# 'The European Commission's anti-inflation plan', from 30 jours d'Europe (May 1974)

**Caption:** In May 1974, the monthly publication 30 jours d'Europe outlines the anti-inflationary measures proposed by the European Commission in order to tackle the inflationary spiral affecting several European countries.

**Source:** 30 jours d'Europe. dir. de publ. FONTAINE, François ; Réd. Chef CHASTENET, Antoine. Mai 1974, n° 190. Paris: Service d'Information des Communautés européennes. "Le plan anti-inflation de la Commission européenne", auteur:Riccardi, Ferdinando , p. 12-13.

## The European Commission’s anti-inflation plan

*To combat the development of an inflationary spiral, the European Commission is advocating consumption-related austerity measures accompanied by a large-scale social action plan and a strengthening of Community solidarity in order to avoid a possible trade war.*

Any complacency is banished from the analysis which the European Commission recently made of the Community’s present economic situation. It sets out a list of actual problems and possible dangers which is far from reassuring. It is, in a way, an alarm call and an appeal to the sense of responsibility of the authorities and of the general public itself.

Merely reading the chapter headings of this document is instructive: disappointing results of economic policy; increase in the rate of inflation; deterioration of the foreign trade balance; disruption to world trade; moderate rates of growth in 1974; weakening of cohesion within the Community; and dangers of a return to national dimensions.

Circumstances — from the UK Government’s position on the Community to the French presidential elections — have gone some way towards alleviating the effects of the European Commission’s communication to the Council of Ministers of the Nine on this matter. However, the recommendations which it includes remain no less relevant because — in addition to political events and election campaigns — the governments of the Community countries are still faced with the economic problems listed in the abovementioned chapter headings, whatever their persuasion or doctrines.

**Price rises of between 9 % and 15 %**

The starting point is an observation. Given that the oil crisis and the deterioration in the balance of payments were added to pre-existing inflationary tensions, the Community had never before had to deal with such an accumulation of concurrent factors. The economic policy guidelines which were recommended and partially applied in 1973 did not make it possible to curb, or even to slow down, the rate of inflation. In order to sustain economic activity and take account of social needs and the various pressures on the authorities, public expenditure in 1973 had increased by a percentage considerably in excess of that which had been recommended, and the money supply had been excessive everywhere, at rates of up to 28 % (UK). Under such conditions, how can a victory be expected in the battle against inflation? It is inflation that is winning …

In view of the periods necessary for the desired new measures to take effect, the European Commission expects price increases this year to remain between 9 % and 15 %, depending on the country concerned. A sharp rise in the cost of imported oil inevitably causes what is known technically as a ‘deterioration of the terms of trade’. Where the volume of exports and imports is equal, the cost of imports increases to a greater degree and more rapidly than the earnings from exports. This results in a deterioration of the balance of payments which can be partially corrected by an increase in exports. However, such expansion has well-defined limits, and the Community’s trade deficit will in any event be very large in 1974. The European Commission puts it at 22 billion dollars. This figure does not claim to be definitive, nor scientifically precise, since no one could predict today the change in the price of certain raw materials, the actual growth in exports or the yields of the forthcoming harvests. However, it provides a clear rough estimate.

**Threats to employment**

These worrying developments will not prevent the pursuit of economic growth in Europe (contrary to what certain observers had feared at the height of the oil crisis). However, growth will be moderate, at an average rate for the entire Community of not more than around 2.5 % over the entire year. It will be just possible to maintain the level of employment (which is a positive result per se compared with certain earlier forecasts), but not to avoid a certain increase in unemployment as new workers will appear on the market, namely young people looking for their first job and a certain percentage of women.

This evaluation, which is rather worrying overall, comes on top of the additional problems arising from differences between one Community country and another. The dangers are shared, but the inflation rates, predictable balance of trade deficits and levels of unemployment are not uniform, nor will they be.

**An austerity policy**

So what is to be done? How is it possible to avoid the development of the inflationary spiral which would result in recession awaiting Europe at the end of the tunnel?

There should be no mincing of words. What the European Commission is recommending looks very much like an austerity policy. As soon as oil imports become more expensive, more actual goods are required to pay for them. Since the growth in domestic production is necessarily limited (partly by the oil shortage itself), it will be essential to consume less in order to reserve a greater proportion of domestic production to pay for imports.

If the scope for increasing Community exports were unlimited, applying the abovementioned policy would be relatively straightforward. However, that is not the case. The other large industrialised areas (the United States, Japan and the free-trade area) are faced with the same problems and are certainly unable to pay more for oil and other imported raw materials while substantially increasing their imports of industrial goods from the European Community. The capacities of the 'oil' countries to import could certainly increase, but within certain limits and gradually. The countries of Eastern Europe and the developing countries could absorb a considerable additional volume of industrial and agricultural goods, but their ability to pay and borrow is limited.

Moreover, if the Community countries had, for the purpose of increasing their exports at all costs, to bid up prices on their respective markets, it would spell disaster. Competition would then take the form of either export subsidies or competitive currency devaluations which would give rise to countermeasures on the part of the country 'attacked' and, in the long run, to a ruinous escalation. At present, none of the Community countries can hope to resolve its difficulties simply by transferring them abroad.

**Large-scale social action plan**

The economic policy guidelines advocated by the European Commission flow quite naturally from this analysis. It is necessary to moderate domestic demand, to abandon any idea of an 'export war' between the Community countries beyond certain well-defined limits, to coordinate closely monetary policy and to place the various measures in a medium-term global strategy, because spectacular results cannot be expected immediately.

The first guideline, namely moderation of domestic demand, must be translated into what we (and not the Commission itself) have defined as an 'austerity policy'. The European Commission wrote as follows: 'The main problem over the next few years will be maintaining a rate of growth in household consumption which is considerably slower than that of gross national product. That is the only way in which it will be possible to release the resources necessary for the additional effort that is required in terms of investment and exports. To that end, it is important to slow down the expansion of all nominal income in order to avoid an increase in inflation and the imbalance in the balance of payments. This objective is not easy to attain, in particular where the two sides of industry will not engage in constructive dialogue.'

How, then, is it possible to secure the cooperation of the two sides of industry, in particular the trade unions, in this essential policy? By developing in parallel a large-scale social action plan covering job security and workers' access to property (in particular as regards housing, by reinforcing in this way the incentive to save), the development of collective facilities, and retraining.

**Avoiding a trade war at all costs**

The task of increasing exports to alleviate the balance of payment deficits requires particular Community solidarity. A trade war must be avoided at all costs. However, certain countries of the Community have, of necessity, to draw their essential resources from exports, namely Italy, the United Kingdom, Denmark, Ireland

and, to a certain extent, France. The European Commission considers that other States, primarily Germany and then the three Benelux countries, have to agree to increase their imports and to try to increase their national product quite significantly (by 3 % to 4 %), for a two-fold purpose: one, to counteract inflationary tendencies by increasing competition and expanding supply and, two, to help other Community countries to increase their exports. Germany and the three Benelux countries could even, if necessary, sustain growth by means of budgetary increases, tax relief and additional spending in order to attain the abovementioned objectives.

As for the other five countries, they must, by contrast, give priority to improving their foreign trade balance by keeping the increase in domestic demand substantially below the expansion of production capacity. They will have to tighten the restrictive monetary policy guidelines and maintain a high level of interest rates so as to avoid an outflow of capital and to attract capital from abroad. They will have to restrain increases in public spending or increase taxation. They will have to develop investment at the expense of consumption.

It is not an easy programme, because it calls, on the one hand, for a large degree of Community solidarity and, on the other, for courageous austerity measures. However, it is a programme that is essential if we are to avoid even more serious problems and consequences capable of causing a genuine economic recession in certain countries and jeopardising the Community’s basic achievements and even the free movement of goods within the Common Market.

If clarity is the first step to wisdom, then this first step has been made in Brussels. It now remains to take the other more difficult steps which come between the drawing up of a policy and its implementation.

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