Resolution 193 (1961)[1]

Reply to the Report prepared by OEEC for the Council of Europe on the Economic Situation in Western Europe and North America

Parliamentary Assembly

1. The Assembly thanks the Organisation for European Economic Co-operation (OEEC) for preparing a special report for its benefit on the present economic situation in Europe and North America and takes this opportunity of once more expressing its satisfaction at the fruitful collaboration which has been established between the Council of Europe and OEEC and of drawing the attention of the Governments to the need to institute and cultivate equally effective cooperation in the future with the Organisation for Economic Co-operation and Development (OECD). In this connection it recalls the suggestions it has already made in Recommendation 245, which were favourably received by all member countries of the Council of Europe but on which no official decision has yet been taken.

The internal situation in the member countries

2. The Assembly notes that overall production [2] in Europe increased by 6 % in 1960 as compared with 4 % in 1959. This increase can be considered very satisfactory, particularly since full employment has been achieved almost everywhere and prices have in general remained stable. However, it is noted that certain member countries have not attained this rate of progress and have fallen somewhat behind Europe as a whole in recent years. This situation should be remedied if more serious imbalances are not to occur in the future. The Assembly recalls its declaration last year that the main economic aim of OEEC should be to encourage the greatest possible rate of sound economic growth that can be sustained in the long run, accompanied by full

3. The Assembly notes that, in OEEC's view, the rate of economic expansion will probably be slower in 1961 than in 1960 and that in several countries a strong demand for consumer goods, sustained by a rise in wages (in some cases greater than the increase in productivity) and incomes, is exerting pressure for a rise in prices. In the circumstances, remedies are bound to vary from one country to another according to the situation in each individual market. The Assembly believes, however, that, generally speaking, Governments should seek not so much to restrict total demand drastically as to satisfy it by a corresponding increase in supply, that is in production and imports. Encouragement of imports by a sharper reduction in quota and tariff restrictions can be a way of checking the rise in prices, as some countries have already discovered. Such a policy is also needed to lessen the trading difficulties which may arise between the Six and the Seven and for non-European third countries. It would also contribute, as experience has shown, to strengthen the competitive capacity of European production by applying the spur of competition.

---

1. Assembly debate on 27th April 1961 (7th Sitting) (sec Docs. 1274Docs. 1274, Report by OEEC, and 1291, draft Resolution presented by the Economic Committee). Text adopted by the Assembly on 27th April 1961 (7th Sitting).
2. Gross national product at market prices.

4. In some countries the balance of payments position and/or the full employment of productive capacity may nevertheless justify restricting the growth of total demand. The Assembly believes therefore that such restrictions should be applied selectively, without resorting exclusively to collective measures which, particularly in the sphere of monetary policy, would have the effect of uselessly contracting activity in certain branches or transferring the difficulties to neighbouring countries.

Effects of the development of the European Economic Community (EEC) and the European Free Trade Association (EFTA)

5. The Assembly observes that the OEEC report makes only one four-line reference to the economic and commercial consequences of the regrouping of six member countries within EEC and of seven others within EFTA. This surely reflects excessive caution, for, if there is one point on which everyone is agreed, it is that the creation and development of these two groups has already had and will continue to have decisive effects on the economic evolution of Europe. In its Recommendation last year, in reply to the annual report of OEEC, the Assembly expressed the fear that failure to achieve agreement between the Six and the Seven might "present some member countries with additional difficulties in the coming year and retard their rate of economic expansion". It would have been interesting to have an objective analysis showing whether this fear was well-founded. More generally, the Assembly would be glad if future reports by OEEC or OECD were to describe and comment upon the principal economic repercussions of the activities of the European regional groups.

Balance of Payments

6. The Assembly appreciates the clarity with which balance of payments problems are set forth in the OEEC report and notes with interest the important distinction made therein between "basic imbalances" (reflecting transactions on current and long-term capital account) and imbalances reflecting short-term capital movements. In 1960 "basic imbalances" were reduced as a result of increased European imports and European exports of long-term capital. The Assembly is glad to note the radical normalisation of the external accounts of member countries, which has enabled some ten of them to advance to a system of fuller convertibility. But this return to a better equilibrium has been threatened by short-term capital movements from America to Europe on an exceptionally large scale.

7. The Assembly considers that the volume of these short-term movements, of which the immediate cause was the difference in interest rates between the United States and certain European financial centres, brings out the need for closer co-ordination between the balance of payments policy and the economic, monetary and financial policy of each country, on the one hand, and between the policies of the European countries themselves as well as between these and the policies of the United States and Canada, on the other. The need for close co-operation between Europe and America in this field has been recognised in the creation of OECD but still has to be translated into practice, and the Assembly hopes that Governments will set about this as a matter of urgency. In this connection, the Assembly is interested to note that the Economic Policy Committee of OEEC has recently decided to set up two special groups, at high level, the one to study the problems of stimulating faster economic growth, the other to consider the effects of monetary, fiscal and other policy instruments on the international payments position, and expresses the hope that it will be kept informed of this work in the future Reports of OECD.

8. The OEEC report shows that in recent months various measures have been taken to check short-term capital movements on a large scale and to establish a more normal situation. But they have been taken unsystematically. One of the measures which attracted the most attention was the 5 % revaluation of the Deutschmark, followed by that of the florin. The manner of these operations shows that there is not yet adequate co-ordination of monetary policies in Europe, even between the EEC member countries. The Assembly believes that it is becoming more necessary to strengthen European co-operation in this field as exchanges and payments between member countries become liberalised at an increasing rate.

9. Leaving aside movements of "hot money", the European balance of payments surplus was substantially reduced in 1960 following an increase in imports, particularly from the United States. OEEC considers that a roughly similar trade balance will be shown for 1961. The Assembly holds the view that imports should be maintained at a high level. To meet the economic needs of countries in process of development, it would be advisable for imports from these areas to be increased further. Nevertheless, Europe's capacity to provide increased capital aid to the underdeveloped countries is obviously dependent on an adequate overall surplus in the current balance of payments; in other words, any increase in imports must be offset by a corresponding increase in exports. In view of the difficulties certain member countries may experience in achieving such an

equilibrium, greater co-operation in distributing the burden of aid among the member countries according to their capacity at any given moment will become increasingly necessary. OECD would seem the right framework for such co-operation.

10. Finally, the Assembly fully approves the idea put forward in the OEEC report that it would be advisable if steps were taken to increase international liquidity, thus providing foreign exchange reserves, in order to avoid transient fluctuations in the balance of payments - relatively small in comparison with the actual volume of international transactions - which cause difficulties and disturbances in the economic development of the countries affected. The Assembly considers that this question should be studied by OEEC and OECD as a matter of the highest priority and would be glad to be kept informed of the governmental discussions, so as to be in a position to give an opinion if need be.