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The Community's External Relations

(A contribution to session 5)

Part of the disarray within the Community is due to failure to take a comprehensive view of its external relations or to overcome the confusion and ambiguity which has always existed with regard to the methods of handling them. The Community is necessarily involved in dealings with the United States, the Soviet Union, the Middle East and Mediterranean countries and the under-developed world, and occasionally with other less important aspects of foreign policy such as the recognition of a new state. These relations can seldom be described as wholly political or wholly economic, and yet owing to the Community treaties and institutional structure there is an inherent bias within the Community towards treating these two aspects separately. The Community institutions as such have responsibility for a wide range of economic questions, including foreign economic and commercial questions. Hence the Commission handles on behalf of the Community members the subjects of commercial agreements with both Eastern Europe and countries which wish to have association agreements with the Community, and also many aspects of relations with the under-developed world, for example development aid and the current negotiations with the Caribbean, Pacific and African countries. On the other hand the Community handling of foreign policy questions as such is not provided for by the treaties or the institutions, and, so far as it is dealt with at all, this is done through "political cooperation", whereby the Foreign Ministers or their delegates meet from time to time without international secretarial arrangements and without much continuity between one president and another.

The method of political cooperation has proved fairly successful with regard to preparations for the Conference on Security and Cooperation in Europe and the coordination of positions between the

Community countries in the course of the Conference and associated negotiations. On the other hand it has proved unable to produce a joint position with regard to the international aspects of the energy question or the more important aspects of the Middle East question.

Quite apart from the technical lack of responsibility of the institutions for foreign affairs generally, there is a tendency to make increasing use of the method of political cooperation in present circumstances when some member countries, e.g. the United Kingdom, are reluctant for one reason or another to entrust a greater volume of business to the Community institutions since this appears to involve a cession of sovereignty, whereas political cooperation is still seen as a somewhat codified method of negotiation between independent sovereign states.

There is another distinction which can be made, between matters in which the Community can act in external relations more or less on its own, as in the negotiating of agreements with associated states or with the under-developed world when it is ex hypothesi a major party to a negotiation in its own right, and other cases in which the Community, or more often Community members, must act within a larger forum since the question involved goes outside the reach of the Community and a single negotiating partner. Many such questions are to be found in the field of international financial regulation and energy policy. In the latter type of question however it is open to Community countries to make the choice, either to operate as individual countries, although with varying degrees of coordination between their individual policies, or to act as a unit, with much more rigorous preparation and with some kind of arrangement for the representation of their views through a single spokesman, which can either be one of the countries concerned or in rarer cases a representative of the Community institutions. GATT negotiations are a case in which the Community acts as a unit. International meetings about energy have in recent times been an example of the failure of Community members to reach an agreed or even coordinated position, with the consequent inability to act as a unit, although the great majority of them in fact coordinated their policy.

Given the national views mentioned above and the difficulty of changing Community institutional rules, it is useless to expect that in the foreseeable future external relations generally can be made a subject for handling through the Community institutions. It may also be optimistic to suppose that however these questions are handled it will always be possible to reach agreement between Community members on the substance of each question. Nevertheless it seems highly desirable to take a more comprehensive view of the subject as a whole and to make the best use of the existing machinery, including that of political cooperation, which is going to remain the only machinery available for handling a large area of external relations for a long time to come. It is unnecessarily formalistic to suppose that because one kind of action is sanctioned by the treaties and the other is not, the latter must always remain untidy and fragmentary. There is nothing to prevent the nine governments deciding to handle their external relations either in certain fields or over the whole field in a more coordinated way and setting up the necessary machinery for doing this. There is no need to assume that more united action by Community countries must lead to the formation of a bloc or to the attempt to create a new super-power. But in a world where the major current and future negotiations involve one or both of the existing super-powers and, for example, a cohesive and aggressive group like OPEC, the Europeans need not be too squeamish in seeking unified positions. If a decision could be taken to seek agreement or unity of view on most foreign policy questions some improvements in the machinery could be made without too great a strain. The question of a secretariat for political cooperation should be reviewed without prejudice as to its location or its relations with the Commission. For as long as the handling of such questions and the initiative for putting them forward for discussion must remain with the presidency of the Council there should at least be an arrangement for securing continuity between one president and another and for the dossiers to be compiled and handed on in an orderly manner. Even if no early changes of machinery can be made, the president for the time being could usefully compile and keep up to date a checklist of matters of external relations in which the Community was in one way or another involved or which could be foreseen in the fairly near future, and this could be circulated and brought up at all meetings of the foreign ministers or their political directors. The object would be to review to what extent the Community countries could take steps to coordinate their policies or unify their actions, and what linkages there were between these questions and the more economic aspects of external relations which were being dealt with either through the Community institutions or in other fora in which the Community itself could not at present become involved owing to the position of some of the members or for other reasons.

For example it is difficult to see how the question of economic and commercial relations with the states of the southern littoral of the Mediterranean, now being conducted on the basis mainly on economic considerations, can really be separated from the question of the attitude of the Community or of Community countries to the Middle East question, in which most of the North African states are in one way or another involved. Similarly, relations both with the United States in many economic fields and with the Soviet Union over the Conference on Security and Cooperation in Europe depend to a lesser or greater extent on a view of security and defence questions in which not all Community members are involved in the same way. (The Euro-group in NATO does not include all Community members and does include some European countries who are not members of the Community.) There is no need to let these differences of involvement and participation obscure the substantial fact that there must somewhere be a link between the CSCE and the concurrent negotiations on the limitation of forces in Europe. Here again the rigidities of procedure should not be allowed to mask the connections of substance and the method of political cooperation should be flexible enough to allow such other considerations to be mentioned even if they are being dealt with in separate compartments within the Community or by its members, or even partly by all Community countries and partly by only some of them. Fragmented procedure should not be allowed to lead to fragmented policy.

Bernard Burrows
7th January 1975

(2)

COMMODITY CRISES AND COMMUNITY RESPONSE

Two views can be taken of the recent behaviour of the world market economy, with its inflation, deficits, and chaos in commodity*and money markets. One is that this is a rather large hiccup, following which the international economy will return to normal, and continue to thrive under neo-liberal ("Anglo-area") rules of the game. The other view is that the recent upheaval reflects a need for more public intervention in the markets of the modern economy, and that the international economic system should be adapted to take account of this.

This paper takes the second view, on the empirical grounds that the earthquakes of the great depression and the current great inflation, which have dominated two of the past four peace-time decades in western Europe, cannot be shrugged off as exceptions to a general rule of stability; and with the theoretical justification that the predominant form of market in the modern economy is one dominated by market power (monopolies or oligopolies of big firms, universities, governments - or groups of small ones such as OPEC), which is in part a form of defence against the shocks of wars, (Korea, Vietnam, Middle East), weather (Russian harvests) and human - or rather social - errors (British economic policy) that far too frequently cause chaos in world markets; ,

In considering what the Community may do about commodities, however, the writer remembers that many of those who take decisions in the Community will come close to the first view, so that Community action will be limited to a number of specific measures tha- can secure the agreement of enough governments. What might these measures be?

THE CAP: from disgrace to respectability?

The Community is poor in primary products, so it has a fundamental interest in the security of supply of any commodity whose absence can cause much damage or deprivation. Sharp fluctuations in the price levels of primary products also damage the Community. Price rises trigger a wage-price spiral which member countries find it hard to control, because the use of deflation or wage/price controls is constrained by the political systems;

* The word commodity is used here in the sense of primary product.

and low prices cause economic and political instability in the third world, from which western Europe is harder to insulate than either Russia or America. Both superpowers, on the other hand are relatively immune from these problems, largely because they are rich in primary products and have a strong bargaining position in the increasingly oligopolitic world commodity markets. The Community needs to act, therfore, to increase the security of its supplies and stability of prices and to ensure that the terms on which it buys in world markets are fair to itself as well as to the suppliers.

Stability of supply and of prices, fairness to consumers and producers: we have heard these words somewhere before. Could the much-maligned Common Agricultural Policy offer a better model for the organisation of commodity markets than the classical market that is free from public intervention? We should consider how far the Community has an interest in the use of price and supply guarantees for non-agricultural commodities and for international (extra-Community) commodity trade.

CAP PRODUCTS

The Community's policy is, formally, to work for the organisation of world markets of CAP products. But the lack of results reflects indifference on the part of the Community as well as American opposition.

The forthcoming GATT negotiations offer a new opportunity, because the American interest in access to the Community market for agricultural products is reciprocated by a Community interest in security of supply. One remedy lies in agreement on rules to govern the use of export taxes and restrictionsq More interesting, in the perspective of this paper, is agreement on the keeping of stocks, with guarantees by the EC, the US and other participating governments to buy, up to an agreed quota, when the world price falls to an agreed minimum, and to sell when it rises to an agreed maximum. The Community could make agreements with the US on wheat stocks, a central objective in the trade negotiations; and participation of the Soviet Union in such an agrrement could be an important aim of the Community's policy towards Eastern Europe.

Sugar is the CAP commodity that could play the central role in Community policy towards the developing countries. The Community's offer of a long-term contract at the CAP price will probably not be taken up by the sugar suppliers until the world price falls below that level (in 1976?). The Community will show the sort of statemanship required to introduce stability into world commodity markets if it keeps its offer open until then.

ENERGY

The narrow nationalism shown by member countries so far should not deter us from thinking about the measures needed to secure a sufficient supply of energy, and thus to keep the Community economy going.

In order to develop the member countries' energy resources adequately, it may be necessary to introduce a system of price guarantees, at levels which will justify the necessary investments, matched by supply ~~guarantees in~~ amounts that would compensate the importing countires' commitment on price. Could the member governments bring themselves to agree to anything so logical? Perhaps they would be brought to it by a combination in 1975 of OPEC supply restrictions, a flight from sterling, and the withdrawal of American major oil companies from North Sea developments.

Long-term contracts for the supply of aid from outside the Community are not likely to be negotiable, in the case of the OPEC members, until world market conditions cause a weakening of oil prices (1977?). The Community should be ready to conclude such contracts when it becomes possible. The need for bargaining strength in this oligipolitic market is such that the Community would seem to be well advised to negotiate as a unit.

It is somewhat bizarre that the Community members who share a degree of dependence on Middle East oil that distinguishes them from the US, with consequent differences between European and American attitudes and policies, have been unable to agree on any substantial policy measures, while the majority of OECD members have agreed to establish the powerful new energy agency. Could a common instrument of policy, such as a design for a Community long-term contract with producers, be the means to remove this anomaly?

RAW MATERIALS AND NON-CAP FOODSTUFFS

While international oil prices are four or five times their 1972/3 levels, and food prices still double, the prices of industrial raw materials have been falling back to "normal" levels; and there is less worry about them than about energy or foodstuffs. But a lack of salience can reduce resistance to new policies as well as the motive for them.

The Community is negotiating with the ACP (Africa, Caribbeab and Pacific) countries on a scheme of support of their exports of half a dozen commodities, including industrial materials such as cotton and copper as well as non-CAP foodstuffs such as cocoa and coffee. The scheme is not in itself important, but it does represent a Community initiative in international commodity arrangements. In line with the opening of Community policy towards Asia and Latin America, the policy could perhaps be exptended to Asian and Latin American producers of selected products (coca, coffee, tea?).

CONCLUSIONS

The prospects can perhaps be summarised like this:

1. the Community could, in the coming year, play an important part in the organisation of world wheat and sugar markets, by negotiating for a wheat stock agreement and by maintaining its offer of a long-term sugar contract at the Community price.

2. the Community should show faster movement in developing a common energy policy. Logical policies could be, internally, price and supply guarantees, and externally, readiness to negotiate as a Community long-term contracts for the supply of oil. Can circumstances be envisages in which even a modicum of such logic will be applied?

3. primary products have, in 1972-74, shown the capacity to hit the Community astonishingly hard. Would a high-powered research and planning unit in or near the Commission be able to help prepare the Community intellectually for future surprises? And is there an adequate mechanism in the Council/Commission complex in Brussels for translating any such thinking into policy proposals?

John Pinder 12 January 1974.

(3)

TEPSA Meeting Dublin, January 17-19, 1975

ECONOMIC CRISIS MANAGEMENT I:
Inflation, Currency Problems, Economic Disequilibria

by Hans-Eckart Scharrer, Hamburg

I

It was not the oil price explosion that has made economic and monetary policy a source of tensions for the Community. Rather, due to heavy weaknesses in the concept of monetary integration the road to economic and monetary union has been paved with failures from the very beginning:

- Efforts to establish a common currency system based upon fixed exchange rates among the member countries' currencies have collapsed. The withdrawal of the United Kingdom, Ireland, Italy, and finally France from the joint float made the EEC snake shrink into a Deutschmark blind-worm of whose six currencies only four belong to EEC countries. Exchange-rate policy of the solo floaters is guided by national or international criteria rather than by Community considerations.
- The intervention mechanism of the (mini-)snake has been working only because all participants have agreed not to stick to the stringent debt settlement rules.
- Restrictions to capital movements among member countries have always been the rule rather than the exception. At no time did the Commission or the Council take an initiative of stunting the wild growth of national exchange controls (as one might have expected, given the goal of economic and monetary union). Quite the contrary: pressure was repeatedly exerted upon countries with a (relatively) liberal payments system to introduce additional restrictions.

- The European Fund for Monetary Cooperation, once considered to be the nucleus of a European central bank system, has remained a formal wrapping without material contents. In fact, its activities are confined to mere bookkeeping. There is still no organic linkage between the short-term standby facility, administered by the Fund, and the snake's settlement mechanism or the EEC medium-term credit scheme.
- "Progress" in the harmonisation of economic policy was made mainly with regard to institutional measures (e. g. changes in the number and competences of the EEC economic committees), the adoption of resolutions calling for a gradual assimilation of economic policy instruments, and procedural matters. The only concrete programme of action in the field of common anti-inflation policy, the programme of December 5, 1972, defining not only the goals to be achieved but also the steps to be taken, has failed.

Measured by the repeatedly proclaimed aim of economic and monetary union, and given the wide dispersion in the actual economic performance of member countries, the Community is today in a desolate state - and this in face of the huge challenge posed by the oil price explosion. However, the fact that all governments are thoroughly aware of the close interdependence of their economics is an "asset" which should by no means be underestimated.

II

At the beginning of 1975 the European Community is facing serious economic problems:

- In most countries rates of inflation are high and are still accelerating (see table 1).
- At the same time, the economic slowdown experienced in the second half of 1974 appears to be leading into a recession in 1975, with close to zero growth rates in

most of the member countries (see table 2). Unemployment and short-time work are markedly increasing (see table 3).

- Some EEC countries are expected to run large current account deficits which can only be financed by incurring foreign debts (see table 4).
- Existing structural disequilibria and rapid structural changes, adding to the strains caused by conjunctural forces, complicate the task of policy-makers to stabilize their economies.

The economic "crisis" comes on top of, and is partly due to, a deterioration of social and industrial relations and increased political instability in the member countries.

From a Community standpoint it seems particularly disadvantageous that the individual countries are hit quite unevenly by these developments (although this may also be considered a stabilising factor). Whereas in the 1960s the performances of the national economies did not deviate by much from the Community average, they have been diverging progressively in the last months. In the United Kongdom, and even more so in Italy, inflation has reached record levels and the balances on current account are deeply in deficit; yet, despite the inflationary conditions growth is slackening. Because of a low elasticity of supply neither of the countries has been able to exploit the competitive advantages gained by the strong downward floating of the Pound and the Lira; thus, the currencies' depreciation had mainly the effect of giving an additional impetus to inflationary forces. The same applies grosso modo to Ireland. - Denmark finds itself in a vicious circle of excessive and inflation and unemployment coupled with a huge current account deficit. The measures announced so far do not seem sufficient to really change the dismal situation. - In France the rate of expansion has remained relatively high. At the same time, inflation is serious, too, and the current account is heavily in the red. Due to the anti-inflation programme adopted in Spring 1974 progress in the prices field is in sight; this should also have beneficial effects upon the trade balance. - Germany has been quite successful in containing price increases. As stabilisation policy was directed one-sidedly to curbing internal demand and a close network of exchange controls prevented the D-Mark in 1973 from floating upward by more than it actually did, it was no wonder (given the "export mentality" of German entrepreneurs) that the German trade surplus exploded - partly at the expense of other EEC countries whose home-made balance-of-payments and employment problems were thereby further aggravated. Today, with one million unemployed, the German government has announced a reflation programme which should also contribute to a better economic balance in the EEC if it is accompanied by adequate stabilisation measures in other member countries. - In a relatively good position, except for inflation, are also the Benelux countries.

III

If one looks at the nature and the causes of the current "crisis" it is evident that exogenous (e. g. oil price explosion) as well as endogenous (e. g. wage push) factors are at work, some of which are of a short-term nature (e. g. aggregate demand situation) whereas others are more fundamental (e. g. structural disequilibria; industrial and social relations). Therefore, there is no one-way solution to the problems. Rather, a differentiated approach is required. In this context it is essential that the long-term economic and political goals of the Community are not "forgotten" over the need to find pragmatic answers to present-days' difficulties.

One major problem area to be systematically tackled by the Community is the recycling of petrodollars to deficit countries. The smooth financing of deficits is a prerequisite for the survival of stable international as well as European trade and currency relations in the medium term. There are a number of channels for the flow of OPEC funds to countries in need:

- The international financial markets have shown a remarkable efficiency in recycling the oil money. However, due to the heavy risks involved, banks have become more and more reluctant to perform the job of deficit financing. If this financial channel is to remain open in the future, and if defaults on outstanding loans are to be avoided, the Community and/or the respective member countries will have to give implicit or explicit guarantees to banks to meet at least part of the obligations in case of a major debtor's insolvency. In return, banks operating in the international markets seem increasingly prepared to subject themselves to certain rules and regulations. The elaboration and implementation of such rules should vigorously be pursued on Community level. Among the subjects to be dealt with one might think of the supply of (confidential) information on large bank loans to an EEC "clearing house", rules on the maximum size of loans to any one debtor relative to a bank's equity capital, rules on maximum currency positions etc. The adoption of certain rules could be made voluntary for the bank.

- Direct bilateral loans of OPEC countries have been a second source of funds. A regular exchange of information on the amounts and conditions of foreign indebtedness appears necessary in order to enable the Community to make correct assessments on the economic situation of member countries.

- The EEC itself may perform banking functions by partially or fully guaranteeing international loans raised by individual member states (Eurocredits as well as bilateral official loans) and/or by raising loans in its own name and forwarding the money to members. A first test is already in the making. The problem with this kind of activity is that the credit risk is shifted from the Arab investors to the Community. In order to minimize these risks, Community loans should be made subject to stringent conditions with respect to internal and balance-of-payments policy of recipients. The terms of the medium-term standby credit extended to Italy on December 19, 1974, may serve as an example for future agreements. However, the pledge of a recipient country should be paralleled by pledges of the other members to support its stabilisation policy by adequate measures (rather than to render this policy more difficult).

Whereas the Community should on the whole take a cautious approach to the raising of petrodollars, the opportunity should be used to test different models of monetary units and to develop an attractive "European" alternative to the SDRs as a store of value. At the same time the institutional framework in the EEC monetary sector should be thoroughly studied. There is now an opportunity of giving the European Fund of Monetary Cooperation substantial functions.

- The oil countries have started to acquire participations in business enterprises in industrial countries, including EEC countries. Whereas in principle such investments should be welcomed as they tend to strengthen the interest of the OPEC countries in the economic well-being of the West, there may be instances where such transactions are considered dangerous. It would be expedient for the Community to devise a common strategy with respect to equity acquisitions. Moreover, the Apel proposal on the foundation of an international investment bank opens up alternatives to direct participations in enterprises. This idea might be studied with a view to implementing it on a Community scale.

- Loan agreements among EEC countries of the kind concluded between Italy and Germany in 1974 are another means of enabling deficit countries to refrain from measures harmful to international trade. However, in future they should be handled on Community level rather than on a bilateral basis. It is in the interest of both the recipient countries and the Community that the money be spent within the framework of effective stabilisation programmes to be worked out with the Community bodies.

- The EEC should also use its weight to securing continuation and improvement of existing, and to establishing new, recycling mechanisms on an international scale. Among new possibilities to be elaborated is the Healey proposal of creating a new IMF facility for the financing of oil deficits. Moreover, the question should be studied whether the IMF's windfall profits on its gold assets might be used for providing special assistance to the poorest countries. In addition to this, special allocations of SDRs to the IDA or directly to the most hit LDCs might be considered.

  However, the Community will only be able to play an active and constructive rôle in international negotiations if its decision-making process is markedly improved. This is a matter to be discussed later at this meeting.

Progress in the financial field, important as it is in the medium term and difficult as it may prove to bring about, will not be sufficient. The main problems, the overcoming of which will in the end also determine the success of financial efforts, are the current account balances themselves and the speed of inflation.

IV

As to the development of the current account balances the main clue is of course with the OPEC countries: As long as they stick to the high oil prices on the one hand, and don't increase their internal absorption considerably, on the other, oil consuming countries will have to live with large current account deficits. If one takes it for granted that in the medium term the total deficit of consumer countries will be around $ 40 - 45 b, it is obvious that the Community goal cannot be to reduce its own deficit of $ 16 b by much. It represents a fair share in total world deficit. The task is rather to work towards a more equitable distribution of national balances within this overall framework, which means that the variances among individual deficits and surpluses should be reduced.

The problems of external (balance of payments) and internal (anti-inflation policy, stabilisation of employment) harmonisation are to some degree overlapping. Thus, a moderately expansionary policy in Germany and the Benelux countries leading to an increased absorption would in the current situation be consistent with both internal and external goals. On the other hand, Italy, the U.K., France and Denmark should continue fighting inflation. A tight monetary policy limiting the growth of the monetary base would appear appropriate to both groups of countries. Indeed, as the German Council of Economic Experts has recently stated: "Problems which cannot be solved by a monetary policy being in conformity with the goal of price stability, will not be solved by a permissive monetary policy either, at least not permanently and at tolerable costs."[1] The annual rate of expansion of money supply a central bank is willing to permit should be announced in advance so that trade unions, enterprises and the government are fully aware of the monetary constraints for their future operations. Within the limits so determined fiscal policy should be used to influence the level of aggregate demand which under present circumstances would mean that it ought to follow a moderately expansionary course.

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1 Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung, Jahresgutachten 1974, Bonn 25. Nov. 1974, figs. 30* and 292.

Monetary and fiscal policy should be accompanied by (active or passive) exchange rate adjustments, reducing international competitiveness of the first group of countries (revaluation) and improving competitiveness of the second (devaluation).

To indicate the main lines of future economic policies in the EEC means at the same time pointing to their limits. Thus, there is the danger that under the present social and political conditions a strongly restrictive policy will lead to stagflation or even slumpflation in the inflation-prone deficit countries without improving their external balances by very much. On the other hand a forced expansionary policy in the surplus countries may quickly have the effect of giving a new impetus to inflation. In addition to the cyclical problems all countries are subject to an unprecedented process of structural change which is bringing about some structural unemployment.

In a situation which is characterized by scarcity rather than by the affluency experienced so far, formulation of a coherent Community policy is rendered much more difficult. On the other hand it appears to be much more urgent, too.

V

Efforts exceeding the current oil-crisis management should be made within the Community already to-day to procure a strong basis for a long-term economic and monetary policy. These efforts should realistically proceed on the assumption that it will not be possible in the foreseeable future to achieve the aim of an economic and monetary union, at least not in the way devised by the Council of Ministers. It should further be recognized that the traditional strategy of monetary integration which is generally - though not quite correctly - termed the "Werner" strategy, has proved to be largely inefficient. What matters now is to seek for other, less bold methods which, starting from present economic and political realities, strengthen the economic coherence of the Community and simultaneously open the way for future further-reaching steps of integration.

In the monetary field this would mean, above all, the elaboration of generally acceptable rules for the management of flexible exchange rates; efforts to instal and defend a common system with fixed exchange rates should be postponed for the time being. Hence, the question would not have to be: How can we manage to maintain the "blind-worm" and have it gradually developed again into a beautiful big snake with many currencies? But: How can we devise a system of rules which, in recognition of the different exchange-rate patterns practised within the EEC and in consideration of the divergent structures and priorities of the member states, allows for largely unimpeded goods and factor movements (with limited exchange-rate fluctuations around the trend)? Initial outlines of such rules have been prepared by the Committee of Twenty in their consultations concerning the reform of the international monetary system. On the basis of this preliminary work the member states could devise and test standards of conduct for their mutual monetary relations which provide for stronger ties than are enforceable on the international level.

An essential prerequisite for a stabilisation of monetary intra-Community relations and, in the last analysis, also for a free movement of goods and factors, is a better harmonisation of the economic development of the member states. The traditional method of consultations has proved little effective to achieve such harmonisation, since the Council and the committees have virtually always avoided controversial discussions on the economic policy of individual countries. It should be examined whether it is possible to achieve better results by having the national global policies bound to certain rules and, above all, by making provisions for a steadying of these policies.[1]

1) Cf. Institut für Europäische Politik, Gutachten zur Übergangsphase der Wirtschafts- und Währungsunion, Bonn, 15. November 1973 (English summary available at the Institut).

Regarding the binding to rules it might be worthwhile considering whether it should be made obligatory on the member states to observe jointly fixed indicators in their economic policy; if certain predetermined threshold-values are exceeded, this would substantiate the assumption that the policy must be changed. This assumption could be invalidated in a consultation procedure, when the country concerned would have to prove evidence. It can be regarded an advantage of this model that greater pressure is exercised on the member states to pursue a "Community-minded" economic policy than in the case of the previous, non-committal procedure. The binding to rules naturally does not solve the problem of - sometimes only apparent - target conflicts (price-level stability vs. full employment) and it does not remove the dependence of governments on the national voters' will either. Frequent changes in the direction of economic policy are likewise not necessarily avoided thereby.

Since such changes of policy often have a destabilizing effect on both the national and European economic development, a steadying of economic policy should also be aimed at. This means that the economic interventions should be guided by long-term criteria, in particular by the growth rate of the overall economic production potential. This suggests itself in particular for the money policy. There is much in favour of the argument that a continuous expansion of the stock of money at an annual rate of 5 - 8 p.c. will check inflation effectively without necessarily causing a decline in employment. In addition to this, a steadying of fiscal policy should also be aimed at long-term, in observance of the same criteria; it would appear, however, that this objective cannot yet be reached on EEC level.

Another field of activity of utmost importance for the restoration and protection of (relative) price stability is competition policy. In addition to the traditional approach further liberalisation of trade relationships with third countries, and notably with LDCs, should be aimed at in the forthcoming round of GATT negotiations. Moreover, new impulses should be given to the rather sluggish process of abolishing non-tariff barriers to trade among member countries. Increased competion from abroad will set an effective brake to excessive price and wage demands on national markets.

Preliminary work on the formulation of a new integration "schedule" for economic and monetary policy with realistic interim targets instead of pleasing-to-hear promises could soon be commenced.

Table 1

Consumer prices
OECD estimates and forecasts

- percentage changes, annual rates -

	Average 1959/60 to 1971/72	1973	1974	1975	Latest monthly figure
EEC	3.8	8.0	12.5	12.5	n.a.
France	4.3	7.1	13.75	13	14.9 Sept.
Germany	3.0	7.0	7.5	7	5.9 Dec.
Italy	4.1	10.8	19.25	20.25	24.3 Oct.
United Kingdom	3.8	8.6	14.75	18	17.1 Sept.
Belgium	3.2	7.0	12.5	11.5	16.3 Nov.
Netherlands	4.7	9.0	10.5	10.5	10.9 Oct.
Denmark	5.8	9.3	14.5	14.5	16.6 Sept.
Ireland	5.1	11.5	17	15	n.a.
USA	2.4	5.5	11.5	11	12.2 Oct.
Japan	5.5	11.7	25	16	26.2 Oct.

Sources: OECD, Economic Outlook, No.16, December 1974; Bundesministerium für Wirtschaft, Bonn, Tagesnachrichten, 12. December 1974.

Table 2 Growth of real GNP in the EEC, USA and Japan

OECD estimates and forecasts

- percentage changes, seasonally adjusted at annual rates -

	Average 1959/60 to 1971/72	From previous year 1973	1974	1975	From previous half-year 1974 I	II	1975 I	II
EEC	4.9	5.5	2.5	2	n.a.	n.a.	n.a.	n.a.
France	5.8	6.0	4.75	3	4.5	4.25	3	1.75
Germany	4.9	5.3	1	2.5	2.0	0	3.25	3.25
Italy	5.5	6.0	4.75	-0.25	4.9	0	-0.25	-0.25
United Kingdom	3.1	5.3	-0.5	1.75	-3.4	5	1	-0.25
Belgium	4.9	6.1	4.5	3	n.a.	n.a.	n.a.	n.a.
Netherlands	5.2	4.2	2.5	2.5	n.a.	n.a.	n.a.	n.a.
Denmark	4.8	3.5	1.5	1	n.a.	n.a.	n.a.	n.a.
Ireland	4.0	6.8	2.5	1.5	n.a.	n.a.	n.a.	n.a.
USA	4.1	5.9	-1.75	-2	-3.4	-2.5	-2.75	0
Japan	11.0	10.2	-3.25	2	-9.3	3	1.5	1.75

Source: OECD, Economic Outlook, No. 16, December 1974.

Table 3 Unemployment rates in the EEC, USA and Japan

- per cent of civilian labour force, seasonally adjusted -

	Average 1962-72	1973	1974 Q 1	1974 Q 2	Average of latest three months	Latest monthly rate
EEC	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
France	1.7	2.1	2.0	2.0	2.3	2.6 Oct.
Germany	1.0	1.3	1.8	2.5	3.4	3.8 Oct.
Italy	3.4	3.5	2.8	2.8	2.9	2.9 July
United Kingdom	2.3	2.6	2.4	2.4	2.7	2.7 Nov.
Belgium	1.9	2.3	2.3	2.4	2.8	3.0 Oct.
Netherlands	1.1	2.3	2.6	2.6	3.0	3.1 Oct.
Denmark	3.2	2.4	2.3	3.9	5.0	5.8 Aug.
Ireland	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
USA	4.7	4.9	5.2	5.1	5.7	6.0 Oct.
Japan	1.2	1.3	1.3	1.2	1.3	1.5 Aug.

Source: OECD, Economic Outlook, No. 16, December 1974.

Table 4 Current balances, excluding increases in net expenditure on oil

OECD estimates and forecasts

- $ billion -

	1973	1974			1975		
	Total current balance	Total current balance	Increase(-) in net oil expenditure from 1973	Adjusted current balance	Total current balance	Increase(-) in net oil expenditure from 1973	Adjusted current balance
EEC	0.8	-15.8	n.a.	n.a.	-12.75	n.a.	n.a.
France	- 0.75	- 7.5	- 6.25	- 1.25	- 6.25	- 6.25	0
Germany	4.5	9	- 6.25	15.25	6	- 8.25	14.25
Italy	- 2.5	- 8.25	- 5	- 3.25	- 5.75	- 6	0.25
United Kingdom	- 3	- 9	- 5.25	- 3.75	- 6.5	- 7	0.5
Belgium	1.5	0.25	- 1.25	1.5	0	- 2	2
Netherlands	1.75	1.5	- 0.5	2	1.5	- 1.5	3
Denmark	- 0.5	- 1.2	n.a.	n.a.	- 1.15	n.a.	n.a.
Ireland	- 0.2	- 0.6	n.a.	n.a.	- 0.6	n.a.	n.a.
USA	0.5	- 3.25	-14.75	11.5	- 7.5	-19	11.5
Japan	- 0.25	- 4.75	-12	7.25	0	-15.5	15.5

Source: OECD, Economic Outlook, No. 16, December 1974.