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FRAME ECONOMIC

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FM UKREP BRUSSELS 102129Z DEC 84

TO IMMEDIATE FCO

TELEGRAM NUMBER 4169 OF 10 DECEMBER

INFO ROUTINE COPENHAGEN THE HAGUE ROME DUBLIN PARIS BONN LUXEMBOURG

ATHENS

INFO SAVING BRUSSELS

ECOFIN COUNCIL ON 10 DECEMBER 1984

ANNUAL ECONOMIC REPORT

SUMMARY

1. COUNCIL AGREED TO ADOPTION OF ANNUAL ECONOMIC REPORT. ONCE PARLIAMENT'S OPINION HAD BEEN RECEIVED. GENERAL PRAISE FOR QUALITY AND DIRECTNESS OF COMMISSION REPORT, THOUGH SEVERAL DELEGATIONS SAID THEY COULD NOT AGREE WITH EVERYTHING IN IT.

DETAIL

2. BYATT (CHAIRMAN OF ECONOMIC POLICY COMMITTEE) REPORTED ON THE COMMITTEE'S DISCUSSIONS OF THE REPORT. THEY WELCOMED THE CLARITY OF THE MESSAGE THOUGH DIFFERENT MEMBER STATES WOULD EMPHASISE DIFFERENT ASPECTS OF IT. THE REPORT CONCENTRATED ON STRUCTURAL PROBLEMS AND NECESSARY ADJUSTMENTS AND THE WORK PROGRAMME OF EPC WAS GEARED TO THIS. BYATT DREW ATTENTION TO FIVE PARTICULAR MESSAGES IN THE REPORT:

- I) EXCESSIVE REAL WAGES HAD HAD A HARMFUL EFFECT ON EMPLOYMENT;
- II) THE COST OF LABOUR RELATIVE TO CAPITAL IN EUROPE WAS SUCH THAT INCREASED INVESTMENT DID NOT CREATE EXTRA EMPLOYMENT;
- III) A SWITCH OF PUBLIC EXPENDITURE FROM CURRENT EXPENDITURE TO INVESTMENT COULD BE ADVANTAGEOUS IF THE EXTRA PROJECTS HAD A POSITIVE RATE OF RETURN;
- IV) REDUCTION OR REORGANISATION OF WORKING TIME MUST NOT INCREASE LABOUR COSTS;
- V) THE IMPORTANCE OF GREATER MARKET FLEXIBILITY.

3. ANDRIESEN (COMMISSION) SAID THAT THE REPORT TRIED TO PRESENT A BALANCED BUT FORTHRIGHT SET OF POLICY RECOMMENDATIONS. HE HOPED THE COUNCIL COULD AGREE ON THE FOLLOWING MAIN POINTS: A REDUCTION IN THE SHARE OF PUBLIC EXPENDITURE IN MOST MEMBER STATES; DEVELOPING THE INTERNAL MARKET; STRENGTHENING THE EMS; GREATER MARKET FLEXIBILITY; AND THE NEED FOR GREATER CONVERGENCE OF ECONOMIC POLICIES.

4. DUKES (PRESIDENCY) SAID THAT PREPARATORY DISCUSSIONS AND THE EUROPEAN COUNCIL HAD SHOWN A HIGH DEGREE OF AGREEMENT ON ECONOMIC POLICY. IN THE LIGHT OF THIS HE PROPOSED THAT THE COUNCIL ADOPT THE REPORT AS A WHOLE. (GREECE HAD INDICATED PRIVATELY THAT THEY COULD NOT AGREE TO 'APPROVAL OF THE GUIDELINES IN PART II').

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5. ARSENIS (GREECE) SAID HE HAD MANY RESERVATIONS ABOUT THE REPORT WHICH DID NOT ACCORD WITH THE SITUATION IN GREECE OR SOCIALIST POLICIES OF HIS GOVERNMENT, BUT HE COULD AGREE TO DUKES'S FORMULA. SCHLECHT (GERMANY) COMMENDED THE REPORT FOR ITS CLEAR STRATEGY. HE ENDORSED BYATT'S COMMENTS. BEREGEVOY (FRANCE) HAD RESERVATIONS ABOUT SOME OF THE POLICY PRESCRIPTIONS AND SOME OF THE FORECASTS FOR FRANCE BUT COULD AGREE TO ADOPT THE REPORT. GORIA (ITALY) SPOKE SIMILARLY.

6. ELLIOTT (UK) CONGRATULATED THE COMMISSION ON THE REPORT. WE SHARED THE CONCERN TO PROMOTE STRUCTURAL ADJUSTMENTS AND WELCOMED THE FACT THAT THE EPC WAS CONCENTRATING ITS EFFORTS IN THIS FIELD. THE UK DID NOT AGREE WITH EVERYTHING IN THE REPORT. FOR EXAMPLE, HIGHER INVESTMENT IN PUBLIC PROJECT HAD TO BE JUSTIFIED IN TERMS OF THEIR RATE OF RETURN.

7. RUDING (NETHERLANDS) THOUGHT THE REPORT WAS EXCELLENT AND NOTED THAT THERE WAS NOW AMUCH GREATER CONVERGENCE OF ECONOMIC POLICY IN THE COMMUNITY. GREECE SHOULD TAKE A LEAF OUT OF SOCIALIST FRANCE'S BOOK IN THIS RESPECT. CONCERNING PUBLIC INVESTMENT HE ADDED TO THE RATE OF RETURN CRITERION A REQUIREMENT THAT PUBLIC FINANCE BE AVAILABLE. IF FUNDS WERE NOT AVAILABLE FOR PROJECTS WITH POSITIVE RATES OF RETURN THEY SHOULD EITHER NOT PROCEED OR BE OFF-SET BY REDUCTIONS IN CURRENT EXPENDITURE.

8. ANDERSEN (DENMARK) PRAISED THE REPORT. DOYLE LIKED ITS FORTHRIGHT NATURE. BLAND BANALITIES WERE POINTLESS. THE COUNCIL SHOULD DISCUSS PARTICULAR ECONOMIC ISSUES FROM TIME TO TIME IN AN EFFORT TO STRENGTHEN CONSENSUS. SOME QUANTIFICATION OF THE EFFECTS OF THE COMMISSION'S PROPOSALS WOULD BE USEFUL. BELGIUM AGREED THAT CONTROLLING INFLATION WAS NOT A SUFFICIENT CONDITION FOR CREATING JOBS. MARKET RIGIDITIES ALSO HAD TO BE OVERCOME.

9. DUKES CONCLUDED THAT THE REPORT WOULD BE ADOPTED AS AN 'A' POINT AT A COUNCIL NEXT WEEK ONCE THE EUROPEAN PARLIAMENTS OPINION HAD BEEN RECEIVED.

FCO ADVANCE DESKBY TO:

FCO - RENWICK, FAIRWEATHER, MARSDEN
CAB - WILLIAMSON, BURR
TSY - PS/CHANCELLOR, BYATT, UNWIN, MS BARBER
BANK - BALFOUR

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