discusses key matters relating to economic growth.

II. This document sums up the economic and social situation in the Community in 1982 and the developments expected in 1983.

The analysis has to be seen in the light of the main economic policy targets, which in the Commission's view do not need to be amended. The Commission has already made known its views and put forward proposals concerning the four priority areas for action by the Community, namely creation of a more stable economic environment, both within the Community and internationally, modernization of structures, achievement of closer economic convergence and improvement of the employment situation. Only a brief summary is therefore given here, but the Commission may elaborate on them during the discussions of the European Council.

1. A more stable economic and monetary environment is a prerequisite for a return to a healthier growth path and to an improved employment situation. The Community needs to take action on two main fronts:

   - within the Community, it needs to make the economies more competitive and, in order to boost employment, to pursue its attack on inflation; to do so, it needs to strengthen the essential framework provided by the EMS for ensuring the stability and protection of Community achievements to date: the Commission produced proposals on this matter in March;

   - internationally, it needs to play a full part in the new pattern of international monetary cooperation outlined at Versailles and to contribute to its development.

2. The modernization of economic structures within the Community is essential if the Community is not to be outdistanced by its main competitors. This objective can be attained only if, in tandem with the final consolidation of the single market, determined efforts are made to boost investment.

3. In heavily interdependent economies that are joined together in a zone of monetary stability, and at a time when Community achievements to date are being placed in jeopardy, a greater measure of convergence is needed. Convergence means that the objectives set by Member States should be mutually consistent and that the results achieved with regard to prices, the reorganization of public finances, the stabilization of costs, the external equilibrium and growth should be fully compatible, in the interests of greater stability and more robust growth, which in the final analysis means more favourable prospects for employment. Not enough has yet been done. The most recent currency realignment within the EMS demonstrated the resolve on the part of all Member States and the need for the Community to secure closer convergence. The measures decided within the Community framework on 12 June 1982 are confirmation of the useful role played by the EMS not only as a monetary mechanism but also as a forum for discussing and adumbrating economic policy guidelines designed to bring the Community economies more closely into line. Without such convergence, the general uncertainty of the economic climate and the resulting reluctance to invest cannot be dispelled (and parity adjustments would occur too frequently).

This matter is currently under discussion in the Council. The Commission requests the European Council to confirm that it expects the deliberations which the Council will devote to this key topic – and in particular, in July, to the budgetary guidelines for 1983 – to produce national budgetary guidelines compatible with the jointly agreed objectives.

4. Lastly, where employment policy is concerned, the Commission would draw attention to its previous communications and to the conclusions reached at previous European Council meetings, notably with regard to youth unemployment. On 27 May, the Council (Social Affairs) adopted a detailed Resolution on a Community action programme to combat unemployment. The text of the draft resolution is attached hereto. The Commission would like to see measures taken to follow up this Resolution and to prepare the ground for the joint Council meeting to be held before the end of 1982.

III. In the light of the first set of figures available since the beginning of the year, the Commission has slightly adjusted its overall forecasts for 1982, which it had sketched out in preparation for the European Council in March, and looks for a gradual recovery in economic activity for 1983. However, it has not as yet been possible to assess in sufficient detail the possible implications of the most recent realignment within the EMS.

1. Real GDP is expected to grow by 1.5% in 1982, a figure slightly below that envisaged by the Commission in its Communication to the previous European Council. This adjustment, though, does not affect the likelihood that economic activity will gradually pick up during the third quarter of 1982 and, judging by initial estimates, show a growth rate of around 2.6% for 1983. Whereas growth in 1982 will probably stem from some increase in public consumption and especially from restocking, the key growth factors in 1983 are likely to be a fairly sharp recovery in private consumption and a faster rate of investment.

2. This prospect, which is still by no means definite, is not of a sort to bring about a reversal in the trend towards higher unemployment: expressed as a percentage of the labour force, the unemployment rate is expected to climb to 9.2% in 1982 and 9.4% in 1983, compared with 6% in 1980. Even so, it will be seen that, after rising by over 50% in two years, unemployment is now expected to climb at a slower rate in 1983 than in 1982. As regards national levels, even though the gathering pace of the rise in unemployment since 1980 has been seen on a very broad front, some slowdown will probably be discernible during 1983 in most Member States.

3. The results of efforts in recent years to tackle inflation are materializing only very gradually: it will have taken over three years to bring the annual rate of inflation in the Community down to single figures.

This target may be achieved in 1983, when the annual rate of price increases could fall back to 9.5% from 10.2% in 1982, 10.9% in 1981 and 11.1% in 1980. This recent and foreseeable trend of prices in the Community shows two striking features. First, inflation is proving difficult to eradicate at a time when the Community economy is very probably at the bottom of the cycle. This situation contrasts sharply with that obtaining in the period 1975-78. Second, the patterns in Member States differ appreciably. Germany and the Netherlands could make further substantial headway against inflation in 1982-83, and an improvement on this front is also under way in the United Kingdom. But by contrast, further steps are needed to rein back the continuing high levels of inflation in the rest of the Community in order to bring about the measure of convergence needed to secure the monetary cohesion of the Community.

4. In 1983, the Community could reduce its current account deficit to some US $ 2 200 million, from US $ 9 900 million in 1982. An important point is that, over the two years in question, the United States' current account balance is expected to move in exactly the opposite direction (a surplus of over US $ 8 000 million shrinking to some US $ 3 000 million). Japan, on the other hand, is likely to record a further substantial increase in its current account surplus, which could be in excess of US $ 20 000 million in 1983.

While the expected trend suggests that the Community economy as a whole will have more or less completely absorbed the external consequences of the second oil shock, developments in individual Member States are likely to differ sharply: for example, Germany, the United Kingdom and the Netherlands are expected to run quite substantial surpluses in 1982 and 1983.

5. While there is the possibility of a gradual upturn in economic activity during the third quarter of 1982 and in 1983 and the prospect of a change in the unemployment trend, the factors of uncertainty in such a scenario should not be overlooked. These factors are essentially the price of oil, interest rates and the investment behaviour of firms.

The experience of recent months suggests a moderate trend in the price of oil for 1982-83. However, the contribution that this would make to an upturn in economic activity by alleviating one of the main pressures on the balance of payments would be significant only if it were combined with a reasonable trend in the dollar rate, which in turn depends on a gradual easing of interest rates.

The prospect of a moderate deficit on the United States' budget for the 1983 fiscal year has been strengthened by the recent progress of discussions between the White House and Congress: agreement on this point might do much to trigger the kind of interest rate trend likely to consolidate an incipient economic recovery. But it will have to be ensured that interest rates will also be directly influenced by further tangible progress, over a sufficiently long period, in bringing down inflation, particularly in the United States. Because of their impact on investment, interest rates have in any case a crucial bearing on whether the Community will in fact see an upswing in 1982-83.

It is nevertheless possible that even an easing of oil prices and a limited fall in interest rates will not be sufficient to automatically trigger a rapid upturn in investment activity. In a period of falling inflation, firms may prefer initially to improve their debt position rather than to undertake major investments immediately. However that may be, firms' attitude to investment - which, it must be emphasized, will be a particularly critical element in consolidating any upturn in 1983 - will depend greatly on economic and monetary events at international level.

6. Given this scenario and the uncertainty surrounding it, the economic policy guidelines which the Commission set out in March 1982 can broadly be maintained. These guidelines can be summarized as follows:

- the progress made in reducing inflation is still precarious and particular vigilance is required in this field; this will have to be reflected in both monetary policy and the management of public finances, which still allow virtually no room for manoeuvre in most Member States. In countries which have a clear problem of controlling public expenditure, the first priority must continue to be a gradual but lasting reduction in deficits;

- vigilance on the inflation front should not, however, rule out the possibility, once progress has been made in this field and the balance of payments situation has eased somewhat, that a policy aimed at steadily reducing interest rates might be recommended;

- any signs of the balance on current account moving off-course must be countered by the rapid implementation of measures aimed primarily at permanently restoring competitiveness;

- at Community level - and in addition to the joint moves to boost investment dealt with elsewhere - the EMS must be used as a means of achieving internal and external monetary cohesion and as a common framework for discipline and the coordination of economic policies.

CONFIDENTIAL

Table 1 - Main Economic Aggegates, 1980-83

	1980	1981	1982 (1)	1983 (1)	1980	1981	1982 (1)	1983 (1)
	GDP volume, % change				Private consumption, % change			
B	2,5	-1,1	0,5	1,3	6,5	7,6	10,2	8,6
DK	-0,2	-0,2	2,9	3,8	11,5	10,7	10,1	9,0
D	2,0	0,0	1,0	3,5	5,3	5,9	4,7	3,7
GR	1,6	-0,7	0,8	2,3	23,7	26,4	24,0	21,5
F	1,3	0,2	2,2	2,5	13,2	12,5	13,3	13,0
IRL	1,9	1,8	[2,2]	[2,7]	18,3	20,5	[18,5]	[13,0]
I	3,9	-0,2	1,8	2,8	20,4	19,0	15,0	13,5
L	0,7	-2,4	0,6	2,2	7,7	8,1	12,0	9,0
NL	0,6	-1,4	0,5	1,3	6,6	6,7	5,8	5,5
UK	-1,4	-1,2	1,3	1,9	15,5	10,7	9,5	8,4
EC	1,4	-0,5	1,5	2,6	11,1	10,9	10,2	9,5
USA	-0,2	2,0	-1,7	2,2	10,2	8,3	6,4	5,8
JAP	4,4	2,9	2,3	4,2	7,1	4,5	6,3	3,7
	Unemployment rate, % of civilian labour force				Current account of balance of payments, % GDP			
B	9,4	11,5	13,4	14,1 –	-5,2	-8,0	-4,8	-3,8
DK	6,2	8,5	8,9	8,7	-3,8	-3,1	-3,5	-5,6
D	3,4	4,8	6,7	6,7	-1,8	-1,0	0,6	0,9
GR	2,8	3,1	3,6	3,8	-2,4	-2,2	-2,1	-2,1
F	6,4	7,6	[8,7]	[8,9]	-1,3	-1,5	[-2,0]	[-1,2]
IRL	8,3	8,7	10,8	12,6 –	-8,4	-12,8	-10,2	-9,0
I	8,0	8,8	9,6	10,0 –	-2,5	-2,3	-1,6	-1,1
L	0,7	1,0	1,3	1,4	22,7	20,3	18,4	16,3
NL	4,8	7,5	9,9	10,7 –	-1,4	2,5	4,4	5,0
UK	6,9	10,6	11,7	11,8	-0,0	2,9	1,0	0,5
EC	6,0	7,9	9,2	9,4	-1,4	-0,6	-0,5	-0,2
USA	5,8	7,6	9,3	9,8	0,1	0,2	0,3	0,1
JAP	2,1	2,2	2,2	2,1	-0,1	0,4	1,0	2,0
	General government net lending (+) or borrowing (-), % GDP (2)				Money supply M2/M3, % change end of year (2)(3)			
B	-9,4	-13,1	-12,4	-11,0	(M2H) 2,7	6,5	7,6	8,5
DK	-5,9	-7,2	-8,8	-10,0	(M2) 10,9	10,4	12,6	13,0
D	-3,5	-4,5	-3,9	-3,4	(M3) 6,2	5,0	5,5	6,5
GR	-5,4	-10,1	-9,2	-8,7	(M3) 24,7	34,3	29,1	20,0
F	0,5	-1,9	[-2,9]	[-3,3]	(M2) 9,7	11,4	[13,8]	[14,0]
IRL	-12,8	-15,1(3)	-14,4	-13,6	(M3) 16,9	18,4	15,6	15,4
I	-7,8	-11,9	-11,1	-10,8	(M3) 17,3	16,1	15,0	15,0
L	-1,8	-1,8	-1,9	-2,2	:	:	:	:
NL	-3,4	-4,6	-4,2	-3,8	(M2) 3,6	5,2	5,4	6,1
UK	-3,5	-2,4	-1,9	-1,5	(£M3) 18,6	13,6	10,0	9,0
EC	-3,5	-5,1	-5,0	-4,8	11,4	10,5	10,7	10,9
USA	-1,2	-0,9	-3,3	:	10,1	9,5	:	:
JAP	-4,2	-4,0	-3,2	:	7,2	8,7	:	:

1) These forecasts were initially prepared in May 1982 and account must be taken of the fact that it was not possible, particularly in the case of France, to evaluate all the consequences of the monetary re-adjustment of 12 June 1982.
2) Financial years for the UK.
3) End-year on end-year.
4) Excluding private sector participation in investments amounting to 112 mill. IRL.

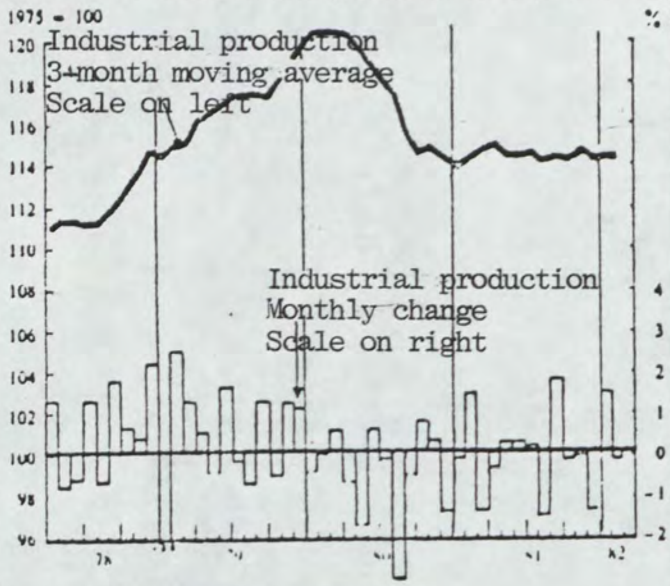
Source : Commission services, Economic Forecasts 1982-1983, May-June 1982.

CONFIDENTIAL

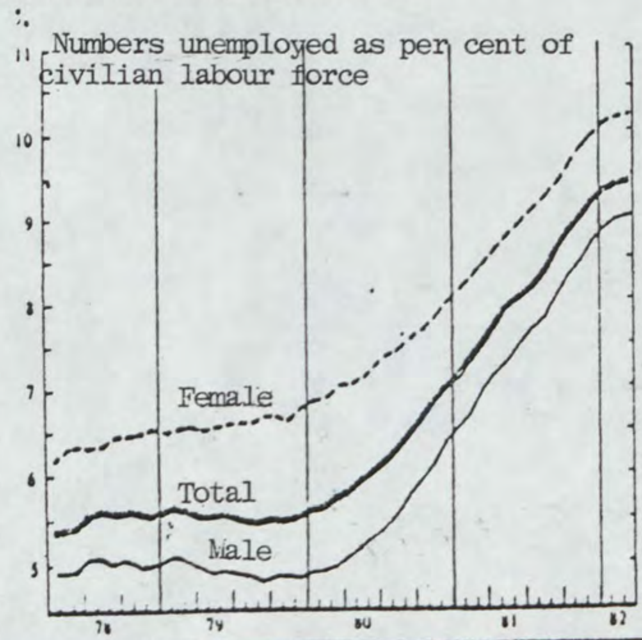
CONFIDENTIAL

Graphs 1 to 5: Principal Economic indicators for the European Community

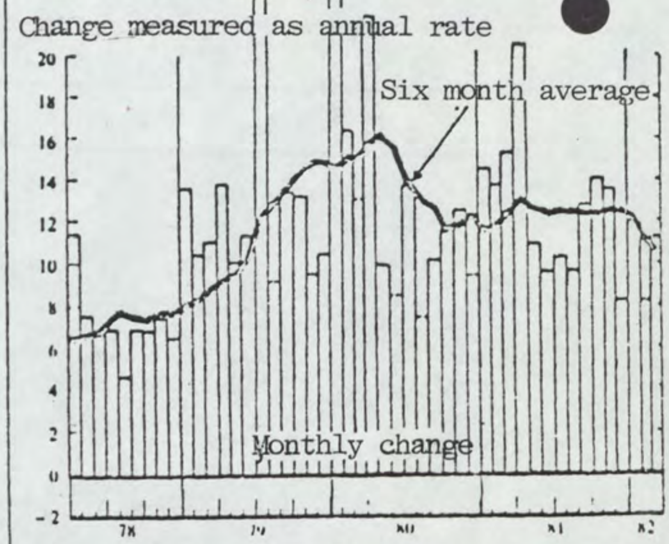
GRAPH 1: Industrial production and GDP EC 10



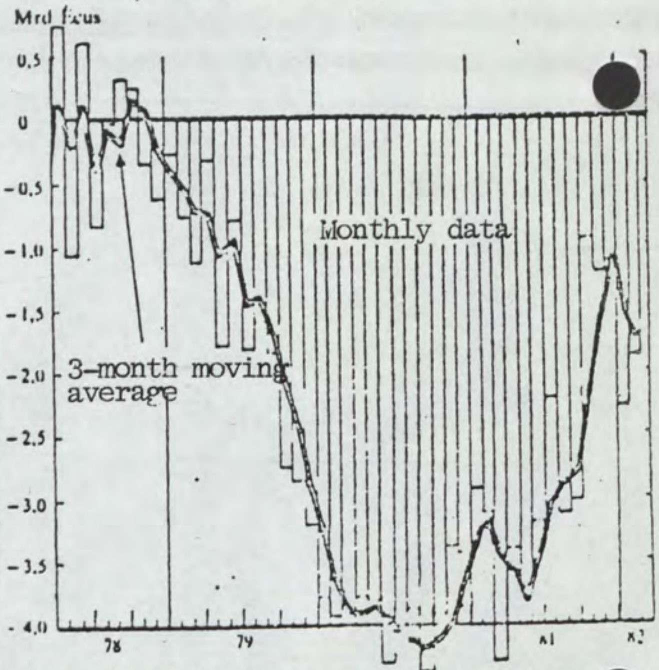
GRAPH 2: Unemployment EC 9



GRAPH 3: Consumer prices EC 10

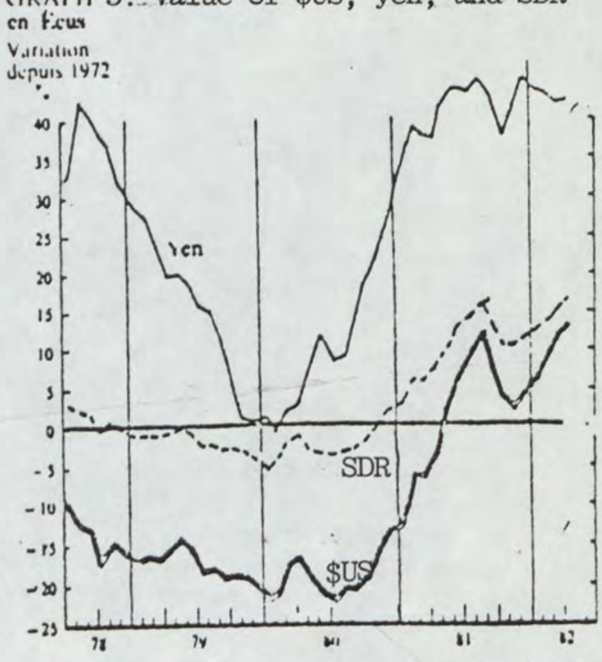


GRAPH 4: Trade Balance EC 9



From March 1981 the series is calculated on the basis of an estimate for the UK

GRAPH 5: Value of $US, yen, and SDR en Ecus



CONFIDENTIAL

PROVISIONAL VERSION

COUNCIL RESOLUTION ON COMMUNITY ACTION TO COMBAT UNEMPLOYMENT

THE COUNCIL OF THE EUROPEAN COMMUNITIES,

Having regard to the conclusions of the various meetings of the European Council, and in particular of the meeting on 29 and 30 March 1982, concerning employment,

Having regard to the conclusions of the Council meeting of 11 June 1981 composed of the Ministers for Economic Affairs and Finance and Ministers for Labour and Social Affairs,

Having regard to the Commission's contribution concerning a "Community action programme to combat unemployment",

Considering the conclusions drawn by the Presidency following the meeting of the Standing Committee on Employment on 27 April 1982 devoted to examination of the problems of unemployment in the Community on the basis of the aforementioned Commission document, the importance of which was emphasized,

Convinced of the need to take concerted action, both at Community level and nationally, to combat unemployment and to restore economic growth in a situation of monetary stability, while continuing the fight against inflation and ensuring the competitiveness of Community undertakings, and in the hope that such an approach may also contribute to the achievement of improved convergence of the Member State's economic policies

Convinced of the need to continue or to undertake within this framework specific action at Community level on employment

Recalling its Resolution of 27 May 1982 on the promotion of equal opportunity for women

Convinced that it is essential for both sides of industry, within the framework of their autonomy and of their responsibilities, to contribute to the achievement of the objective of the fight against unemployment and that efforts should be continued to improve the dialogue between and with both sides of industry at Community level.

HEREBY ADOPTS THIS RESOLUTION:

The Council reiterates its grave concern at the persistently high level of unemployment, particularly among young people, which is creating an intolerable situation.

It considers that private and public productive investment should be promoted so as to strengthen the competitive capacity of undertakings, encourage economic growth and raise employment.

Measures by Member States with regard to private and public investment, to be carried out in accordance with the situation prevailing in each country, should take account of the repercussions on employment, particularly in the private sector and ensure that such measures do not lead to an unacceptable increase in budget deficits.

The Council notes certain priority areas for investment suggested by the Commission in its aforementioned contribution.

Without prejudice to the importance the Community attaches to the measures taken to help the least-favoured regions, particular attention should also be given to those regions most affected by unemployment, by effective and consistent use of the appropriate Community instruments.

The Council considers that it is important that labour market policies be oriented in such a way as to ensure the availability of an adequate and appropriately qualified labour force.

.../...

The Council considers that, in addition to the problems of investment rationalization, the industrial restructuring programmes must simultaneously give particular attention to the employment problems. National and Community authorities and both sides of industry should encourage geographical and occupational mobility. The latter could include the redeployment of workers affected by the restructuring measures, so that such workers are able to take up jobs made available in sectors which are creating employment.

It considers that the possibilities should be examined for promoting the development potential of small and medium-sized undertakings, which are a source of innovation and hence a factor for creating employment, by providing them, in particular, with appropriate assistance in areas such as training, know-how, information and access to credit, with a view to making them more competitive on the market.

It stresses its interest in the job-creation process, which is also apparent in local initiatives and co-operatives and requests the Commission to submit the results of its research and its thoughts on the matter to it so that it can assess the contribution of such initiatives to creating employment.

The Council stresses the priority which the Community must give to vocational training for young people. It has noted that the Commission intends to submit proposals to it shortly for measures aiming to ensure that all young people coming onto the labour market, and particularly school leavers, receive vocational training and initial work experience, if necessary under special programmes or contracts of employment.

Such measures should be compatible with the measures to integrate young people into the labour market and with other special measures, particularly those to help the long-term unemployed, and should fit into the general framework of the strategy to be implemented to combat unemployment as a whole.

Given the potential value of experiments into and measures on the adaption and sharing of working time with a view to more flexible use of production resources and improving the employment situation, the Council also considers that, following the initial proposals made by the Commission for implementing the Council Resolution of 18 December 1979 on the adaption of working time, the dialogue with and between both sides of industry regarding the number of working hours must now be continued within the framework outlined in the Resolution. It notes that the Commission is to submit a memorandum on the matter to it before the end of 1982.

The Council notes that the Commission intends to promote better functioning and transparency of the labour market and to discourage obstacles to its effective operation with the participation of public authorities, employers and labour, in order to ensure that the proposed job-creation measures are successful and to facilitate implementation of the necessary training measures, in particular by developing forward-looking management of the labour market, local labour market intelligence and by improving employment services.

It requests the Commission to submit to the Council, taking account of this Resolution, appropriate proposals or communications as part of a co-ordinated Community approach to combatting unemployment, which could be submitted in the second half of this year to a special Council meeting, as suggested by the European Council at its last meeting, and which could be the subject of prior consultation with both sides of industry in the Standing Committee on Employment, taking into account the latter's areas of competence.

REFERENCE C

Commission Paper on Investment for European Council

In line with the conclusions reached by the European Council on 29 and 30 March 1982 and at the ensuing meetings of the Council, the Commission sent the Council an initial report on investment.

The report is primarily an analysis of the situation: the present Communication draws from that analysis the immediate conclusions on which future work will be based.

1. All the analyses point to a decline in investment in the Community and a relative fall in the Community's share of exports of plant and equipment and of high-technology goods. The priority accorded to investment by economic policymakers is thus consistent with two objectives:

- economies with a high standard of living which are heavily dependent on foreign trade and whose principal asset is their innovative skills must be competitive at home and abroad;

- economies must be able to adapt to new demand conditions and to ever-changing markets, i.e. they must be in a position to supply the goods and services best suited to market needs.

If these two objectives are not met, i.e. if the Community economies fail to harness their investment potential, there will be no adequate and sustained response to the problem of unemployment. This link between investment, competitiveness and employment needs to be jointly recognized by the public authorities and by all those involved in business activity.

2. To a very large degree, a lasting recovery in investment will depend on the overall economic situation. Two conditions must be achieved as a matter of priority:

- a more settled international environment, i.e. more stable exchange and interest rates, more reliable prospects for open international trade and a smooth recycling of capital;

- a more stable framework within the Community, i.e. successful policies to combat inflation and to shrink excessive deficits.

Implementation of the Community's proposals both in the monetary sphere and for closer convergence of the economies would make for tangible progress in this direction.

3. Whereas public-sector investment should be stepped up as a means of reinforcing economic structures and boosting employment, it has been declining steadily in recent years, whether expressed as a proportion of GNP or of national budgets. Yet investment can be raised only within the - in many cases tight - limits imposed on Member States by the need for strict budgetary management.

It is against this background, which will entail difficult budget trade-offs, that we have to view the need for Member States to make more room in their budgets for public spending to promote investment and training and hold down production costs, i.e. to bring about sustained growth in the economy and in employment. The Commission will take account of this need for a policy rethink in the proposals for Member States' 1983 budgets that it will send to the Council in July.

In order to ensure that this new approach has the necessary continuity and scope, the Commission recommends that Member States plan medium-term budget programmes that will guarantee, within a controlled budgetary pattern, an increasing share for investments geared to fostering economic growth.

4. Low investment is also attributable to a number of handicaps: poor profitability, financing constraints, inadequate labour skills, and legislation constricting the economic use of capital. Prime responsibility for the decisions needed to remove these obstacles lies with the Member States, which have the legislative power, the financial resources and the armoury of the national budget.

However, the Community must be involved in the formulation and implementation of such policies in three main ways:

- in exploiting more systematically the advantages stemming from a single market large enough to underpin the expansion of industrial activities that are competitive internationally;

- in the joint assessment of the effectiveness of Member States' policies to promote investment and, by comparing experiences, in the process of devising the most effective rules and financial mechanisms for boosting investment;

- in establishing ground rules for initiatives launched at national level, with the two-fold aim of meeting the Commission's Treaty obligations in the areas of aid and competition and of ensuring that national policies are mutually consistent and have the utmost economic impact.

The Commission will put up further proposals on these various points in addition to the ones it has already presented.

5. There are two particular areas in which the Community must contribute directly to the joint investment effort:

- it must assume an increasingly active role in the common energy strategy, a key feature of which is a major programme of investment in energy production and energy efficiency;

- it must also be involved in policies for modernizing the economy by assisting the process of adapting production structures to the changing pattern of demand, notably with help to technical and technological renewal.

The Commission has already put forward proposals in this connection and would like to see the work currently in hand producing concrete results in the very near future.

6. Lastly, the Commission considers that a significant and sustained expansion of the Community's credit instruments for financing investments would make a major contribution to the general investment effort.

In line with the conclusions reached by the European Council in November 1981, the Commission will in July propose an increase in the resources of the NCI, with the intention that measures to modernize industrial structures should have a priority claim on the new resources.

+

+ +

At this juncture, the Commission is proposing a general framework for an active investment policy designed to improve economic structures and ameliorate the employment situation. This framework will be fleshed out in the second half of the year by further communications and proposals.

The Commission requests the European Council:

- to assert unequivocally the need for investment as a means of returning to a healthier growth path and improving the employment situation;

- to take up as jointly agreed guidelines the broad thrust of the analysis and measures at both national and Community level, proposed by the Commission;

- to reaffirm that, since a prerequisite for higher investment is the restoration of a more stable economic environment in Europe and throughout the world, the Community ought to take an active part in international cooperation initiatives directed towards this end and, in particular, in the implementation of the conclusions reached at the Versailles summit meeting;

- to decide that, where each of them is concerned, Member States will take account of the priority to be accorded to investment growth in formulating their economic policies and in deciding on the structure and future shape of their budgets;

- to acknowledge that it is in the common interest to expedite the establishment of a single market; to introduce a Community code of ground rules for national initiatives which will guarantee that they are mutually consistent and obtain the utmost impact; and to ensure that joint action is vigorously pursued in two areas of special importance, viz. the energy strategy and the adjustment to a new demand structure, inter alia by expanding the Community's lending facilities.

In conclusion, the Commission requests that the European Council instruct the competente institutions to pursue their work with all due dispatch and that it report back to the Commission.

EHG(B2) (82)3 Addendum 2 COPY NO. 1

25 June 1982

EUROPEAN COUNCIL, BRUSSELS

28/29 JUNE 1982

ECONOMIC AND SOCIAL SITUATION

Brief by HM Treasury

1. The two Commission papers on the Economic and Social Situation in the Community and on Investment have now been received. This Addendum draws out the main points.

Economic and Social Situation

2. The Commission's paper is generally helpful and is broadly in line with the analysis and policies agreed at the OECD Finance Ministers' meeting, the IMF Interim Committee and the Versailles summit. Reducing inflation is seen as the Community's first priority, and the need to restore competitiveness and reduce fiscal deficits feature prominently.

3. The Commission thinks that the main economic policy targets of Member states do not need to be amended. It sees these as four priority areas:

i) " a more stable economic and monetary environment is a prerequisite for a return to a healthier growth path"; this requires a renewed attack on inflation and more international monetary cooperation as outlined at Versailles

ii) "the modernisation of economic structures" requiring more investment (viz second paper)

iii) greater convergence of economic policies to achieve lower inflation, the reorganisation of public finances, cost stabilisation, external equilibrium and growth

iv) implementation of the Social Affairs Council's Resolution of 27 May which is annexed to the main Commission paper and calls for the promotion of more private and public productive investment; but the resolution also notes that public investment should not jeopardise control of budget deficits.

4. The Commission's economic forecast is slightly more pessimistic than in March, though it still predicts economic activity picking up in the third quarter, giving an average GDP growth for the Community of around $1\frac{1}{2}$ per cent in 1982. A warning is sounded (paragraph 3 on page3) of the lenth of time the Community is taking to reduce inflation, though the UK, Germany and Netherlands are noted to be making progress. Usefully the Commission warns (paragraph 3 on page 4) that the rest of the Community needs to take further steps "to rein back the continuing high levels of inflation". The Community's external current account should in aggregate be close to balance next year (see Table 1 of Main Economic Aggregates), though Belgium, Denmark and (especially) Ireland will still be in serious deficit, and France and Italy will still have small problems.

5. Some typing errors have crept into Table 1: the square brackets indicating need for revisions should always surround the French figures, rather than the Irish (as in the top two tables), and the top right hand table should be labelled 'Implied price index of private consumption, % change' ie the rate of consumer price inflation.

6. The Commision's conclusions are summarised on Page 6 in the form of four policy guidelines.

(i) Monetary and budgetary policy will have to continue to reflect the need for progress in reducing inflation. Countries with budgetary problems must give priority to reducing deficits. The UK of course can point to domestic progress on this part and support similar efforts by others.

(ii) Once progress has been made in reducing inflation and easing the external payments situation, policy should aim to reduce interest rates. This may be a veiled reference to an easing of monetary growth targets, but our view would be that the fall in inflation should itself help to reduce interest rates.

(iii) Deterioration of the balance of payments should be met by measures to improve competitiveness permanently. We should interpret this as better performance on costs and non-cost aspects of competitiveness.

(iv) The EMS should be used as a framework for discipline and the co-ordination of economic policies. The French decision to stay in the EMS at least for the present has probably given this argument a further lease of life. The UK of course has its own reasons for not joining the EMS exchange rate mechanism but its policies are designed to counter inflation and so should be consistent with those of other EMS members doing likewise.

Investment

7. The Commission's short paper on investment has a faintly dirigiste tone in places but is basically correct in stressing that the prerequisite for higher investment is a more stable economic environment. It accepts (paragraph 3 page 2) that, while public sector investment has declined as a proportion of GNP or of national budgets, it can only be raised subject to the limits imposed by strict budgetary management. No mention is made, however, of the need for investment to be productive investment, and only a passing reference (paragraph 4 page 2) is made to the need to restore profitability.

8. The Commission makes several requests to the Council on pages 4 and 5. We can agree on the broad stress on investment and the need for a stable economic environment to encourage it; we can agree too on the need to establish a single market (presumably for capital). The UK's record in abolishing exchange controls is good. The vague proposal to establish "a Community code of ground rules for national initiatives" (presumably to check on investment or regional grants) is not welcome as it might lead to vast bureaucratic exercises. We can acknowledge the importance of continued vigorous efforts to some energy. We are less enthusiastic about expanding the Community's lending facilities, but we can wait until the Commission makes a specific proposal in due course.

H M TREASURY
25 June 1982