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Comments of the O.E.E.C. on Recommendation 190 in reply to the Tenth Annual Report of the O.E.E.C.

Communication

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1. The Organisation has taken note with great interest of the Recommendation addressed to it by the Consultative Assembly of the Council of Europe in reply to the Tenth Annual Report of the O.E.E.C. The Organisation appreciates the interest taken by the Assembly in its work and would like to make the following comments in reply to the Recommendation.

2. Since the publication of the Tenth Annual Report economic trends in Western Europe have become more favourable, and some of the factors mentioned in paragraph 4 of the Assembly Recommendation have now ceased to be disturbing. Production has risen, raw material prices have started to recover, and unemployment, never very high, has fallen substantially. Developments during the last few months indicate that Western Europe is now definitely in the phase of recovery and that expansion will gain further momentum in the course of 1959.

3. The main factors which have initiated the recovery would seem to be increased Government outlays, an increase in residential building and rising consumer demand. Movements in stocks are also more encouraging than a few months ago. The de-stocking movement which was a major causal factor in the 1958 recession seems to have ceased, and in some cases stock building is now taking place. Two areas of demand where the recession has been halted but where recovery has lagged are fixed non-residential investment and exports. Fixed non-residential investment has not made much general progress, and cannot be expected to be a dynamic factor in demand in most countries until the expansion in other sectors gets further under way. Exports to North America have risen and intra-European trade shows signs of revival, but exports to third countries have remained stable and are only likely to increase after recovery has gained more momentum in Europe.

4. The policy measures taken, to a greater or lesser extent, by almost all OEEC member countries to stimulate renewed expansion have been a major factor in the recovery. The Organisation recognised the general need and possibilities for expansionary policies as early as July 1958, when the OEEC Council recommended countries to pursue policies encouraging sustainable economic growth. Since that time all Governments have been able to reverse their policies of monetary restraint, Government expenditures have been generally increased, and several countries have reduced taxes. The economic situation of Western Europe and North America is under constant review within the O.E.E.C. in order to judge the adequacy and success of the measures taken by member countries.

5. As regards intra-European trade, stress must be laid on the progress made in recent years by member countries towards the elimination of quantitative import restrictions. The percentage of liberalisation reached is the highest since the O.E.E.C. began its action in this field. The Organisation, by recently extending to 30th June 1960 the validity of the Decision fixing the minimum obligation in respect of the liberalisation of trade at 90 per cent, is ensuring that what is now being done will be reasonably stable. - It remains necessary to achieve further progress towards the removal of trade barriers. The remaining 10 per cent not yet freed between member countries represents products, mainly agricultural and food products, in respect of which the abolition of quotas entails the greatest difficulties. Moreover, insufficient progress has been made towards the

removal of other barriers. - Highly desirable though it is that the O.E.E.C. should take further complementary action, it is, however, necessary to bear in mind two factors which, in recent months, have altered the framework within which the O.E.E.C. could act. - The first of these was the suspension of negotiations for a European Economic Association. It cannot be concealed that this suspension made it more difficult to arrive at new decisions by the O.E.E.C. aimed at the elimination of barriers to trade between the 17 member countries. True, the technical bodies of the O.E.E.C. are engaged on a number of studies on the best ways of achieving further progress. Similarly, closer co-operation in agriculture is under discussion. These studies would, however, have a greater chance of success if Governments could reach agreement as soon as possible on an Economic Association among the Seventeen. - The second factor is the change-over of most member countries to external convertibility of their currencies, the effects of which should now be made to bear on the elimination of discrimination and quantitative restrictions on imports. In this connection, several member countries have, in recent months, in accordance with their international commitments, extended to third countries a substantial proportion of the liberalisation measures applied by them to their partners in the O.E.E.C. This development should be carried further in the interests both of member countries themselves and of third countries, and the Organisation should help to secure this extension. It must also take this situation into account when considering the possibility of abolishing among its members the quantitative restrictions which still remain.

6. The O.E.E.C. is fully conscious of the needs and problems of countries in course of development. It has discussed the preparation of long-term development programmes with some of the less developed countries, has provided them with technical assistance, and has made financial assistance available to some of them, particularly to support stabilisation programmes. It has no mandate from Member Governments to co-operate similarly with non-member countries, although individual OEEC countries are, of course, carrying out major efforts in this field. OEEC member countries are also members of wider institutions and, through them, participate in multilateral programmes of assistance to the less developed countries of other Continents as well as Europe. Moreover, the level of activity and rate of growth of industrialised countries have a substantial impact on the growth of all the less developed countries, and the efforts of the Organisation to promote high levels of European activity will certainly benefit these countries. It is clear that the strong economic position of Europe and the wider convertibility of currencies should make it possible to provide liberal access for the products of these countries in European markets.

7. The Organisation is in full agreement with the stress given by the Assembly to the need for co-ordination of national business cycle policies. The co-ordination of the economic policies of member countries is one of the most important aspects of the work of the Organisation. There is a regular confrontation of national economic policies through the procedure of the annual and periodic reviews by the Economic Committee, when each country submits its policy to the scrutiny and critical appraisal of its partners. The economic and financial situation of member countries is reviewed monthly by the Managing Board of the E. M. A. and from time to time by the Steering Board for Trade. In the past two years there has been a considerable strengthening of co-operation in this field within the O. E. E. C. - During the recession and recovery there have been periodic meetings of a Working Party of Ministers or their deputies, who have kept the economic situation of Europe and North America under review, in order to see what policy measures might be required by member countries. In order to strengthen further such co-operation, the Economic Policy Committee has been set up whose mandate is to maintain "a continuous review of the economic and financial situation of member countries in order to ensure the co-ordination of policies necessary for the maintenance in the immediate future and over the longer term, of high levels of employment, economic growth and financial stability and of the general conditions required for liberal international trading policies. It shall take into consideration problems which may arise out of progress towards convertibility." At the moment the Economic Policy Committee is actively studying methods by which the co-ordination of policy can be further strengthened.

8. The Assembly will certainly be interested to learn that, on a recommendation by the Economic Policy Committee, which met for the first time on 25th and 26th May, the Council has just instructed the Secretary-General to appoint a small Group of Independent Experts to study the experience of rising prices, in conditions of economic growth and high employment, and the causes of these movements; to review the measures taken by Governments to restrain such rises; to appraise their effectiveness; and to report, at the end of their study, on their conclusions to the Council.

9. As a necessary pre-condition for a stronger co-ordination of national economic policies, the Secretariat with the active support of Governments throughout the past year has been improving the quality of the indicators available for analysing the economic situation, and these new series should be available in published form in the course of the year.

10. The action taken by the 0. E. E. C. would appear to meet the suggestions in paragraph 9 of the Assembly Recommendation. The Organisation has recently made a major institutional change to facilitate co-ordination of economic policy, and it will keep the Assembly fully and regularly informed, within the framework of the existing liaison procedure, on its assessment of the general economic situation and of its efforts to co-ordinate economic policy.