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Enlargement of the Community

Economic and sectoral aspects

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Commission analyses supplementing its views on enlargement

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Foreword [1]

On the basis of an examination of the conditions in which each of the three countries[2] has achieved economic growth over the last fifteen years (growth rates, human resources, the sectoral distribution of labour, capital formation, foreign trade and balance of payments, price and wage trends, public finance, the geographical location of growth and the structure of industry), this paper analyses the economic problems which the applicant countries will face and pose in joining the Community.

This analysis concentrates on their growth capacity and the leeway they have to make up in their development, their employment problems and the effects of those problems in terms of unemployment and emigration of labour, the changes which will have to be made in sharing their resources between immediate and future consumption, and production intended for the home market or export; the substantial structural changes which adjustment will require in terms of rural exodus, sectoral options and regional balance; the major macroeconomic equilibria without which lasting growth cannot be achieved.

It was felt necessary to take the general economic analysis a step further by including the main horizontal dimensions of the problems highlighted. Industry, agriculture, regional problems and the external context have thus been examined in this paper in so far as they appear inseparably linked to the economic study of enlargement. The services sector has not been included owing to a lack of adequate data.

All this has revealed that the problems connected with enlargement must be seen in terms of consistency within a Community of Twelve.

In the light of these problems and their main dimensions, an initial study has been made of the financial aspects of enlargement. This study is based on a still very approximate but nonetheless useful examination of financial flows between the applicant countries and the present Community, using a simulated national budget for a Community of Twelve in 1978 and estimates (on the basis of past figures) for spontaneous capital transfers and incomes. The results of this exercise, an attempt to outline existing Community instruments and the role they play, and an examination of the requirements and absorption capacity of the applicant countries confirm the economic need for a consistent approach conceived in terms of a Community of Twelve.

[1] The Commission Communication on which this Supplement is based consists of analyses further to its general views on enlargement (Supplements 1/78 and 2/78).
[2] Spain, Greece and Portugal.

Part One

Survey of economic development in the applicant countries

Spain

General characteristics

Growth

1. Since 1960 the Spanish economy has witnessed a long period of intensive growth. As shown in Table 1, since 1960 the average annual gross domestic product (GDP) in Spain has always exceeded the highest rates recorded in the Community. It is to be noted that, while the gap between growth in Spain and in the Community widened appreciably over the period 1970-75, the cycles of the two economies were out of phase by about one year: in 1975 there was a marked slackening of growth in the nine Member States (−1.8% of GDP in real terms) but a less accentuated slackening of growth in Spain (+0.8% of the GDP in real terms); in 1976, however, whereas the Community economy showed a +4.7% rate of growth in its GDP, in Spain the rate was only 1.9% for the same year.

2. This long period of growth was accompanied by fairly profound changes in the relative contributions by agriculture, industry and services to GDP. In 1961, agriculture[1] accounted for 26.5% of GDP, industry 33% and services 40.5%; in 1974 these shares changed to 10.3% for agriculture, 41.9% for industry and 47.9% for services. It should be added in this connection that from 1970 to 1974 it was industry's contribution to GDP which increased regularly, whereas the share of services tended to stabilize and agriculture's share pursued its downward course. The data for 1975 and 1976 contradicting this trend are due mainly to cyclical factors.

Human resources

3. Since 1967 the growth rate of the total Spanish population has been appreciably higher than that of the Community's population: +1% per year from 1962 to 1970 and +0.9% per annum from 1970 to 1975 in Spain, and only +0.8 (1960-70) and 0.55% (1970-75) per annum in the Community. This difference, which is also found at the level of the growth of the population of working age, is even greater if the growth of the labour force is taken into account. In Spain the labour force increased every year by 0.8% from 1962 to 1970 and by 1.1% from 1970 to 1975, whereas in the Community it increased by only 0.24% from 1960 to 1970 and by 0.33% per annum from 1970 to 1975. Whereas this increase in the population constituted one of the factors accounting for the sharp growth in the Spanish economy in the sixties, since 1970. owing to the slower trend of economic growth, the gap between the increase in the labour force (+1.1% per annum) and the increase in the employed population (only +0.6% per annum since 1970) has been widening.

Distribution of the employed population by sector of activity and labour productivity

4. As in the case of the speeding-up of growth, the contribution of the various sectors has altered; the breakdown of the employed population by sector of activity reveals a similar development, but less marked:

— from 1962 to 1965, the annual average percentage of the employed population engaged in agriculture was 36.2%, whereas in 1975 it was only 22%;

— for industry, the equivalent percentages were 34.7% (1962-65) and 38.3% (1975), and

[1] In the broad sense of the term, i.e. including forestry and fisheries.

for services, 29.1% (1962-65) and 39.7% (1975).

A comparison of these facts with the structure of GDP by sector of activity indicates widely differing trends in the apparent productivity of labour.

5. Taken overall, GDP per employed person increased from 1962 to 1975 at an annual rate of about 6.5%. It is, however, mainly the industrial sector that achieved a high performance (about +7.5% per annum over the period in question) whereas services and above all agriculture recorded appreciably smaller average annual increases in productivity (about +5% and +3.5 respectively from 1962 to 1975). As a result of this dual trend of employed population and productivity, agriculture, which still employed 2.8 million workers in 1975, continues to have a much lower level of productivity than the rest of the economy and consequently marked underemployment — and this feature is today proportionally more accentuated than it could have been in the early sixties. It is probable, furthermore, that following this period of rural depopulation, the average age of those still engaged in agriculture is quite high.

6. As regards the results in terms of employment the growth performance has not made it possible to eliminate unemployment or to stem the tide of emigration. Admittedly, during the sixties, unemployment settled at a low level (1.5-1.9% of the labour force) and there was a very sharp improvement in net emigration (91 000 in 1964 as against 21 000 in 1970). Since the beginning of the seventies, however, there has been another upsurge in unemployment and emigration: the unemployment rate was 5.3% of the labour force in 1976 and net emigration stood at 134 000. These two features illustrate the fact that, given the mode of growth chosen, job creation in industry has proved clearly insufficient to absorb the annual increase in the labour force and in the number of workers released annually from agriculture.

Capital formation

7. Since 1960, Spain has regularly used an increasing share of GDP for capital formation, reaching on average from 1970 to 1975 rates as high as in France and the Netherlands and in any event higher than Community average. In order to assess this trend, account must nevertheless be taken of the fact that the Spanish labour force has increased by about 0.9% per annum since 1960, whereas in the Community the rate was only 0.24% in the sixties and has been only 0.33% since 1970. The mere maintenance in Spain of the capital stock per person gainfully employed therefore meant that gross fixed capital formation increased proportionally faster than in the Community; it is therefore the additional increase in gross fixed capital formation that indicates the effort made in Spain to step up the amount of capital per person gainfully employed.

Furthermore, owing to the low initial level of public infrastructure and the major effort to develop tourist facilities, building and construction occupied a regularly growing share of gross fixed capital formation until 1974. More recently, however, in 1975 and 1976, whereas the share of total investments in GDP declined, the share of investment in plant and machinery remained relatively stable. According to the latest statistics available, this phenomenon recurred in 1977, while the share of gross fixed asset capital formation in GDP again decreased. It therefore seems that the present cyclical slowdown has not touched investment in plant and machinery, and this would suggest that the present trend of productivity in Spanish industry will be maintained.

External trade

8. The period 1960-75 is marked by the progressive re-integration of Spain into the international economic scene after a long phase of reliance on protectionism. The development of exports of goods and services illustrates this very clearly: they grew so

much faster than GDP itself that their share in GDP rose from an average of 10% for the period 1961-65 to almost 15% in 1975; this corresponds to an average annual growth rate in real terms of 10.2% (1961-65), then 14.2% (1965-70) and 5.8% (1970-75).

This phenomenon is linked with the development of industrial potential (share of investment in plant and machinery) and growth of industry's contribution to GDP, for during the sixties Spain expanded its exports of manufactures to such an extent that it made considerable gains in market shares. These gains were concentrated in the market of the Community of Six (particularly Germany and France) and of North America. From 1964 to 1971 the average annual increase in Spanish exports may be estimated at 17.4% in relation to total Community imports of manufactures, and at 18.9% in relation to total North American imports. At the same time Spanish exports of foodstuffs (+9% per annum on real terms from 1964 to 1971) progressively replaced exports of agricultural products (only +2% per annum in real terms over the same period).

This tendency towards an improvement in export results indicates that the Spanish supply of manufactures has progressively adapted to world demand on overall terms of competitiveness favourable to it. It must nevertheless be said that the processed products to which Spanish success on foreign markets is due are either consumer goods which are at present 'sensitive' (footwear, textiles) or intermediate goods (such as steel) for which the world market is very tight; in both cases competition centres on prices. By choosing in this way to base the growth of its exports on this type of goods, Spain has made its trade balance dependent upon moderating rises in production costs, particularly wage and salary costs.

9. With regard to imports, a salient feature of the Spanish economy in the sixties, as indicated in Table 6 was considerable elasticity of imports in relation to the growth of GDP in real terms. More precisely, this elasticity was at its greatest from 1960 to 1965; during this period imports, which increased in volume by 24% per annum, were in fact induced by large-scale investment in basic plant and machinery (an increase in investment of 14.2% per annum in real terms over the same period). A system of aid for the import of capital goods was introduced by the Spanish authorities. Once this initial phase of investment in plant and machinery was over, it was to be expected that growth of imports would slacken and that at the same time the elasticity of imports would stabilize at lower levels (1.2 from 1965 to 1970 and 1.5 from 1970 to 1975). Other factors lead one, however, to inquire as to the real causes of such a restrained growth of Spanish imports.

Firstly the tariff protection enjoyed by the Spanish economy must be considered: it is interesting in this connection to recall that from 1968 to 1970 import duties represented on average 14.6% of total imports as against, for example, only 5.5% in Italy and 3.7% in Germany.[1] In this context it seems necessary to evaluate the real extent of the tariff liberalization measures adopted since 1972, and in any event to have a recent estimate of the degree of protection of the Spanish economy. Secondly, although import substitution has occurred since about 1965, it may be asked how Spanish imports — and particularly imports of agricultural products and foodstuffs — would develop in the absence of deliberate policies on the part of the authorities on this matter (quotas, state-trading, etc.); it should be added in this context that the drop in the share of agricultural products and foodstuffs in total imports and the consequent soaring food prices since 1965 in particular have led to moderate growth of private consumption in real terms.[2]

[1] 9.8% in Italy and 7.3% in Germany if import duties are taken in relation to Italian and German imports from outside the Community.

[2] 8.4% per annum in real terms from 1960 to 1965, 5.8% from 1965 to 1970 and 5.7% from 1970 to 1975.

Balance of payments trends

10. From 1970 to 1973, Spain had a surplus on current account,[1] in contrast to the trend since 1964. This result was made possible by the export growth described above, the renewal of emigration (and therefore further increases in transfers of earnings by Spanish workers abroad), the continuing gains from tourism, substantial drop in freight payments (the Spanish merchant navy expanded each year by about 8% in real terms — a rate exceeded only by Japan) and lastly the very modest increase in imports.

11. Since the early sixties, moreover, Spain has been a net importer of long-term capital, which has been channelled into both industrial and real estate investments. From 1970 to 1973 the development of the balance of payments was also marked by a substantial increase in foreign exchange reserves (more than USD 4 500 million over the four years). From 1970 to 1973 the resulting regular increase in the ratio of exchange reserves to average monthly imports in Spain was on the same level as that of Japan, Germany and Switzerland in 1972.

12. Since 1974 Spain has had a current account deficit. It should be pointed out that this deficit is largely due to the higher price of oil imports which represent about 50% of Spain's trade deficit. Long-term imports of capital have not sufficed to cover this current account deficit and so Spain has drawn on its reserves (−USD 1 800 million in 1974, 1975 and 1976) and has borrowed a moderate amount from the IMF (about USD 700 million from the oil facility) and on the Euromarkets. Recents events tend to indicate that Spain is pursuing a policy of competitive devaluation.

Prices and wages

13. Since 1960 the Spanish economy has always had a rate of price rises appreciably higher than the average rate of inflation in the Community, as Table 7 shows. According to estimates available to the Commission and the OECD Secretariat, this trend even worsened significantly in 1976 and 1977: whereas in the Community inflation is slowing down, in Spain the acceleration has, on the contrary, been very marked. With regard to consumer prices, this phenomenon has affected all products, whether foodstuffs or manufactures. It is particularly worrying for these last two years since Spain saw in 1976 and 1977 both a very modest expansion of consumption[2] and a slowing-down of the rise in unit labour costs; international inflation combined with the devaluation of the peseta must therefore have played a relatively important part in the recent acceleration of inflation in Spain.

14. In the early seventies rapidly rising wages and salaries certainly accounted to a large extent for the general rise in prices. If account is taken, however, of the trend of the proportion of wage and salary earners in the total labour force (see Tables 8 and 9), the long-term development of the share of remuneration in GDP does not indicate an upward trend. In addition, the rise in wage costs per unit of output slowed down substantially in 1976, which suggests that wage and salary costs played a relatively less decisive role in the acceleration of inflation in Spain in late 1976 and early 1977.

Public finance

15. From 1973 to 1976 gross saving by the public authorities was positive; in 1976, uses and capital resources taken into account, according to provisional estimates they had a slight surplus of about Ptas 17 000 million (some 0.2% of GDP). The prospects for the growth of public finances depend on the achievement of tax reform, for which the Government has announced the following

[1] Goods, services, factor income, private and public transfers.

[2] Private consumption in real terms +2.7% in 1976 and +1.5% in 1977, according to the estimates of the OECD Secretariat.

guidelines: the introduction of a tax on the income of natural persons, of a comprehensive, personal and progressive nature, the introduction of a tax on wealth, the restructuring and rationalization of indirect taxes, which would be harmonized with the European taxation system, and in particular the introduction of value-added tax.

Total receipts from taxes and social security contributions increased from 17% of GDP in 1970 to 20% of GDP in 1975 and were at an appreciably lower level than in the Community countries (EEC 1970-75: Italy 30% of GDP, Netherlands 48% of GDP). Social security contributions represented 47.5% of these receipts in 1975 (Italy: 44.4%; France: 39.9%; for the same year).

Geographical location of growth

16. The considerable economic boom in Spain since 1960, based mainly on the growth of the industrial and services sectors, has resulted in substantial changes in the geographical distribution of the population, with increased concentration in the industrial areas and large towns. Internal migratory movements have been on a very large scale, affecting 6 million inhabitants between 1950 and 1970.

This has led to:

— large-scale concentration of the population in provinces with the highest *per capita* income (Biscay, Madrid, Guipuzcoa, Barcelona), which already had a high degree of population density. In 1975, these four provinces, together with the provinces of Corunna, Oviedo, Seville and Valencia, accounted for 45.7% of the population compared with 44% in 1970 and 38% in 1960;

— a considerable loss of population in the central provinces around Madrid, in the south and along the frontier with Portugal. The ten provinces with the lowest *per capita* income have an average density of 30 to 40 inhabitants per square kilometre.

There was some reduction in income differentials between regions during the period 1955-1973, as a result of large-scale migrations rather than the spread of economic growth. Assuming that the process of industrialization and expansion of the services sector continues, spontaneous tendencies towards increased urbanization and concentration of activity will remain strong.

Structure of industry

Value added

17. In 1976, the contribution of industry to GDP was about 41%. From 1973 to 1976, the real growth growth rates of the gross industrial product (value added) of industry and its main components were as follows:

	1974-1973	1975-1974	1976-1975
Mining	8.6	0.4	− 1.4
Manufacturing industries	7.5	− 2.2	3.3
Electricity, gas, water	5.4	− 1.9	5.5
Building and construction	4.4	− 4.0	− 1.0
Total industry	6.1	− 2.5	2.4

Gross industrial product (excluding building and construction)

1. *Mining*	*3.8*
2. *Manufacturing industries*	*89.5*
Food, beverages and tabacco	12.1
Textiles, foodwear and garments	12.6
Wood, cork and furniture	4.1
Paper, publishing and printing	5.5
Chemical products	7.0
Oil and coal by-products	1.8
Non-metallic mineral products	5.2
Base metal industries	10.2
Metal goods	4.9
Electrical and non-electrical machinery	6.9
Transport equipment	13.8
Miscellaneous products (including leather and rubber)	6.4
3. *Electricity, gas and water*	*6.7*
Total for all industry (excluding building and construction	*100.0*

Source: Ministry of Industrial Affairs, 'La Industria Española en 1976' Madrid 1977.

Employment

18. In 1974, employment was made up as follows by sector (in %):

Metal processing	24.0
Food products	10.5
Non-metallic ores	8.6
Textiles	8.4
Garments	7.7
Transport	7.5
Furniture, etc.	7.0
Chemicals	6.9
Base metals	5.3
Miscellaneous plastic (etc.)	3.2
Paper and cardboard	2.5
Beverages	2.2
Wood and cork	2.0
Rubber	1.9
Leather and hides	1.3
Tobacco	0.5
Oil and coal by-products	0.5

A breakdown of industrial units by size showed a marked preponderance of very small firms, though most of the labour force was employed in medium-sized units:

Size	% of number of firms	% of industrial employment
up to 5 employees	71.8	15
6 to 500 employees	28.0	66
over 500 employees	0.2	19

Exports

19. In general, exports of goods and services account for only a small proportion of GDP in Spain (13.5% in 1974-75). The proportion of services in exports is large, and in exports of goods manufactured products are by far the largest item (67.4%), accounting for 5.3% of GDP in 1974-1975.

The following table gives a breakdown of exports in 1975 according to the nine sections of the SITC[1] and destination of the exports:

[1] Standard International Trade Classification.

Spain: Exports in 1975

SITC section	Total		Community of Nine		Countries outside Community of Nine		Countries outside Community of Twelve		USA		Canada		Japan	
	mio USD	%	mio USD	%	mio USD	%	mio USD	%	mio USD	%	mio USD	%	mio USD	%
0	1 342.4	17.4	891.4	66.4	451.5	33.6	422.2	31.4	109.3	8.1	13.5	1.0	53.3	3.9
1	238.8	3.1	123.9	51.8	114.9	48.1	114.8	48.0	27.6	11.5	4.4	1.8	1.8	0.7
2	236.1	3.0	148.4	62.8	87.7	37.1	81.5	34.5	19.1	8.0	1.3	0.5	1.7	0.7
3	252.3	3.2	160.3	63.5	92.0	36.4	83.5	33.0	—	—	—	—	0.1	—
4	120.7	1.5	46.8	38.7	73.9	61.2	72.6	60.1	13.7	11.3	1.2	0.9	1.3	1.0
5	416.7	5.4	141.9	34.0	274.8	65.9	243.1	58.3	17.7	4.2	1.2	0.2	11.0	2.6
6	1 974.9	25.7	777.2	39.3	1 197.7	60.6	1 158.4	58.6	101.1	10.1	31.5	1.5	6.5	0.3
7	1 976.9	25.6	638.9	34.7	1 284.0	65.2	1 417.5	58.3	79.3	4.0	9.2	0.4	7.2	0.3
8	1 116.7	14.5	450.1	40.4	666.6	59.6	655.4	58.6	335.6	30.0	26.6	2.3	8.4	0.7
9	8.9	0.1	2.4	26.9	6.6	74.1	6.5	73.0	3.5	39.3	0.1	1.1	—	—
0–9	7 675.4	100.0	3 426.2	44.6	4 249.2	55.3	3 985.0	51.9	806.6	10.5	89.1	1.1	91.3	1.1

The share of the Community of Nine, which was 44.6% of the total in 1975 and 46% in 1976, is higher for food products and livestock, mineral fuels, lubricants and associated products, non-edible raw materials, excluding fuels, and beverages and tobacco, which respectively accounted for 17.4%, 3.2%, 3.0% and 3.1% of total Spanish exports. In 1975, despite a trade deficit of some USD 2 000 million, Spain recorded a surplus in trade with the Community in some sectors such as animal and vegetable oils and fats and various manufactured products.

Greece

General characteristics

Growth

20. Since 1960 Greece has had one of the highest growth rates of all the OECD countries; in addition, it has been relatively unaffected in recent years by the slowdown in economic activity (see Table 1), with the result that from the middle of the period under review the gap between growth in Greece and in the Community has tended to widen slightly. Among the factors that have made this growth possible are the trend of productivity, which differed according to the sector, and the transfers of labour: the effect has been to modify quite appreciably the relative importance of the various sectors. Agriculture, for instance, accounted in 1961 for approximately 26.3% of GDP compared with 16.7% in 1975—an appreciably slower rate of change than in Spain, for example;[1] the corresponding figures for industry are 25% in 1961 compared with 31.8% in 1975, and for services 48.7% in 1961 and 51.6% in 1975.

It would seem therefore that not only has agriculture lost relatively little of its importance but that at the same time the industrial sector, because of the very low starting point, has not yet reached the stage of providing a very substantial share of GDP; the fact that the share of the services sector is already at the level attained in the Community (though it must be noted that the transport, warehousing and communications subsector, which is particularly highly developed in Greece, contributed 8.5% of GDP in 1975) reflects the key role played by this sector in Greece's development over the last fifteen years.

Human resources

21. The annual growth of Greece's total population is particularly low (0.3 to 0.6% per year), partly as a result of the low birth rate (15.5 births per thousand inhabitants in 1975 compared with, for example, 14.1 in France but 19.6 in Portugal, 18.3 in Spain and 21.6 in Ireland). The employed labour force actually contracted from 1961 to 1971 at an annual rate of around 0.9%—even though the unemployment rate was reduced appreciably over the same period. However, at the beginning of the seventies emigration was tending to stabilize at levels lower than in succeeding years and indeed gave way to net immigration in 1975 and 1976.

Distribution of the labour force by sector of activity and trend of labour productivity

22. The sectoral distribution of the Greek labour force has also undergone marked changes but has presented in recent years a rather different profile from that in Spain or Portugal (Table 2). The proportion of Greece's labour force employed in agriculture was still 35.4% in 1975 (compared with an average 56.3%in 1961-65) and although it declined in absolute terms by around 4.5% per year from 1961 to 1971, it would seem that since the beginning of the seventies the rate of contraction has been only around 2%. Moreover, the average age of the labour force employed in agriculture is markedly higher than in the other sectors. Consequently, the industrial and services sectors employ relative-

[1] Point 6.

ly small proportions of the labour force, although this phenomenon is appreciably less marked in the case of services (3.4% of the labour force in 1975) than in the case of industry (28.2% of the labour force in the same year).

In parallel to this sectoral trend, in the Greek labour force there has continued to be a very considerable preponderance of self-employed workers. The 1971 census shows that in Greece self-employed workers (including family helpers) accounted for nearly 60% of the labour force compared with the OECD average of 10-20% (in Ireland, Italy, Japan and Spain the rate is 30%). Quite apart from the fact that industry's low contribution to GDP may in itself be a possible explanation, this abnormally low proportion of wage and salary earners would indicate that the industry and services sectors comprise mainly medium-sized and small firms and that consequently productivity in those sectors must be relatively low, in some branches at least.

Greek productivity overall has increased very rapidly. The sectoral breakdown of productivity growth reveals large gains in agriculture in the 1961-71 period (though this development was to lose impetus appreciably after 1971), whereas smaller gains were registered by industry and services in the same period (but productivity in manufacturing has been increasing fast since 1971).

Capital formation

23. Between 1960 and 1975 the proportion of GDP set aside for capital formation in Greece was higher than the average for the Community countries. Investment plummeted in 1974, however, and has remained at a depressed level since then: for example, investment amounted to over 26.5% of GDP in 1973 but accounted for under 20% in 1975.

The breakdown of capital formation by type of capital goods reveals a steady rise up to 1972-73 in capital formation in plant and machinery, while the trend in building and construction was marked by a continuous decline in non-residential construction (45.5% of total gross fixed capital formation in 1960, 36% in 1975) and a sharp drop in residential construction from 1974 only (31.6% of the total in 1974, 30.8% in 1975 and 21.3% in 1976). This long-term trend is reflected, moreover, in the relative shares of total gross fixed capital formation (Table 4) provided by the main sectors: agriculture and industry, which each contributed 18.5% in 1960, accounted for 10.5% and 28.2% respectively in 1965, while the proportion for services declined from 63.2% to 61.3%.

External trade

24. The strong growth of Greek exports since 1960 has resulted in a very significant increase in the contribution of exports to GDP (Table 5). Thus Greek exports accounted for a bare 8% of GDP on average in 1961-65 but for over 13.5% on average in 1973-75, thus catching up with the level achieved by Spain. Under the influence of the Association Agreement Greek exports have been directed mainly towards the Community, which barely absorbed 40% of total Greek exports in 1959 but 50% in 1975—an appreciably higher level than for Spain, for example (barely 45%). The product structure of Greek exports has undergone rapid change since 1960: exports of agricultural products, raw materials and primary products still accounted for nearly 86% of the total in 1959 but represented only 50% of total exports in 1974.

Compared with other countries, however, Greece is lagging in exports of manufactures: in 1974 they represented only 50% of the total compared with over 70% for Portugal and Spain and 80% for the Community as a whole. Furthermore, because the handicap of the product structure has not yet been sufficiently offset, the long-term trend of Greece's share in the external market does not appear to show any substantial gains for its economy.

25. With regard to imports (Table 6) their rate of increase is twice as high as that of GDP;

they comprise mainly plant and machinery (over 35% of total in 1974) and energy products (over 22% of the total in the same year). It should be remembered however, that Greece's industrial potential is relatively little developed (by comparison with services, for example), whereas industrial investment involves a high level of imports of foreign plant and machinery. It is probably, therefore, that an acceleration of industrial growth in Greece would be accompanied by greater elasticity of imports.

Balance of payments trends

26. The deficit on current account recorded annually by Greece since the beginning of the fifties does not seem to have constituted a particularly severe constraint on economic policy judging by the growth rate achieved since 1960. Furthermore, the stability of the exchange rate (no devaluation between 1953 and 1971) shows that the Greek economy has not experienced any abrupt change in the trend of its balance of payments.

Until 1971 the main tendency was for the trade deficit to rise steadily but a sharp improvement in invisible earnings (freight costs, and especially tourism and remittances from Greek emigrants abroad) ensured that the dificit on current account increased at a correspondingly slower rate. Since 1973 the combined effect of oil price increases (which affects imports) and the marked slowing down of economic activity abroad (which affects factor income and services) has been that the invisibles balance no longer offsets the trade deficit to the same extent, with the result that the current deficit has appreciably worsened. This recent deterioration has been financed mainly by an increase in inflows of capital for the purchase of immovable property and a district rise in inflows of private capital for industrial investment purposes.

Prices

27. During the sixties the rate of inflation in Greece was appreciably slower than in the Community: this trend has been reversed since 1973, although Greece's inflation slowed down distinctly in 1977. Higher labour costs have contributed relatively more than the higher import prices to the sharp acceleration of inflation in the last few years.

Public finance

28. Although complete figures are not available at present, the following remarks can be made: current saving by the State was positive from 1965 to 1975; central government saving, which was positive from 1965 to 1973, became negative in 1974 and 1975 (seen from the angle of national accounts).

As regards the structure of public revenue, total receipts from taxes and social security contributions accounted on average in 1970-75 for around 24% of GDP (Italy, 30% and Netherlands, 48% of GDP). Of the total receipts from taxes and social security contributions, current taxes on income and wealth accounted for 18% in 1976 (12.5% on average in the 1970-76 period) while social security contributions accounted for 28%. Moreover, the low rate of growth of receipts from income tax appears to be attributable in part to tax evasion and tax avoidance.

The geographical location of growth

29. The Greek economy is characterized by large-scale concentration of the population and growth in Attica. Because of the pull of Athens and Piraeus, this region, with 3% of the surface area of the country, accounted for 32% of the population in 1971 and about 47% of GDP in 1965.[1] The population density of Greater Athens was 5 935 inhabitants per square kilometre (compared with a population density of 34 to 80 inhabitants per square kilometre in the other regions), and *per capita* GDP about twice as high as in most of the other regions. From 1961 to

[1] Because of the concentration of growth and population in Athens, the contribution of Attica's GDP to national GDP in 1971 will have been much higher than the 1965 figure of 47%.

1971, the population of the Athens region increased by 37% at the expense of nearly all the other regions. The heaviest depopulation was suffered by the poorest regions; this process continued from 1970 to 1975.

The socio-economic structure of the population in the various regions suggests that future economic growth, by producing changes in productive structures (fall in the proportion of the labour force working in agriculture and rise in other sectors) will tend to increase concentration in the Athens-Piraeus region and depopulation in the other regions.

Structure of industry

30. In 1975, the industrial sector as a whole accounted for 31.8% of GDP, as against 25.9% in 1960. From 1970 to 1975, GDP was made up as follows by sector of activity:

During the period 1962-1976, production in the manufacturing sector at factor cost rose rapidly.

Production of manufacturing sector

(% annual increase in volume terms)

1962	5.3	1967	8.7	1972	7.9
1963	8.2	1968	11.6	1973	17.6
1964	12.7	1969	14.6	1974	−2.8
1965	10.2	1970	15.5	1975	5.1

As a result, the share of manufacturing industry in GDP rose from 14.3% in 1960 to 22% in 1976. However, the share of industry and particularly manufacturing industry in total production remains below the level in Spain and especially Portugal.

From 1962 to 1975, the structure of the manufacturing sector changed as follows:

	1970	1971	1972	1973	1974	1975
Agriculture	18.2	17.5	17.0	15.5	16.6	16.7
Mining	1.4	1.4	1.5	1.5	1.5	1.5
Manufacturing industries	19.1	19.6	19.4	21.0	20.8	20.9
Building and construction	8.9	9.4	10.2	9.7	6.8	6.8
Electricity, gas, water	2.0	2.1	2.4	2.5	2.4	2.5
Transport and communications	7.7	7.8	8.0	8.3	8.5	8.5
Other services	42.7	42.1	41.5	41.5	43.4	43.1
Total GDP	100	100	100	100	100	100

Source: OECD.

Structure of the product of manufacturing industry

	1962	1965	1968	1970	1973	1975
Foodstuffs, beverages, tobacco	20.8	21.4	20.2	18.9	17.9	17.4
Textiles	15.5	15.7	15.3	14.1	15.6	17.7
Garments, footwear	11.6	11.0	10.1	9.4	8.9	9.5
Wood, furniture	6.1	6.1	6.5	6.2	6.0	5.6
Paper, printing, publishing	5.1	5.2	5.6	4.6	4.1	3.8
Chemical products	7.0	8.7	10.0	11.2	12.5	13.0
Non-metal minerals	6.8	7.9	7.2	7.6	7.1	7.4
Base metals	1.6	1.4	4.6	7.4	6.7	6.5
Metal products, machinery	15.7	13.9	13.6	12.8	13.8	12.2
Transport equipment	6.5	5.7	3.8	5.3	4.9	4.7
Miscellaneous	3.3	2.8	3.1	2.6	2.5	2.8
Total industrial products	100	100	100	100	100	100

Source: National Accounts.

31. The following table gives a breakdown of value added and employment by sector in manufacturing industry:

Industrial sector, breakdown of value added and employment

	Value added (1973) as % of total	Numbers employed	Employment as % of total
Food products	10.9	89 285	14.8
Beverages	3.7	12 307	2.0
Tobacco	2.1	9 049	1.5
Textiles	16.1	68 419	11.3
Garments and footwear	3.7	72 030	11.9
Wood and cork	2.6	34 406	5.7
Furniture	1.2	29 445	4.9
Paper	2.5	7 971	1.3
Publishing and printing	2.4	15 963	2.6
Leather	0.7	13 061	2.2
Rubber and plastics	4.0	15 832	2.6
Chemical products	8.4	20 255	3.4
Oil and coal	4.3	3 765	0.6
Non-metal minerals	7.0	37 465	6.2
Base metal industries	9.3	7 859	1.3
Metal products	6.3	47 850	7.9
Non-electrical equipment	2.2	23 697	3.9
Electrical equipment	7.4	30 473	5.0
Transport equipment	5.6	52 808	8.7
Miscellaneous	0.7	12 102	2.0
Total	100		

Source: Statistical yearbook for Greece — 1975.

There is a very marked preponderance of small firms employing less than ten persons (more than 90% of all firms in manufacturing industry). These small firms employ more than a fifth of the all those working in industry.

Exports of manufactured products

32. Though manufacturing industry produces mainly for the home market (about 83% of gross production), exports of manufactured products have grown steadily, rising from 10.2% of total exports in 1965[1] to 52.7% in 1976 (i.e. about 5% of GDP). This percentage is relatively low compared with other two applicant countries. In 1975, the industries most orientated towards exports were leather products, garment manufacture, furs and footwear, petroleum products, base metallurgy, and non-metal minerals (mainly cement).

Industrial sector	Exports as % of the value added of production	% share in total exports of manufactured products
Food products	11.9	13.0
Beverages	10.8	2.0
Tabacco	0.1	—
Textiles	14.4	11.0
Garments and footwear	38.8	11.3
Wood and cork	4.1	0.7
Furniture	1.9	0.2
Paper	3.7	0.5
Publishing and printing	1.6	0.2
Leather and furs	43.7	3.2
Rubber and plastics	5.3	0.9
Chemical products	21.3	8.5
Oil and coal	33.5	15.7
Non metal minerals	23.9	7.6
Base metal industries	34.5	13.3
Metal products	13.5	5.3
Machines and equipment	7.6	0.9
Transport equipment	8.5	2.1
Electrical machinery and equipment	9.5	2.6
Miscellaneous	25.0	1.0
Total	16.9	100

The table on page 17 shows the destination of exports in 1975, broken down according to the nine sections of the SITC.

The share of the Community of Nine, which was 42.5% of the total in 1975, is highest for the following sectors: animal and vegetable oils and fats, miscellaneous manufactured articles, mineral fuels, lubricants and by-products. In 1975, Greece recorded a USD 1 130.5 million total trading deficit with the EEC, but recorded a surplus for food

[1] Year in which the industrial complexes built between 1960 and 1965 began to export.

Greece: Exports in 1975

SITC section	Total		Community of Nine		Countries outside Community of Nine		Countries outside Community of Twelve		USA		Canada		Japan	
	mio USD	%	mio USD	%	mio USD	%	mio USD	%	mio USD	%	mio USD	%	mio USD	%
0	508.1	22.3	300.9	59.2	207.2	40.7	206.5	40.6	9.1	1.7	2.6	0.5	1.7	0.3
1	185.8	8.1	65.6	35.3	120.2	64.6	120.0	64.5	27.1	14.5	0.8	0.4	24.2	13.0
2	199.8	8.7	83.3	41.6	116.5	58.3	103.0	51.5	16.0	8.0	5.2	2.6	1.0	0.5
3	251.5	11.0	150.4	59.8	101.1	40.1	99.7	39.6	11.3	4.4	0.2	—	2.7	1.0
4	42.0	1.8	29.4	70.0	12.7	30.2	12.3	29.2	1.1	2.6	0.6	1.4	0.1	0.2
5	133.4	5.8	58.4	43.7	74.9	56.1	67.7	50.7	0.4	0.2	—	—	—	—
6	652.9	28.6	286.4	43.8	366.6	56.1	346.8	53.1	9.0	1.3	2.6	0.3	7.0	1.0
7	88.8	3.8	23.6	26.5	65.2	73.4	65.1	73.3	2.6	2.9	0.1	0.1	—	—
8	215.7	9.4	133.9	62.0	81.8	37.9	81.7	37.8	39.1	18.1	3.0	1.3	0.3	0.1
0–9	2 278.3	100.0	1 132.0	49.6	1 146.4	50.3	1 103.0	48.4	115.7	5.0	15.1	0.6	36.8	1.6

products and livestock, beverages and tobacco, mineral fuels, lubricants and associated products, animal oils and fats and miscellaneous manufactured articles.

Portugal

General characteristics

Growth

33. From 1960 to 1973 Portugal experienced a long period of sustained growth, with the exception of 1966 and 1969, when there was a slowdown. This performance, which was better than that of any Member State of the Community, was not, however, as good as that of Spain and Greece for the same period.[1] Portugal's growth is mainly based on the industrial sector: industry's share of GDP rose from under 40% in 1962 to over 47% in 1975, whereas agriculture's share dropped from 24.5% in 1962 to under 12% in 1975 and services went from 36% in 1962 to 41% in 1975. Consequently, as a result of the changes in production structures that have accompanied growth, Portugal (which is, incidentally, by far the poorest of the applicant countries) is the one where industry accounts for the largest share of GDP (over 47% as against 32% in Greece and barely 41% in Spain) and where services account for the smallest share (under 39% as against over 51% in Greece and over 48% in Spain).

Human resources

34. The population of Portugal has been increasing since 1965 at a rate of around 0.4% per annum. To this natural trend should be added, at least for 1974 and 1975, the repatriation of around 500 000 people of whom a relatively small proportion were 65 or older. Leaving aside trends over the last two years, the Portuguese labour force has tended to increase by slightly more than 0.5% per annum over an average period (since 1965); this pattern is the result of the combined effects of a fairly sharp annual increase in the population of working age (over 1.5% per annum) and a progressive decrease in the rate of activity[2] (70.2% in 1965 as against 62.4% in 1975). As in the case of Spain, emigration is high (around 110 000 to 150 000 people per annum), with the notable exception of 1974-75 when this trend was very sharply reversed following repatriations.

Distribution of the labour force and labour activity

35. It is paradoxical that in Portugal the breakdown of GDP by sector of origin is not

[1] Table 1.
[2] Defined as the ratio between the labour force and the population of working age.

reflected in the structure of the employed labour force. Thus industry, accounting for over 47% of GDP, employed only 33.5% of the labour force in 1975, as against corresponding proportions of 41% and close on 35.5% in Spain for example. Recent figures show that services account for about 33% of GDP but roughly 38.5% of the employed labour force. Over the whole ten-year period 1965-75 the number of people engaged in agriculture decreased by around 3% per annum whereas services showed and annual increase of close on 2% and industry was slightly less than 1%.

Portugal's fairly favourable performance since 1960 as regards overall productivity (table 3) is largely attributable to the industrial sector (annual increase in productivity of over 5.5%) and to a lesser extent the services sector. The slow growth in agricultural productivity must, as in the case of Spain, have further increased the difference between the low average level of productivity in this sector and that of the rest of the economy: this has led to increased under-employment in Portuguese agriculture.

Lastly, a feature of the Portuguese economy since 1960 has been the high proportion of wage and salary earners in the total labour force; this proportion is steadily increasing since it averaged close on 74% of the employed labour force over the period 1962-65 and over 76% from 1971 to 1975 (Table 9). Portugal is consequently the only applicant country on a par with the Community in this respect. Compared with Spain for example, Portugal has a higher proportion of wage and salary earners in all sectors of activity (including agriculture).

Capital formation

36. Since 1960 investments have tended to increase more rapidly than GDP and until 1973/74 represented one of the keys to Portugal's growth. Despite this, the level of capital formation in GDP is relatively low. The proportion (Table 4) has been 18.6% at the most as against over 23% in Spain and Greece and over 22% in the Community. In 1975 it was even down to less than 13%. Since the mid-sixties, the relative share of investments in agriculture has decreased steadily, although the very marked slowdown in gross fixed capital formation in 1974 and 1975 did not affect agriculture and had relatively little effect on industry but was concentrated on services.

External trade

37. Portuguese exports went through a period of high growth until around 1967-68 when they levelled off at lower rates of increase. Since the early seventies they account for a major share of GDP altogether comparable to the share accounted for by German or United Kingdom exports, and in any event considerably higher than that for Greek or Spanish exports.

Since 1965 the structure of Portuguese exports has changed considerably. In 1965 Portugal exported mainly food products, raw materials and semi-finished products (38.5% of the total) and manufactured goods such as textiles, leather etc. (over 42% of the total): in 1975 these two categories were down to 29% and 34% of the total. On the other hand, the share of machinery, transport equipment and similar manufactures increased from 11% in 1965 to close on 30% in 1975. Overall, manufactures accounted for over 70% of all Portuguese exports in 1975 as against approximately 62% in 1965.

Lastly, since the mid-sixties, the OECD area has become an even bigger purchaser of Portuguese products: in 1975, it absorbed 80% of Portuguese sales abroad as against 65% in 1967. The Community, which absorbed 50% of Portuguese exports in 1975 occupied a special place in this trend. Since 1960, the elasticity of Portuguese imports in relation to growth has been considerably lower than in Spain or in Greece and closer to the Community average. Although the import elasticities (Table 6) calculated for 1970-75 appear unduly low owing to Portugal's economic problems in 1974 and 1975, calculations for the period 1968-73 confirm this decreasing trend, though attenuating it (1.4 for 1968-73 as against 0.7 for 1970-75).

Balance of payments trends

38. From 1965 to 1973 there was a substantial surplus each year in Portugal's balance on current account. These surplus were due to the fact that large flows of earning from tourism and especially of remittances from Portuguese nationals working abroad amply offset the trade deficit. The current account surpluses were more than adequate to cover the capital movements balance, since Portugal tended to import long-term private capital and export long-term public capital. As a result of this trend Portugal increased its exchange reserves each year (for example by close on USD 1 000 million in all from 1969 to 1973). Since 1974 this trend, which elicits comments similar to those made in the case of Spain, has been completely reversed under the combined effect of the rise in oil prices and economic changes following the 1974 revolution.

Prices

39. Table 9 shows that in terms of the GDP deflator, inflation in Portugal remained very moderate during the sixties (when prices increased less slowly than in Germany, for example); moreover, on average over the period 1970-75 the rise in the GDP deflator remained close to the performance of other countries, but the result conceals a very marked deterioration in the situation since 1974.

Public finance

40. A public finance deficit first appeared in 1974 and has since grown. The borrowing requirement of the whole of the public sector was around 1.7% of GDP in 1974 and rose to around 9% of GDP in 1976. Because of the extent of the imbalance, the budget policy guidelines for 1977 were amended, but it remains very uncertain whether the official forecasts will be met. According to the OECD (December 1977), the general government deficit could approach 10% of GDP.

The draft budget for 1978, which is considerably more restrictive, forecast stagnation in public consumption in real terms, but since capitel expenditure (including transfers and the purchase of shares in public corporations) should pick up once again, the borrowing requirement of the State is expected to be only slightly reduced. Consequently the balance on current account for the whole of the public sector could show a slight surplus in 1978, whereas the borrowing requirement would be 5% of GDP. As regards the structure of public revenue, out of total receipts from taxes and social security contributions (25% of GDP in 1975), social security contributions accounted for 31.3% in 1975 (26% on average in 1970-75).

Geographical location of growth

41. The Portuguese economy is characterized by the concentration of the population and secondary and tertiary activities in the three most northerly coastal regions. In 1970, these three regions accounted for 37% of the surface of Portugal, 80% of its population, 90% of GDP and 95% of industrial production. The *per capita* GDP in the area around Lisbon was more than twice as high as that of the other two main regions and its population growth much more rapid.

This situation is due to the fact that economic growth is mainly concentrated on Lisbon, which with its surrounding area (Setubal in particular) makes up about 55% of the total urban population. In the inland regions, the high proportion of the labour force working in agriculture, their relatively high average age and the low productivity of the agricultural sector suggest, that the depopulation process observed in the past will probably continue.

Principle structural changes in the Portuguese economy since 1974

42. The changes made following the revolution of April 1974 can be grouped together under three headings:

Extension of the public sector

Extension of the public sector has been caused by direct nationalization (chemicals, steel, shipbuilding, cement and oil-refineries), public sector holdings resulting from the nationalization of banks and insurance companies, and large-scale agricultural reform. In 1976, the total public sector, i.e. the traditional public sector and the productive public sector accounted for 24.4% of total valued added and 45.4% of investment (in 1974, the same figures in Italy were 26% and 30%, and in France, in 1975, 17% and 19%). It employed about 20% of wage and salary earners.

Changing the rules of the economic game

First of all, the limits of the sectors and firms liable for nationalization were not defined until fairly late (end 1976) and this uncertainly weighed heavily on activity in the private economic sector (in particular as regards investment). Then, faced with rising unemployment (resulting from the international recession and repatriations following decolonization), the authorities virtually prohibited dismissals while simultaneously setting up a policy of saving firms in difficulty by means of loans. Lastly, in addition to fundamental in the structure of financing, a subsidy policy was developed and price controls set up.

Problems of decolonization

The economic consequences of decolonization are considerable: for example, from April 1974 to mid-1976, around 500 000 Portuguese were repatriated at a time when the total population was around the 9 million mark (for purposes of comparison, France repatriated a little more than 700 000 people after the end of the Algerian war when its own population was 46 million). Moreover, the sudden break in economic relations with the escudo area resulted in reduced trade and an appreciable drop in private transfers to the mother country.

43. These phenomena had their repercussions on the functioning of the Portugese economy, at a time when a major economic recession was spreading on the international level; moreover, since 1974, Portugal's economic development has been thrown into disarray. The resulting situation is as follows:

— capital formation and exports have been replaced by public and private consumption as the driving force behind growth;

— there has been a marked slowdown in investment in plant and machinery;

— unemployment has risen sharply, in the order of 450 000 to 500 000 unemployment, namely around 14% of the labour force at the end of 1976 and inflation has accelerated;

— there has been a progressive devaluation of the escudo since 1974 and the appearance of a deficit in the current balance of payments (USD 2 800 million for 1974, 1975 and 1976 together).

Structure of Industry

44. During the Sixties and early Seventies a series of factors such as relatively low wages and interest rates, aids in the form of tax advantages, tariff protection and a system of licences governing access to industry led to high levels of investment and growth. From 1971 to 1975, GDP was made up as follows by sector of activity.

The growth rate of production in manufacturing industry fell from an annual average of 10% during the period 1963-1973 to 2% in 1974. In 1975, it declined by 5%. The recovery which began towards the end of 1975 seems to have continued at a steady rate up to the middle of 1977.

	1971	1972	1973	1974	1975
Agriculture, forestry and fishing	13.7	12.7	12.1	11.6	11.8
Mining	0.5	0.5	0.5	0.6	0.6
Manufacturing industries	37.1	38.3	39.4	39.9	37.5
Electricity, gas and water	3.2	3.4	3.3	3.7	4.0
Building and construction	6.1	5.8	5.7	5.8	5.1
GDP	100	100	100	100	100

Real growth rates for the main sectors have been as follows:

	1968-1973	1974	1975
Foodstuffs, beverages, tobacco	6.6	13.1	27.1
Textile products and foodwear	11.6	5.8	−17.2
Wood products and furniture	4.8	− 1.0	− 6.9
Paper, printing and publishing	6.5	29.3	0.5
Chemical produits	10.2	—	5.5
Non-metal minerals	10.5	2.8	1.9
Base metals	11.9	−13.1	−18.2
Metal products, machinery, electrical goods, transport equipment	12.6	− 1.0	−12.9
Miscellaneous	2.2	−16.8	21.3
Total manufacturing industry	9.9	2.1	− 4.9

Source: IBRD, study on Portugal, March 1977.

The growth of the foodstuffs industries is linked to the rapid rise in the resident population after 1974; another sector with very rapid growth in 1974-75 was printing and publishing. The decline in the textile industries was caused by the sharp fall in external demand in 1975. In the first half of 1976, there was a significant recovery in chemicals, base metals, non-metallic minerals and textiles. By contrast, the level of activity in industries producing capital goods remained low.

In 1973, the share of these sectors in total value added was as follows:

Foodstuffs, beverages, tobacco	10.7
Non-metal mineral products	7.2
Metal products, machinery and transport equipment	31.0
Textiles, garments and footwear	21.4
Wood and wood products	5.2
Chemical products and allied products	11.2
Base metal industries	4.2
Miscellaneous	5.3
	100

SITC section	Total		Community of Nine		Countries outside Community of Nine		Countries outside Community of Twelve		USA		Canada		Japan	
	mio USD	%	mio USD	%	mio USD	%	mio USD	%	mio USD	%	mio USD	%	mio USD	%
0	162.8	8.3	57.4	35.2	105.4	64.7	89.2	54.7	13.8	8.4	5.2	3.1	3.1	1.9
1	137.6	7.0	67.9	49.3	69.7	50.6	69.4	50.4	23.9	17.3	4.8	3.4	1.1	0.7
2	214.5	11.0	144.5	67.3	69.9	32.5	59.0	27.5	5.3	2.4	0.2	—	6.9	3.2
3	39.6	0.2	6.4	16.1	33.2	83.8	31.5	79.5	—	—	—	—	—	—
4	11.5	0.5	2.1	18.2	9.4	81.7	8.4	73.0	0.7	6.0	0.4	3.4	—	—
5	125.5	6.4	47.4	37.7	78.1	62.2	64.4	51.3	2.9	2.3	0.1	—	2.8	2.2
6	664.5	34.2	357.2	53.7	307.3	46.2	291.4	43.8	58.9	8.8	7.1	1.0	2.5	0.3
7	256.0	13.2	142.8	55.7	113.2	44.2	106.8	41.7	19.7	7.6	2.1	0.8	1.0	0.3
8	312.8	16.1	145.7	46.5	167.1	53.4	164.6	52.6	14.1	4.5	4.3	1.3	0.9	0.2
9	14.6	0.7	2.3	15.7	12.3	34.2	12.3	84.2	0.5	3.4	0.1	0.6	—	—
0–9	1 939.2	100.0	937.7	50.2	965.5	49.7	897.0	46.2	139.9	7.2	24.4	1.2	18.3	0.9

Export of manufactured products

45. Exports of manufactured products (average 1974-75) account for 65.8% of all exported goods and 10.5% of GDP. The preceding table shows the destination of exports, broken down according to the nine categories of the SITC.

The share of the Community of Nine, which was 50.2% in 1975, is highest in non-edible raw materials, excluding fuels, machinery and transport equipment, and certain manufactured products. Portugal, which in 1975 had a USD 570 million deficit in trade with the Community, showed a surplus in food products and livestock, nonedible raw materials, excluding fuels, and certain manufactured products.

Summary

46. A brief survey of economic development in Spain, Greece and Portugal and their present economic situation shows a number of points in common which would appear, at first sight, to make these three countries a homogeneous group.

The main points in common are as follows:

(i) *a level of development* which is very considerably lower than the Community average;

(ii) large-scale and growing *regional disequilibria,* leading to the concentration of population and growth in a few regions and depopulation in others;

(iii) the considerable weight of *agriculture,* in terms of both production and employment. The relative importance of agriculture is, however, diminishing fairly rapidly, in line with the growth pattern observed in the past in other industrialized countries; nonetheless, productivity is still very low in agriculture, and none of the countries (except Greece) is agriculturally self-sufficient;

(iv) broadly similar structure in *industrial production* and particularly industrial exports); the three countries are competitors in a number of 'problem' industries in the Community;

(v) very marked orientation of *external trade* towards the Community, amounting to about 50% for both sales markets and supplies;

(vi) the three countries are a *source of labour* for the Community (as are Yugoslavia, Turkey and the North African countries). During the period of high economic growth, up to 1973, these links created a sort of de facto interdependence between the three applicant countries and the Community, with the Community being able to make up its labour shortage from labour surpluses in the applicant countries. Since the emergence of high and continuing levels of unemployment in the Community, this interdependence has gradually changed into a relationship of unilateral dependence of the three applicant countries on the Community, particularly France and Germany. There are two aspects to this relationship of dependence: the emigration of large numbers of workers has reduced pressure on labour markets in Spain, Greece and Portugal; at the same time, transfers of earning by the emigrant workers have provided very substantial resources which help to offset imports into Spain, Greece and Portugal;

(vii) a high level of *investment* since the middle of the Sixties and a sharp decline more recently; it should also be mentioned in this connection that savings patterns in the three countries have been relatively similar;

(viii) considerable *underemployment problems,* mainly for structural reasons;

(ix) foodstuffs are still a major item in the *structure of private consumption;*

(x) *lack of infrastructure* and a relatively low share of public expenditure in GDP.

All these aspects are characteristics of a stage of development lying mid-way between the developing countries and the industrialized countries.

47. Despite this series of points in common, it cannot be said that Spain, Greece

and Portugal are similar countries from an economic point of view. On the contrary, *marked divergences* which have developed over the last fifteen years or quite recently show clearly that each of the countries, especially Portugal, must be looked at separately.

Firstly, *Spain* has a large market (35 million inhabitants) with high growth and is a major competitor, at least in some sectors. For these main reasons, the Spanish economy seems, more than the other two applicant countries, to have high growth potential. In *Greece,* earnings from tourism and shipping and the need to speed up industrialization are factors likely to promote a high medium-term growth rate, provided that balance of payments problems are overcome. These two countries seem to have reached a higher level of GDP in real terms than is generally imagined. In relation to the Community, their GDP is lower than but close to those of Ireland and Italy (Table 10).

Table 13 also shows how much lower *Portugal* comes in terms of GDP: the per capita GDP calculated for this country is 60% of GDP in Ireland, which is the least prosperous of the Community countries. In addition to this leeway, Portugal has been facing very serious economic difficulties since 1974. The large-scale decolonization process has been accompanied by very far-reaching changes in the structure of the Portugese economy. These factors, coming on top of a slowdown in world economic growth, have resulted in massive external payments deficits posing very difficult financing problems.

48. The common features of the three applicant countries (very low level of development, importance of agriculture, inability to create sufficient jobs and resulting labour flows, regional imbalances and concentration of industry on sectors already in difficulty in the present Community), increase the problems which the new Community of Twelve will face in restoring growth and improving cohesion.

Part Two

Economic problems connected with enlargement

General problems

Growth and level of development

49. From the viewpoint of enlargement, the growth capacity of the applicant countries outlined in the above analysis of past trends is a positive factor. It provides grounds for hoping that, by the time of full accession, there will be a further reduction of disparities in relation to the present Community as regards living standards, levels of productivity and production and employment structures. However, it must be borne in mind that many obstacles will have to be overcome both by the applicant countries and the Community before the growth rate observed before the crisis can be restored. For the applicant countries in particular, the social and political context makes control of the major macroeconomic variables and thus steady growth difficult.

The economies of the applicant countries have achieved rapid growth of productivity (about 7% for Spain and Greece and 5.5% for Portugal over the period 1960-1975).[1] This overall performance has been obtained not only through substantial transfers of the labour force from low productivity sectors to other sectors with higher productivity (from agriculture to industry), but also through the growth of the industrial sector itself. On the whole, industry has achieved the most rapid growth of productivity, exceeding that of agriculture in most cases. High productivity potential has been obtained in industry through the rapid growth of productive investment, which has made it possible to carry out substantial structural changes and to achieve, on the whole, steady growth of the relative share of exports in world trade. The continuous and rapid growth of the capital stock has meant that, in a number of industries, the applicant countries have the advantage of modern, competitive production units capable of withstanding international competition and thus exploiting the benefits deriving from lower wage and salary costs.

50. The favourable overall assessment which may be made of the applicant countries from the viewpoint of their economic growth must be qualified by considerations relating to their level of development. In 1975, per capita GDP in Spain and Greece[2] was still about one third below the Community average, while that of Portugal was even lower, well under half the Community's per capita GDP. If one assumes that these differences in productivity are broadly similar, it will be easier to measure the progress which will have to be achieved for these countries to be effectively integrated in the Community as a whole.

The differences in levels of development are not only reflected in differences of GDP per head of population or per person employed. They are also reflected in the various countries' economic and social infrastructures, their degrees of social protection, their capacity for industrial adaptation the seriousness of regional disparities, and the level and scale of public services, particularly as regards education and vocational training. These are structural factors which could cause obstacles or strains in the development process. It must therefore be ensured that there is a close liaison between efforts to achieve as high an overall growth rate as possible and back-up measures to improve economic and social structures.

Employment, unemployment and emigration

51. Despite the high rate of growth, unemployment, underemloyment and emigration have posed a long-standing problem for the three applicant countries. Over the period as a whole, total employment declined in

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[1] GDP per person employed.

[2] Corrected to take account of purchasing powers.

Greece and Portugal. Spain, by contrast, has achieved a steady rise in its employed working population, though this rise has proved insufficient in view of the labour potential available. Several factors call for rapid growth in these three countries. The marked accumulation of capital achieved by Spain, Greece and Portugal has resulted in an increase in the potential growth of their productivity. Rationalization investment has continued even during recent years, a factor which has no doubt helped to maintain this tendency. Consequently, if employment is to be increased, rapid growth of production is necessary. This applies particularly to industry.

52. Emigration has traditionally been a means of relieving unemployment problems in these countries, but it has also created a substantial flow of income transfers and has sometimes provided vocational training experience for the emigrant workers. Emigration from the three countries has been mainly concentrated on the Community. The employment situation in the Community makes it improbable in the medium term that there will be a return to emigration flows on a pre-crisis scale. However, account must be taken of the fact that marked emigration potential exists in the applicant countries, stimulated by significant wage and salary differentials and by differences in the level of social services. Problems could arise if, despite the deterioration of economic conditions in the Community, the above factors induced firms in the Community to recruit labour from these countries. In the longer term, following full accession and, in particular, as a result of freedom of movement for workers, emigration flows will be mainly dependent on comparative growth rates between the applicant countries and the present Community. A relatively satisfactory development of the employment situation is also necessary in the applicant countries in that the process of rectifying internal and external disequilibria will mean that the growth of incomes will have to be compatible with macro-economic requirements. This will be easier to achieve if wage and salary earners can be offered in exchange improvements in employment prospects and public services.

Utilization of resources

53. The need to achieve rapid growth is even more marked in the three applicant countries than in the present Community. They face broadly the same needs as most of the Western countries, but have to deal with additional specific 'growth requirements'. As in the case of the Community countries, Greece, Spain and Portugal must offset, in part at least, the deterioration in their terms of trade caused by the rise in oil prices, and endeavour to reduce their oil deficit. This requires both investment to curb energy consumption, the development of whatever sources of energy they have themselves, and an increase in the volume of their exports.

In addition, spontaneous trends in agricultural trade could well result in a large agricultural deficit for the applicant countries. In this area, too, large-scale investment is therefore necessary. The need to increase exports does indeed go beyond the immediate objective of restoring equilibrium in the external balance. The growth and sectoral change achieved in the applicant countries in the post-war period was largely obtained through steadily increasing involvement in world trade. This trend must be continued. Two conditions would appear to be essential, namely an improvement in the international context and the continued growth of their share in world markets. The importance of a renewal in growth in the western world and in particular in the Community is clearly evident: the Community accounts for 45 to 50% of the total exports of the three applicant countries. Bearing in mind the indirect effects of an aceleration in economic growth in the Community, it is evident that the three applicant countries will not be able to restore a satisfactory growth rate and balance of payments situation, unless the Community itself can reestablish a more sustained rate of growth.

54. The three applicant countries have also to solve serious problems involving structural change, which will be dealt with in the following section. To a large extent, solving these problems will require considerable investment whether with regard to industrial development. improving economic and social infrastructures or regional development.

Devoting greater resources to both investment, even if some of it comes from abroad, and to exports will be a difficult path to maintain unless there is rapid growth. If growth is not rapid, the growth in the level of consumption would be severely limited, which would create social strains harmful to the continuity of economic policy.

Structural changes

55. Despite their development during the last 20 years, the industrial capacity of the three countries applying for accession is, on the whole, weak, though to differing degrees. Whether it is a question of further enhancing their export performance, withstanding the gradual dismantlement of customs barriers during the transition period or creating sufficient jobs, if only to cope with the rural exodus which will inevitably occur, it will be largely up to industry to provide the necessary support. However, diversifying and strengthening industrial potential in a context of mediocre growth, both domestically and externally, is a difficult enterprise. It will require sustained demand, which will strengthen confidence of investors and free the resources necessary for the development of production capacity.

56. From the point of view of enlargement, the industrial development of the countries concerned raises questions of compatibility at Community level. Even assuming there is a recovery in growth, the sectoral options made by these countries will probably raise two types of problem: firstly, the threat they pose to some industries in the existing member countries, and, secondly the new constraints they will place on the future Community of twelve as regards commercial policy with non-Community countries. The steel industry provides an obvious example here. The problems involved in this sector are particularly significant insofar as private investment flows towards the applicant countries would be encouraged and, even more so, since the Community's specialized financial instruments (EIB, Regional Fund) will be applicable. For these reasons an overall view of sectoral developments is necessary in order to identify the main dangers of incompatibility.

57. The industrial question is also relevant with regard to the options to be made on the agricultural front. These two aspects are dealt with in greater detail in the following sections. Agriculture will probably demand the most far-reaching structural change in the three applicant countries.

Employment in agriculture is still very high, although diminishing rapidly. Even more striking is the fact that productivity in this sector has deteriorated in relation to the rest of the economy since productivity in agriculture has grown less rapidly than in the other major sectors of production. The rapid rise of agricultural productivity will therefore imply an even larger rural exodus in the long term. Factors such as the age structure of the population, large-scale irrigation requirements and the capital stock of farms will be key aspects in achieving this progress.

Accession presents these countries and the Community with a crucial choice as to the future of their agriculture. The development and structure of their agricultural production and their balance of trade with other countries will be markedly influenced by the policies on prices adopted both as regards the products in which they enjoy a comparative advantage (citrus fruit, olive-oil, tobacco and early vegetables) and those which they do not produce in sufficient quantity (meat, butter, milk and cereals). In addition to the effects of the policy on prices, account will also have to be taken of the agricultural trade arrangements with countries lying outside the Community. The choices made at Community level both as regards market policies and structure policies will effect the relative contribution of agriculture and industry to net output, employment and, especially, external trade.

58. Rapid economic development during the post-war period was accompanied in the applicant countries by a worsening of regional disparities, which are dealt with in a separate section. The growth of the industrial and services sectors was mainly concentrated around a number of urban areas. Inequality in income and productivity were accentuated, while at the same time migrations from the countryside to the towns led to a considerable imbalance in the territorial distribution of the population and condemned entire regions in the long term. It can be said that, from this point of view at least, the applicant countries have not managed to avoid the dangers inherent in the growth and industrialization process which other European countries had encountered before them. Regional disparities pose a significant constraint since they may mean an increase in public expenditure, particularly in the area of infrastructures, and since they may increase the danger of disequilibria on certain markets (housing and labour) which are themselves a source of price increases.

If there is rapid growth and a high level of investment, the disequilibria can be more easily reduced. If the necessary provisions are put into effect, the channeling of a substantial volume of new investment toward the backward regions will be easier to achieve, bearing in mind the fact that it will not compromise the dynamic equilibrium of the more developed regions.

The conditions for macroeconomic equilibrium

59. The major equilibrium problems facing the applicant countries concern respectively prices, balance of payments and savings/investment relationships. Since the crisis, the three applicant countries have shown a greater tendency towards inflation than the Community average. The strong surges of inflation which these countries are still undergoing must be gradually reduced. Such annual levels of inflation cannot be maintained very long without entailing serious distortions in the allocation of resources and without impeding the establishment of more balanced social relations. In order to equip themselves better to exploit the opportunities offered by the world market, the three applicant countries must regain control over prices and costs which have been out of control over the last few years. Inflation rates on such a scale rapidly erode the competitive margin which they still probably possess. Controlling domestic equilibria is all the more necessary since recourse to devaluation is not in itself capable of providing lasting compensation in terms of competitiveness. The lack of effectiveness of currency depreciations and the cumulative and continuous process which they trigger off with prices are strong arguments against such a policy. The accession process would be made more difficult if it had to be carried out at a time when the three countries were faced with unstable situations as regards prices, costs and exchange rates. The problem of the monetary cohesiveness of the Community of Twelve, the convergence of economic trends and hence the problem of economic and monetary union would then be made more difficult to overcome.

60. The authorities in the applicant countries have all introduced measures designed to contain inflationary pressures; it is difficult to make forecasts in this area, particularly as in Spain and Portugal especially, these measures are set against a new institutional and social background.

As regards the trend of prices from the viewpoint of enlargement, the following points must be considered: propensity towards inflation and the effects of competition. Insofar as wage and salary earners will tend to align themselves with levels elsewhere in the Community, without corresponding progress having been made in terms of productivity, the inflationary effects of such divergence will be reflected in a deterioration of exchange rates and/or in a worsening of unemployment. At the same time, the elimination of tariff and non-tariff barriers will result in increased competition on traditionally protected markets, and this should make for a slowdown in price rises. Apart from these specific problems, an improvement in the social consensus is certainly an important condition if the productivity gains resulting from enlargement are to contribute to a slowdown in inflation.

61. In the case of each of the three applicant countries enlargement will entail fairly substantial changes in the conditions under which they carry on their external trade in both industrial and agricultural products. Firstly, for industrial products the abolition of tariff protection and the reduction of non-tariff barriers will initially increase the applicant countries' imports of manufactured products (Spain is likely to be particularly affected here): despite the fact that it is difficult to make an assessment because not enough is known about the actual protection which the economies of the applicant countries enjoy, this effect should be fairly considerable. On the other hand, Greece, Portugal and Spain would as a result of enlargement, likewise be in a position to increase their exports of manufactures to the countries of the Community of Nine. New market opportunities would be opened up firstly for those products which the elimination of customs duties would make particularly competitive on the Community markets. Secondly, the fact that there would no longer be any risk of measures to limit or organize access to the Community markets would provide certain Greek, Portuguese and Spanish products (e.g. textiles, iron and steel products) with new sales outlets on those markets. Lastly, the trend towards relocating certain industrial activities to the applicant countries — which has been emerging for a number of years already — will continue to have effects on their industrial exports. To sum up, the net effect of enlargement on their external trade in manufactures might be a moderate but temporary deficit.

This deficit, which should be particularly marked in the case of capital goods, will moreover be a product just as much of enlargement as of these countries' growth. It should be borne in mind that any forecast in this area must also take into account exchange rate movements and in this connection the adjustments that have recently been made to exchange rates, particularly in Spain, give the impression that the applicant countries' manufactures enjoy a very appreciable competitive margin.

62. Secondly, despite the importance of agriculture for their economies Spain and Portugal are already net importers of agricultural products, whereas Greece has a slight surplus. Leaving aside the possibility of any change in the present structure of agricultural trade. The application of Community prices should therefore worsen the trade balance, at any rate in the case of Spain and Portugal. The prospects are, however, less clear if dynamic assumptions are made. The increase in income in the applicant countries will probably lead to an increase in demand for animal products which will outstrip the growth of supply capability. This should result in a worsening of the applicant countries' trade deficits. Such a deterioration should be anticipated, even if it were profitable to increase domestic stockfarming, for increased food requirements would lead only to substituion of imports of animal products by imports of foodstuffs. In addition, imports of products subject to levies under the Community policy whose prices are relatively low on world markets will be the cause of a further deterioration in the applicant countries' trade blances, for the levies will have to be paid to the Community.

However, in so far as the applicant countries obtain higher prices for their agricultural exports to the Community and manage to increase their production and their market share, the result in the medium term might be to offset to some extent the deficit attributable to the growth in imports. The applicant countries should also qualify for the special refunds granted for exports of agricultural products to non-member countries. While the net result of these various devdlopments remains unclear in the case of Greece and Spain, it is virtually certain that Portugal will suffer a net loss of resources owing to application does not take account of the effect of compensatory amounts since it is still difficult to assess their impact.

63. Mainly because of their oil deficits and their need to import capital goods, the current account deficits of the applicant countries will continue over the medium term. Bearing in mind their level of development, this is a situation which is to some extent acceptable. Too rapid a reduction in these deficits would require an unacceptable slowdown in their growth. However, structural changes will be necessary in order to contain deficits, whose financing should be ensured in a balanced manner by private and public flows. So far, Spain and Greece have been able to cover their external fiancing requirement fairly easily (though at the cost of substantial indebtedness in the case of Spain). However, for these two countries and for Portugal, the share of public financing will have to increase.

64. In the long term, the three applicant countries have achieved a high rate of investment, allowing important structural changes and continued growth of the share of their exports in world trade in industrial products. Though it is not possible at present to draw any firm conclusions until more detailed analyses have been made, it would appear that, up to 1973 at least, the high level of investment has largely been financed by domestic savings. The question at present is whether the three countries can restore the pre-crisis growth of investment and create the flow of savings necessary for its financing.

As regards the conditions governing savings and the profitability of firms, they do not seem to have been as deeply affected as in the Community. The share of wages and salaries in GDP corrected to take account of the trend of salaried employment has not changed much and is still at a relatively low level. In addition, it is probable that the substantial monetary depreciations undergone by the three countries have had the effect of protecting pfofits in exporting industries.

Industry

Capacity and fabric of industry

65. The three applicant countries present the same type of sectoral problems, particularly industrial problems, but with differing degrees of intensity: there are also differences in their potential capacity for responding to the crisis and to the prospect of enlargement. The extent of their natural resources also varies from one country to another. Spain possesses iron and coal, Greece has base metals, lignite and other minerals, and Portugal has iron ore reserves. Spain and Portugal are closer to the European markets than Greece, and Greece has in addition long-established trading links with the Middle East. Portugal has an inadequate domestic transport infrastructure and its trade with Spain is small. Of the three, only Spain, with a population of 35 million inhabitants, has a large domestic market suitable for firms requiring economies of scale.

66. In general, the three countries all share the need to broaden their industrial base, and to strengthen the manufacturing sector in particular so as to make it more competitive in overall terms.

The shares of industry and manufacturing industry in GDP are as shown in the following table.

Portugal thus has (apparently) a larger industrial base and manufacturing industry in relative terms than Spain and Greece; it is obvious, however, that these figures, which give the relative size of the industrial and manufacturing sector, cannot be used to

(average 1974-75)

	Greece	Portugal	Spain	FR Germany	France	Italy	United Kingdom	Netherlands	Belgium	Denmark
Industry[1]	32.0	45.0	29.3	49.7	40.1	41.9	37.9	40.1	42.2	36.4
Manufacturing industry[1]	20.4	35.5	21.1	35.7	28.0	29.0	25.7	25.9	29.3	26.0

[1] As % of GDP.

draw any conclusions on the quality of the fabric of industry. In Spain, and especially in Greece, the share of manufacturing industry in all industry is particularly low.

Exports of manufactured products (SITC 5, 6, 7, 8)[1] in relation to all exported goods and to GDP showed the following percentages in 1975:

	Greece	Portugal	Spain	EEC-9
% of all exports	47.6	69.9	71.2	78.6[1]
% of GDP	5.2	8.4	5.4	17.3

[1] The rate is 84.1% for exports outside the Community

If *per capita* income is to be increased in these countries and if the trade balance is to be lastingly restored (though this can only be achieved in the medium term), the industrial base must be developed and modernized, even at the cost of an initial increase in import content.

67. The industrial sector in the three applicant countries has developed under the protection of substantial tariff and non-tariff barriers, incentives, often linked to performance in terms of exports, having been offered to investment by foreign firms. The industrial sector presents a dualistic structure, with firms which are competitive at international level, orientated towards exports, and often wholly or partly owned by foreign companies. These firms, which mainly produce for foreign markets[2] have access to international capital markets, introduce more sophisticated technology, and improve the quality of management; at the same time, the fact remains that their growth strategies are determined by their parent companies, and that their net contribution to improving the balance of trade is not always significant because of the high import content of their products. Moreover, being in general highly capital-intensive, they are only partly capable of meeting employment problems. Following enlargement, the possible reduction or indeed abolition of the concessions which originally induced firms to set up in the applicant countries, could influence the continued operation of some of these firms.

However, the applicant countries are at present certainly not without the means of con-

[1] Firms involved in *Spain* are:
— in petrochemicals: Gulf-Oil, Esso, Shell, BP, Solvay, etc.;
— in pharmaceuticals: Bristo-Myers, Cynamide, Rhône-Poulenc;
— in the automobile industry : Citroën (1960), Chrysler, BMW, Renault (1962), Fiat, Ford (1972);
— in aluminium: Péchiney, Alusuisse.
Following the request of Ford to invest in Spain, new rules were adopted in 1972 concerning the production of automobiles by foreign companies. In future, manufacturers setting up in Spain can import spare parts equivalent to up to 50% of the total value of each vehicle. To qualify for these arrangements, however, the manufactures must:
— carry out investment worth a minimum of 10 000 million pesetas (about USD 155 million)
— export at least two thirds of production
— limit sales on the Spanish market to 10% of the number of cars registered during the previous year.

[2] Because of the size of its domestic market, Spain represents an important outlet for the production of major companies.

trolling their industrial development. In Portugal, wholly or partly public-owned enterprises account for about 25% of GDP and 50% of investment; chemicals, steel, a part of shipbuilding, cement and oil refineries are nationalized. In Spain, the Instituto National de Industria (INI), set up in 1961 to promote development of basic industries, controls 92% of shipbuilding capacity and two of the largest steel producers (Ensidesa and Altos Hornos de Viscaya); INI is also responsible for four regional development corporations. Furthermore, especially in Greece and Portugal, industry is made up for the most part of small and very small firms which employ a very substantial proportion of the working population and which are protected from external competition by fairly high tariff and non-tariff barriers.

Adjustment to the opening up of markets

68. It is possible that some industries and/or firms, mainly because of the flexibility and adjustment capacity provided by their smaller size, may react dynamically to increased competition from firms in the Community; however, enlargement will require considerable restructuring which will have an effect on the employment situation, which for structural and economic reasons is already very serious, especially in Spain and Portugal. In addition, the possible application of more advanced social legislation, an increase in the contractual powers of unions and the effects of an increase in food prices on wage and salary demands could produce a reduction in the labour cost advantages enjoyed until recently by the three applicant countries. Devaluation policies could not provide any lasting remedy in this situation.

The Community has an overall surplus in trade in goods with the applicant countries.

Accession means not only keener competition in certain industries as a result of tariff reductions but also the extension to the new members of the field of application of the Treaty principles regarding aids. Following accession the Community's productive capacity will increase considerably in sectors (such as steel, textiles and shipbuilding) which are at present facing cyclical and structural difficulties. The framework for aid to these industries must take account of the prospect of a Community of Twelve. The fact that the acceding countries will have to adopt the common customs tariff, which is lower for most products than their own tariffs, and abolish their non-tariff barriers poses dangers for them (widening trade deficit), but also presents an opportunity to open their markets more to countries outside the Community.

Indeed, accession could mean that countries outside the Community could face greater competition on the European market from the new member countries, and that, as a result of the Community's increased capacity in sectors which are in a state of crisis, there might be a stagnation or indeed some withdrawal in market access arrangements for imports of manufactured products from the developing countries. However, the integration of the three applicant countries into a much larger market will probably lead to a dynamic concentration process favouring units of production which have already high productivity. This strengthening of industrial capacity will put the applicant countries in a better position to withstand competition from imported products and to increase their penetration of foreign markets, in particular present Community markets.

Particular cases

69. Too little is known of production structures in the applicant countries to provide a thorough assessment of the problems which the future Community of Twelve will have to face. In particular, there will have to be better analysis of the relative levels of productivity and competitiveness at a fairly specific sectoral level. The following is therefore limited to some pointers on those sectors which, at first sight, appear to be the most sensitive.

Steel

In Spain, the steel industry is highly competitive with the EEC. The problems at present facing the two main producers, controlled by INI, are mainly economic; the first phase of the integrated plant complex at Sagunto has been successfully completed, but investment for the following phases has been held up because of financial difficulties. In Portugal, the industrial complex being built at Sines, south of Lisbon, will include a plant for the production of 1.8 million tonnes a year. The complex will be able to use its full capacity only if a substantial part of its output is exported.

Shipbuilding and ship-repairing

In Spain, shipbuilding, 92% of whose capacity is controlled by INI, has been a very fast-growing industry. At present, excess capacity is estimated at 40%, with no prospects of improvement in sight; despite attempts at diversification, the main problem is a surplus of labour (about 30%). In Portugal, despite the advantages of siting and labour costs, competitiveness is weak because of the sector's low productivity. Greece, which up to now has confined itself to ship-repairing, is beginning to branch out into shipbuilding as well.

Merchant fleet

In 1975, the Greek merchant fleet accounted for 15% of world shipping; accession would therefore have an important effect on the Community's shipping capacity, and there would be important implications for a common policy in this area.

Textiles, garment manufacture and footwear

These are important industries in the three applicant countries from the point of view of production and employment; they would increase the Community's capacity without, however, being competitive in relation to the developing countries, particularly countries in South-East Asia. A particular problem arises as regards the other Mediterranean countries which at present have more favourable conditions of access to the Community market.

Motor vehicles

The automobile industry occupies an important position in Spanish industry and is at present facing serious problems of falling demand and liquidity.

Agriculture

70. The main Mediterranean products are non-animal and consist of wine, tobacco, olive oil, fruit, vegetables, rice and durum wheat. The Mediterranean area specializes in their production because, for technical reasons, these are the products that give the most satisfactory returns from the angle of both yield per hectare and labour productivity. Alternative lines of production, even if technically feasible, give lower returns particularly in terms of yield, the soil being generally the most limiting factor of production. The Mediterranean area is by no means homogenous as regards physical characteristics but in addition to its characteristic climate it does have a number of common structural problems. In general, cultivation methods are labour-intensive, productivity per worker is low, average farm size is very small in comparison with the average size of northern European farms and underemployment is widespread. Lack of irrigation is also a problem in many areas.

71. Enlargement would bring into the Community three countries where agriculture accounts for a very important part of total economic activity. The number of persons engaged in agriculture in an enlarged Community context would, in fact, be more than

doubled (i.e. would increase by approximately 5 million), while overall agricultural production would increase by only one fifth. To increase agricultural output in the applicant countries significantly would require restructuring by means of a large decrease in the numbers occupied in farming. Unless alternative non-agricultural productivity employment were available, however, such an improvement in agricultural productivity could only come about at the expense of increasing unemployment and emigration. For this reason the employment aspect is likely to become an important issue in the early years of enlargement and needs to be considered in conjunction with the prospects for growth, in particular industrial expansion, in the applicant countries and the rest of the Community.

72. Mediterranean agricultural regions in the existing Community are facing similar problems. Producers in the Community regions concerned have recently expressed fears about the possibility of competition from the applicant countries where production costs are lower. In time, however, various factors should combine to raise costs in the applicant countries to the extent of bringing them closer to the level in the present member countries. The subsequent adjustment of supply in the new member countries could be hampered to some extent by land configuration problems (in Greece) and by the need for costly irrigation works (in Spain) if more land were to be brought under cultivation. The present pattern of the three applicant countries' trade in agricultural products (as shown in the table) would of course change considerably once these countries were governed by the Common Agricultural Policy.

73. Under the Community's present agricultural policy the products covered by a market organization do not all enjoy the same degree of protection (partly for technical reasons relating to the nature of the products). Generally speaking, internal EEC prices are significantly higher than world prices although the gap varies from product to product. The price level at which imported produce may be offered for sale on the Community market is generally more rigourously controlled for cereals, meat, milk and milk products than for certain Mediterranean products. In recognition of this fact the Community has adopted various direct payment mechanisms, for example for durum wheat, olive oil and tobacco.

74. Taking account of the existing producer and consumer price structures in the twelve countries, and leaving aside the adjustments which application of the CAP will entail in the applicant countries, the enlarged Community's rate of self-supply would vary from product to product. Production of cereals (especially of feed grains), citrus fruit, rice and sheepmeat should normally be less than

External trade in agricultural products of Spain, Greece and Portugal[1]

	Total agricultural exports to all destinations USD million		Total agricultural imports from all countries USD million		Value of agricultural exports to EEC USD million		Agricultural exports to EEC as % of total agricultural exports		Value of agricultural imports from EEC USD million		Agricultural imports from EEC as % of total agricultural imports	
	1970	1975	1970	1975	1970	1975	1970	1975	1970	1975	1970	1975
Spain	697.7	1 581.2	553.4	2 045.1	423.4	1 015.3	60.7	64.2	102.8	301.0	18.6	14.7
Greece	259.6	693.9	191.5	479.5	143.0	366.5	55.1	52.8	52.8	137.9	27.6	28.6
Portugal	177.1	300.4	180.1	765.6	73.1	125.3	41.6	41.7	29.2	91.5	16.2	12.0

[1] Total of 0+1 in SITC classification.

the quantity demanded. Aggregate production of milk, meat and vegetables should roughly equal demand. As a result of demand in the applicant countries, dairy, meat and cereal producers should find increased outlets in an enlarged Community for produce which now tends to be in surplus supply. Fruit should be subject to seasonal gluts, and wine and possibly olive oil might also be produced in excess of demand. All these factors, plus the competitive advantage enjoyed by the applicant countries as a result of low production costs, are arousing fears among the present Community's producers that they will lose a share of their market to the applicant countries' producers.

75. Enlargement, and the subsequent application of the Common Agricultural Policy in the applicant countries, will upset both structures and markets throughout the enlarged Community. Owing to the high proportion of small farms in the applicant countries, and even if allowance is made for growth in agricultural productivity in those countries, the problem of low output-low income producers already encountered in the Community will become even more acute and the difficulties due to regional disparities still more intractable. Particular attention will consequently need to be paid to structural problems, and solutions will have to be sought with close reference to alternative forms of employment in rural areas.

The opening-up of new market opportunities for the applicant countries, together with the guarantee mechanism and the often higher level of prices under the Common Agricultural Policy, could in time lead to increased production in those countries. This is particularly the case for certain typical Mediterranean fresh and processed products. The potential for an increase in output in the applicant countries is marked, especially where irrigation works brings new land into production. Under the existing Community situation this potential would largely be used to increase the output of Mediterranean products which are often in surplus, rather than products of which the Community has a shortfall. Such a development would probably have adverse consequences for various regions of the present Community (notably Mediterranean ones) and also for non-member Mediterranean countries. Adequate measures would be necessary to stimulate the cultivation, on a large scale, of alternative products for which there is a shortfall.

Already it is important that this potential be used in the applicant countries for developing lines of production other than those normally associated with Mediterranean countries, and especially products with a high protein content. The structural and market organization policies pursued will have to take account of their effects in stimulating production and their impact on consumer demand, third countries and budgetary expenditure. As the underlying problems of the Mediterranean regions of the Community and the applicant countries are primarily of a structural nature, it is important that the long-term development strategy which will be needed is directed towards solving the basic structural problems, rather than responding to pressures to alleviate immediate difficulties, for the latter course would only serve to aggravate the structural weaknesses.

76. Certain features of the structure of agricultural production in the applicant countries point to difficulties that will arise with enlargement. For the majority of products which have given rise to difficulties in the present Community owing to the existence of occasional or permanent surpluses, neither Greek nor Portuguese production is very large. In the case of these two countries problems could nonetheless arise as regards wine, for example, and application of the Community oils and fats policy could lead to a surplus of olive oil due to a probable decrease in domestic consumption. Both countries have a high proportion of small low-output farms. Consequently the problem of low output-low income producers within the Community would become more acute. Although Greek agricultural production has shown relatively strong growth in recent years the situation in Portugal has been one

of stagnation. Whereas in the early 1960s Portugal's exports and imports of agricultural products were roughly in balance, the country's imports now exceed exports by a relatively large margin.

77. Among the applicant countries Spain has by far the greatest potential for providing competition for producers in the Mediterranean countries which are members of the present Community. For many important agricultural goods, production in Spain is at least twice that of Greece and Portugal combined. It is a large exporter of citrus and other fruit, vegetables, wine and olive oil. On the other hand, it is a net importer of meat and milk products, wheat, sugar and feed grains. Spanish agriculture suffers from a lack of regular rainfall (which is abundant only in the mountainous northern fringe and in small western and south-western areas). Most of the central regions also suffer from extreme temperatures. However, modern mechanized farming combined with fertilizer use and in particular with irrigation could help to redress the situation. The small percentage of arable land at present under irrigation produces a relatively high percentage of agricultural output and with sufficient price and income incentives for encouraging the use of irrigation the potential for further expansion of production is considerable.

78. With regard to the long-term trend of consumption, Mediterranean producers share a common problem in that many of their products have a relatively low income elasticity of demand and as a result the growth in overall demand for such products tends to be sluggish. On the other hand, some of the agricultural goods which are imported into the Mediterranean regions have a relatively high income elasticity of demand (especially meat) so that as living standards rise, demand for these products tends to be relatively buoyant. The disparity between these two long-term trends makes it all the more necessary that a viable long-term strategy be evolved for Mediterranean agriculture.

Regional problems

79. It is normal for economic growth in countries that are in the process of industrialization to be accompanied by a fall in the rural population and a rise in the urban population. However, the concentration of growth in one region (Athens in Greece, Lisbon in Portugal) or in a few provinces (in Spain) could to some extent be avoided through policies designed to improve the geographical distribution of activity.

The aim of such policies designed to accompany rapid growth in the applicant countries should be to prevent excessive concentration, which is a source of congestion in the main development centres and causes a whole series of problems (high social costs, deterioration of the environment and inflationary pressures) which may even cause bottlenecks hampering continued growth at a satisfactory rate. Even at the outset the extent of regional imbalances will be increased in the new Community as a result of the disparities in development between certain regions of the applicant countries and the richest regions of the existing Community. In addition, the growth in trade will generate new regional problems.

80. In the nine Member States, as regards *agriculture* there will be greater competition in most Mediterranean products, while some non-Mediterranean products (animal products and cereals) will find an increased number of outlets. The extent of these phenomena will of course depend on the agricultural policy pursued during the enlargement process. At any rate, it will be difficult to avoid increased agricultural problems for the Mediterranean regions, while other regions will be able to increase their output. As regards the industrial sector, increased competition in certain industries (probably textiles, clothing, footwear, shipbuilding and steel) will necessitate restructuring and conversion in a number of regions, which will be all the more difficult to carry out if economic growth is weak.

Admittedly the more developed regions, faced with this necessity, possess more dynamic structures and industries which put them in a better position than the others to take advantage of the opportunities offered by a larger market. While presenting problems, reorganization of their productive system will be able to follow a positive course since the industries which are developing will ease the process of conversion. Some of the weaker regions, by constrast, being already in a difficult situation, will encounter much more serious problems, for the greater similarities between their industries and the three applicant countries' industries mean that bigger difficulties are likely to arise. Because of a lack of alternatives, due in particular to the weakness of their industrial base, less viable firms might be kept going by the public authorities, and this would not be conducive to the improvement of productive structures in the regions concerned. The gap between the most developed regions and some of the least developed regions—including the Mediterranean regions—is therefore likely to widen unless appropriate measures are taken in time.

81. In the three applicant countries, as regards *agriculture*, it would appear that the producer prices of cereal and animal products—compared with the prices for Mediterranean products—are higher than in the Community. Enlargement could therefore prove more advantageous to the agricultural regions of the applicant countries that tend to produce Mediterranean products than to those producing mainly cereals and animal products, whose level of labour productivity is generally lower.

In the *industrial sector*, freedom of access for a whole range of products, in many cases of superior quality and highly diversified, from the rest of the Community would, if introduced without adequate precautions, cause serious adjustment difficulties for very many firms with low productivity (most of them artisanal undertakings lacking an efficient distribution network as a rule). It must therefore be expected that in a number of regions in the three applicant countries too there will be adjustment and conversion problems affecting part of the industrial sector. In order to prevent such redevelopment from producing increased urban concentration, it will be desirable for it to be accompanied by a drive to relocate industry.

82. It is clear that enlargement will require adjustments to be made not only in the applicant countries but also in certain less developed regions of the present Community. Consequently, if excessively intractable problems are to be avoided later, the adjustment effort should begin—with Community support—during the negotiating period itself, for both the applicant countries and the least developed regions of the present Community.

83. To conclude, unless appropriate policies are pursued, differences in the level of development between countries and regions in the enlarged Community could well grow, and this trend would intensify the difficulties already being encountered in certain particularly disadvantaged regions of the existing Community. Such a process, if not checked in time with the help of adequate means, would be bound to compromise gravely the indispensable cohesion of the future Community of Twelve.

Part Three

Financial aspects

This initial survey of the financial aspects connected with enlargement begins by analysing the scale of financial flows between the Community and the applicant countries. It then examines the nature and operation of Community instruments and the needs and absorption capacities of the applicant countries. Finally, the chapter sets out some thoughts on a consistent Community approach to these problems.

Financial flows between the applicant countries and the Community of Nine

84. The analysis given below deals with the Community budget, the Community's financial instruments and, finally, income transfers and capital movements. It should be stressed that, in view of the difficulties of analysis and the lack of precise statistics, this exercise is surrounded by many uncertainties. Firstly, there is a difference of nature between the analysis of the Community budget and the other Community financial instruments and the analysis of transfers; the first is based on a simulation for the year 1978, while the second involves an estimate based on balance of payments statistics for the last few years. Furthermore, the hypotheses postulated and the basic statistics used are so uncertain that the conclusions and statistics arrived at should be treated with extreme caution.

Summary of expenditure 1978

(million EUC)

	Community of Nine	Greece	Spain	Portugal	Three applicant countries	Community of Twelve (in very round figures)
EAGGF-Guarantee	8 666[1]	400	600	100-150	1 100-1 150 or more: in round figures 1 000-1 500	9 700-10 200
EAGGF-Guidance	473	100	200-250	50-100	350-450	800-900
Social Fund	570	20-50	80-120	90-130	190-300	750-900
Regional Fund	581	105	190	125	420	1 000
Other areas excluding the 10% lump sum refund	1 382	50	200	50	300	1 600-1 700
Total excluding 10% refund	11 672	In round figures 700	In round figures 1 250-1 350	In round figures 400-560	2 300-2 900	14 300 +/−700
10% refund	690	20	60	10	In round figures 100	800
Total	12 362	700-750	1 300-1 400	400-600	2 400-3 000	15 000

[1] Including the incidence of the dual rate and MCAs.

Summary of resources[1]

(million EUC)

	Community of Nine	Greece	Spain	Portugal	Three applicant countries	Community of Twelve
Customs duties	4 833	100+/−20	350+/−50	30+/−10	480+/−80	
Levies and production levies (sugar)	2 063	100+/−20	275+/−50	75+/−15	450+/−85	
VAT						
— 1%	8 290	170	610	110	890	
— The present Community of Nine. — rate +1978: 0.6429%	5 330	—	—	—	—	
— Enlarged Community of Twelve. — rate: o.77%	6 380	130	470	85	685	
Miscellaneous revenue	136	—	—	—	—	
Total						
— 1% VAT	15 322	370	1 235	215	1 820	in round figures 17 000
— 0.6429% VAT: Community of Nine 1978 rate	12 362	—	—	—	—	—
— 0.77% VAT: Community of Twelve rate	13 400	330	1 100	190	1 620	in round figures 15 000

[1] Conversion for the three new Member States, at a recent rate — that of 2 January 1978. At the rate of 2 January 1977 used for the 1978 budget and for the Community of Nine column, the total for the three new member countries would be 2 300 million EUC instead of 1 820 million EUC, i.e. about 25% higher.

Net financial impact

(million EUC)

	Community of Nine	Greece	Spain	Portugal	Three applicant countries	Community of Twelve
Expenditure	12 362	700-750	1 300-1 400	400-600	2 700 +/−300	in round figures 15 000
Resources	13 400	330	1 100	200	approx. 1 600	in round figures 15 000
Balance	+1 000	approx. −400	approx. −200/300	−200/400	approx. −1 000	0

Community budget and other Community financial instruments

General budget of the European Communities

85. This examination of the financial aspects of accession begins by analysing the question 'what would be the expenditure and resources of the Community in the event of full integration of the applicant countries?' Initially, in view of the information available and the complexity of the possible hypotheses, it was decided to simulate the theoretical situation in which there was full integration of the new member countries as from 1978, with the application of existing policies, instruments, aids, subsidies, etc. These calculations do not take account of the possible cost of monetary compensatory amounts (MCAs) to the budget and, in view of its nature, cannot incorporate the potential dynamic effects of the application of the Community policies to the three countries, particularly as regards agriculture. It seems probable that the Common Agricultural Policy's impact on the budget will increase after a time, but at the present stage it is impossible to make an accurate estimate.

The figures on pages 37 and 38 reflect a static situation at the start of the enlargement process and could therefore turn out to be minima.

Bearing in mind the very approximate nature of the figure given for the 10% refund of own resources, and the particularly wide margin of uncertainty for expenditure under the EAGGF Guarantee Section, the total effect of the three countries on expenditure may be estimated, with all the reservations already stated, at 2 400-3 000 million EUC or at 2 700 million EUC as an average hypothesis.

Simply applying population ratios to the 1978 budget of the Nine would have given a total of the same order of magnitude—2 500 million EUC—but with a different distribution between the new countries (Greece and Portugal: 420 million EUC, Spain: 1 700 million EUC.

86. A rapid comparison between the structure of resources shown in the table and the application of a GDP formula given current prices and exchange rates indicates the following: in general, the calculations carried out seem at first sight unfavourable to the applicant countries whose share in the budget would be higher than if the GDP formula were applied. If these figures were to prove correct, they would be likely to pose numerous problems.

87. This table gives a summary of the general budget of the Communities. It shows that the three applicant countries together would have a net borrowing requirement of the order of 1 000 million EUC which would represent the transfer from the present Community to the three applicant countries. In relative terms, this transfer would be comparatively substantial in the case of Greece and Portugal, but modest in the case of Spain. Taking the upper hypothesis, the net balance as a percentage of GDP would be 2.30% for Greece, 3.3% for Portugal and 0.40% for Spain. For Greece and Portugal, these net percentage balances would represent between 10% and 15% of their annual investment.

ECSC operational budget

88. On the basis of available information on taxable products, resources from levies should increase as follows:

millions EUC

Products	Community of Nine	Greece	Spain	Portugal	Total Community of Twelve
Levies for 1978	100	0.6	7.4	0.3	108.3

The table shows an increase of about 5.5% for the whole of the budget, which would thus be 160 million EUC (in round figures) instead of 152 million EUC.

Budgetary expenditure

It may be assumed that the effect of this increase in resources on estimates of the main budgetary expenditure items (research, readaptation and subsidies) would broadly be in proportion to the present levels of these items, i.e. a rise of 5% or 6% on present figures:

(million EUC)

Categories of budgetary requirements	Present forecasts	Rise of 5% to 6%	Total
Administrative expenditure	5	—	5
Readaptation aids	60	3	63
Research aids	41	2.5	43.5
Aids in the form of interest rate subsidies	40	2.5	42.5
Aids to coking coal and steel plant coke	6	—	6
	152	8	160

The distribution of additional resources by country cannot be estimated, since the allocation of ECSC budgetary aids is based on analysis of real requirements rather than on a 'fair return'.

Contribution to reserves

The contribution of the three new member countries to ECSC reserves would be in the region of:

(million EUC)

	Community of Nine (31.12.77)	Greece	Spain	Portugal
ECSC	357	3	35	1.5

Calculations are based on the ratio of ECSC products produced by the country concerned to those produced by the present nine Member States and on the foreseeable increase in reserves during the period leading up to final accession.

ECSC financial activity

ECSC industries in the three applicant countries will have the same right as those in the present nine countries to make use of Community loans referred to in Articles 54 and 56 of the Treaty. This could result in a 5% to 10% increase in the annual level of ECSC financial activity (741 million EUC in loans in 1977).

The Community's other financial instruments

Short-term monetary support (three months, renewable once for a period of three months).

89. The quotas, i.e. the normal drawing ceilings (calculated for each country on the basis of two objective criteria: GNP and the IMF quota) would be *approximately* as follows (expressed in million EMUA):[1]

Portugal 50; Greece 60; Spain 200. In particular cases, the governors may decide to increase above its quota the amount of support which a central bank may receive. For short-term monetary support (and medium-term financial assistance), the participant Member States must of course also contribute to the financing of the credits, in proportion to their quotas, where their balance of payments situation allows it.

Medium-term financial assistance

90. The quotas or commitment ceilings for this assistance are as follows (million EUC-'basket' unit of account).

Portugal 100; Greece 120; Spain 400.

Following the accession of the three applicant countries, a total amount of 6 020 mil-

[1] EMUA: the transactions of the European Monetary Cooperation Fund (EMCF) are expressed in European monetary units of account. 1 EMUA is worth 0.88867088 g fine gold.

lion EUC would be available under this financial mechanism. Bearing in mind that at the end of 1978, Italy should have repaid the 1 159.20 million EUC assistance granted to it and assuming that Italy does not request further loans, the funds available will in theory be between 2 000 million EUC (if one takes only the quotas or commitment ceilings for the countries with strong currencies—Federal Republic of Germany, Belgium and the Netherlands) and 4 500 million EUC (if one adds the quotas for France, Denmark, the United Kingdom and Ireland). It may reasonably be supposed that medium-term financial assistance totalling a maximum of some 2 000-2 500 million EUC will be granted to the three applicant countries, on the assumption that Italy will not request new loans, and 1 000-1 500 million EUC if it does.

Community loan

91. At present, there are still USD 300 million available for balance of payments assistance. The possibility cannot be ruled out that the ceiling applying to this instrument might be raised, but this would require a new decision by the Council. It is clearly impossible to give an *a priori* breakdown by country, the total amount being largely determined by the requirements expressed.

New Community instrument

This project has been drawn up for the Community of Nine. The proposed amount available, 1 000 million EUC, is to be used to finance investment projects in certain sectors (energy, industrial restructuring, etc.). It is not possible at present to determine how the amounts might be distributed between the countries, the objective being to meet specific and priority requirements.

European Investment Bank (EIB)

92. There are no fixed quotas by country, financing being granted on the basis of projects. It should be noted that accession will mean that the new member countries will have to contribute to the capital of the EIB and that this will, initially, entail outward movements for these countries. At a later stage, by contrast, loans will normally be granted by the EIB to projects presented by the new member countries, and this will produce net movements of resources in their favour. It is difficult to indicate on what scale this might be.

EIB loans amounted to about 1 500 million EUC in 1977, mainly in favour of Italy and the United Kingdom. In present circumstances, it may thus be estimated in very rough terms that the three countries considered as a whole could receive EIB financing amounting to between 300 million EUC and 500 million EUC. The extension of the Bank's activities over the long term and at a high rate implies a substantial increase in its capital.

Conclusion

93. On the basis of very rough hypotheses, it may therefore be estimated, using the simulation carried out for 1978, that the applicant countries, if they had been full members of the Community, would have been able to receive a net financial flow of about 1 000 million units of account by way of transfers under the Community budget and 500 million units of account by way of loans. In addition, they would have been able to draw on balance of payments support, with possible medium-term financial assistance amounting to between 1 000 million and 2 500 million EUC.

Transfers of income and capital

94. The following table shows the overall trend of the main financial flows between Greece, Portugal and Spain on the one hand and the rest of the world on the other for the period 1970-76. In these three countries, the largest source of financing seems in general

to be transfers, which consist very largely of earnings by emigrant workers. It should, however, be noted that during the last three years on which information is available, 1974, 1975 and 1976, this flow has levelled off in Spain and has declined in Portugal; only in Greece has it continued to rise. The flow of private investment to Portugal, already very low for 1973, seems to have declined even further except in 1974. For Greece, this item has varied relatively, but seems to have steadied since the oil crisis; nevertheless, it is still well below the level of transfers. For Spain, by contrast, private investment flows have grown strongly.

95. Estimating transfers between the three applicant countries and the present Community involves considerable statistical difficulties. No statistical data have been gathered for Portugal and Spain. The assessments have therefore necessarily been extremely approximative. Between 1973 and 1976, about one third of net financial flows to Greece probably originated in the Community. By far the largest item remains income transfers by emigrant workers, while long-term private movements of capital tended to decrease.

As regards Spain and Portugal, the figures require much greater caution. They show

Total financial flows to Greece, Spain and Portugal

(million USD)

	1970	1971	1972	1973	1974	1975	1976
Greece							
Transfers (net)[1]	345	469	573	732	671	792	810
Investment income	−49	−68	−61	−57	−102	−104	−114
Movements of capital							
— long-term private (net)	318	325	569	647	466	469	541
— long-term public (net)	?	−26	−26	41	56	69	−29
Total	614	700	1 055	1 363	1 091	1 226	1 208
Spain							
Transfers (net)[2]	659	768	806	1 408	1 142	1 144	1 142
Investment income[3]	−125	−150	−172	− 85	121	−229	−502
Movements of capital							
— long-term private (net)	698	602	934	808	1 713	1 788	1 447
— long-term public (net)	− 21	−103	− 3	− 45	53	15	572
Total	1 211	1 117	1 565	2 086	3 029	2 718	2 659
Portugal[4]							
Transfers (net)	507	664	880	1 104	1 110	1 037	979
Investment income	31	16	20	86	129	− 15	−134
Movements of capital							
— long-term private (net)	41	70	62	− 38	357	− 21	28
— long-term public (net)	− 42	− 12	−191	−105	− 83	− 87	− 16
Total	537	738	771	1 047	1 513	914	857

Sources: Greece Monthly Statistical Bulletin — OECD

[1] Transfers include private and public transfers but consist primarily of emigrant workers' remittances.

[2] Public transfers are negligible; workers' remittances represent between 2/3 and 3/4 of total transfers.

[3] Estimates of investment income for 1970-1972.

[4] In the case of Portugal, government transactions included in 'services' (mostly aid to its colonies) represented a big outlow up to 1976 of which the 'financial' part was probably important. (Total net government transactions were in 1972: −$91 million; 1973: −$191 million; 1974: −$205 million; 1975: −$172 million; 1976: +$50 million.) In the case of Spain and Greece, such flows are not important.

Financial flows between Greece and the Community

(million USD)

	1973	1974	1975	1976
Transfers (net)	353	281	364	420
Investment income	– 29	– 13	– 19	– 34
Movements of capital				
– long-term private (net)	244	167	140	67
– long-term public (net)	– 11	– 9	15	– 10
Total	557	426	500	443

that between 1972 and 1976, about 40% of the transfer of emigrants' earnings to Spain and Portugal came from the Community.

Estimate of financial flows between the Community and Spain

(million USD)

Estimates	1972	1973	1974	1975	1976
Transfers	322	563	457	458	457
Investment income	– 34	32	53	– 41	– 166
Movements of capital					
– long-term private (net)	186	375	770	324	480
Total	474	970	1 280	741	771

Estimates of financial flows between the Community and Portugal

(million USD)

Portugal	1972	1973	1974	1975	1976
1. Transfers (net)	352	442	444	415	294
2. Direct private investment net) from Community	39	70	58	50	44
3. Public long-term capital				50	150
				515	488

Export credits with a maturity of more than five years are normally included in long-term capital movements. Export credits with a maturity of between one and five years have been estimated to have amounted to an annual average of between USD 600 and USD 700 million for the three countries in the last three years. Taking this last figure and adding the other transactions already estimated, total transfers of income and capital from the Community to the three applicant countries could have amounted to an annual average of between USD 2 000 million and USD 2 500 million for the last few years, i.e. about 2% of their GDP: that is to say, an amount slightly higher than the estimate given in the preceding chapter, for direct Community action. In view of the extremely tentative nature of this hypothesis it is impossible at present to establish forecasts on any adverse effects that might arise from enlargement.

Basic assessment factors

The preceding chapter provides a number of quantified points of reference on the scale of financial flows between the Community and the three applicant countries. A number of more qualitative assessments should also be made. As regards direct balance of payments flows, the scale of the two most important flows, namely transfers of earnings by emigrants and private investment, will depend essentially on the relative growth process within the Community. This problem was dealt with in the preceding chapters. However, it would appear difficult at this stage to examine it in greater detail, although it must be considered as at least as important as the question of public transfers.

Community instruments

96. With regard to direct Community action through the budget or its other financial instruments, it should be stressed that the preceding exercise does not provide a basis for a wholly accurate assessment of the situation. The effect of enlargement on the general budget has been assessed on the as-

sumption that the three new Member States would be completely integrated as from 1978. This leaves open the question of developments during the transition period, between the beginning and end of the integration process.

With the accession of Greece, Spain and Portugal coming at a time when the system of own resources will have come into effect, solutions would have to found, with regard to *resources,* which would not adversely affect or slow down the operation of the system as established within the Community of Nine. The hypothesis to be adopted would consequently be the full payment of own resources from the beginning, subject to the transitional arrangements. Since the applicant countries do not at present have VAT, this part of resources would have to be calculated on the basis of GNP.[1]

With regard to *expenditure,* full application of Community instruments would no doubt require some time. In order to prevent the gradual integration of expenditure from producing a negative balance to the detriment of the new Member States, it might be possible to introduce degressive compensatory payments, which could be global and, if necessary, unconditional, similar to the present 10% flat rate refund of own resources. Certain problems arise regarding the use of financial instruments.

Firstly, some of them may not be able to be used immediately. Though the situation may differ from country to country and according to the areas considered, the three applicant countries might experience difficulties in introducing immediately the legislative, administrative or budgetary changes required to allow full application of the Community policies necessary for making use of the instruments. There is also a danger that the areas in which the instruments are applied may not always coincide exactly with the priorities of the applicant countries. This assessment must be qualified since there are ways of avoiding these constraints. Firstly, the non-quota part of the Regional Development Fund provides some initial room for flexibility. Similarly, the EIB and the new Community loan facility can be made more flexible and their priorities changed in the light of circumstances. These instruments would, therefore, be best suited for use during the initial period. Finally, the problem already facing the Community in the fragmentation of its assistance which prevents it from imposing sufficiently strict and consistent conditions, would become even more acute in a Community of twelve Member States.

Requirements and absorption capacity of the applicant countries

97. There is then this basic question of adapting Community action to the needs of the applicant countries. The introduction of structural reforms is essential so as to ensure stable and lasting growth in the applicant countries. Such reforms must aim in particular at increasing capital intensity per head of population in both industry and agriculture. Improving productivity in the agricultural sector requires a reduction in the agricultural labour force and hence the creation of jobs in other sectors. It is not possible at present to quantify exactly the costs to be borne by the applicant countries or to define the manner in which they could be financed. However that may be, this is a major problem, as has been clearly shown by the analysis given earlier, particularly with regard to agriculture. The problem is all the more preoccupying since the very rapid growth of the Community's labour force combined with the low level of growth also calls for large-scale job creation in the other Member States so as to contain unemployment and presents an obstacle limiting the scope for immigration.

98. The structural reforms in question require consistent development programmes covering both productive and infrastructure investment and qualitative measures such as improving the management of firms, the

[1] GNP: Article 4 of the Council Decision of 21 April 1970 on the replacement of financial contributions from Member States by the Communities' own resources (OJ L 94 of 28 April 1970) refers to gross national product.

training of better-qualified staff, the use of modern sales methods, the regrouping of production into larger units, etc. Until such back-up measures begin to have their full effect, the capacity of the applicant countries to absorb large-scale financial transfers will be limited; in view of the scale of the changes involved, this capacity could only increase slowly, especially in the case of Portugal.

99. It was thought desirable to treat separately the question of balance of payments assistance. The three applicant countries are, in varying degrees, confronted with balance of payments problems, the most serious by far being that of Portugal. In the long term, solving these problems depends on a recovery in international trade (particularly Community demand) and on the success of the structural reforms designed to improve export performances and to match domestic supply better to demand.

Nevertheless, the question arises of direct Community intervention to provide ad hoc balance of payments support. A distinction must be drawn here between a situation in which such aid would be clearly temporary or exceptional, and a serious situation requiring strict internal austerity measures. In the first situation, Community action could be more easily based on medium-term financial support or an extension of the Community loan. The second situation would be much more difficult in that there might, at least in appearance, be a contradiction between the austerity measures to be imposed and the objectives of ensuring growth and reducing unemployment. The Community could then find itself in a difficult political situation, if it were acting alone not only as lender but also as the authority imposing conditions and subsequently monitoring their implementation. The situation would be quite different if the Community were Community with other bodies, for example, the International Monetary Fund.

Whatever the political option selected, the conditions attached to any balance of payments support should place as much emphasis as possible on structural reforms.

Conclusions

100. In discussing enlargement, a parallel is often drawn either with the first enlargement of the Community, or with the setting up of the Common Market in 1958. However, the situations are extremely different whether one looks at the general economic context in which they took place or at the nature of the events themselves, given the different degree of development of the countries in question.

101. In 1958, the Western world was undergoing a period of boom and optimism; in particular, the six countries which signed the Treaty of Rome were experiencing a period of high growth with relative price stability. While there were some preoccupations at the time of the first enlargement, they concerned only particular aspects, and the general feeling remained that the economic crisis was only temporary and would be rapidly overcome. Today, the situation is quite different. The difficulties have persisted, and they are affecting, though in different ways and to different degrees, both the Member States of the present Community and the applicant countries. The problem of employment has become a major concern for all, and solving it will be a long and difficult process. The effects of the energy crisis and the new international division of labour have made it necessary to carry out structural changes, changes which are taking place only slowly and have created serious employment problems in the Community which could well grow worse and lead to increased regional disparities. The international monetary system is in turmoil, protectionist tendencies are growing sharper, and divergences within the Community are a cause for major concern.

Another important difference lies in the characteristics of the applicant countries. Their average living standards are at the lower end of the Community scale; they would bring with them considerable regional problems, and their development structure is well below that of the present Community. The necessary structural changes, the concentration of the industrial production process and increased agricultural productivity would produce pressure on the labour market, a situation which in the past has often resulted in emigration, particularly to the Community. Such emigration which, during the period of full employment, facilitated growth in the Community, would now perhaps be regarded as unwelcome. This problem becomes even more serious if one bears in mind the fact that the main areas of activity in the applicant countries, whether agricultural or industrial, are similar to rather than complementary to those in the present Member States and are sometimes in competition with the major areas of activity in a number of the Community's less developed regions. This would also pose problems for other countries, Mediterranean countries for example, with whom the Community maintains preferential links.

102. In view of this whole range of difficulties, enlargement could well place a serious handicap on the Community's momentum: on its internal momentum, particularly the consolidation and development of the internal market and the achievement of economic and monetary union, but also on its external momentum, based essentially on the opening up of markets and international cooperation. Here too there is a difference with the early years of the Community, when it was possible for internal cohesion to develop at the same time as the elimination of barriers between countries.

103. Awareness of these many obstacles must not overshadow the positive aspects which enlargement might bring or a number of favourable objective conditions which might exist. Apart from the act of political commitment, enlargement of the market should be of benefit to all. Moreover, the applicant countries are already largely integrated through trade links with the Community, and over the last twenty years their level of growth has been high, resulting in substantial changes in their economies. However, it must be borne in mind that in order to take advantage of these positive aspects and avoid the risk of undermining the forward move-

ment of the Community, an overall, voluntarist approach must be developed jointly.

104. Although a positive response to the three applications for accession must not be made conditional on the attainment of a particular growth rate, a return to sufficiently rapid and lasting growth is a major condition for resolving the serious economic policy problems which have to be overcome. This objective should be pursued jointly, and on it will depend initially the reciprocal capacity to overcome the obstacles arising from restructuring and intensified competition, which will in any case result from the integration process. However, attempts to restore growth will not be sufficient by themselves; they will have to be supported and complemented by policies designed to solve certain specific problems, such as the harmonius development of the regions, and to attenuate or eliminate situations of conflict. It was felt apropriate at this stage to outline briefly the possible growth scenarios.

105. The first and most favourable would be a rapid return to the conditions prevailing before the crisis. The Community would grow at an annual rate of just 4.5%, and the applicant countries would record a rate of 1.5% to 2% higher. The applicant countries would thus gradually catch up with the rest of the Community, though admittedly at a relatively slow pace. Numerous difficulties would persist, especially in the regional area, but this rate of growth would probably make it possible to free resources for measures designed to attenuate such problems and to reduce the seriousness of situations of conflict, which would at all events be less numerous and less acute than if there were less rapid growth. Although it is to be hoped that this can be achieved, and efforts made to encourage such a development, it would be dangerous and unrealistic to work out a strategy on the basis of this hypothesis alone. The constraints at present hampering any revival in growth are very considerable, and the outlook for spontaneous growth is much less favourable.

106. Another extreme scenario would be a situation where growth in the Community levelled off at about 2% a year. This would probably mean that at the same time the international situation was generally unfavourable. The applicant countries might then be locked in virtual stagnation, given the importance of satisfactory external markets for their development. Such a situation would not make the enlargement of the present Community to include the three applicant countries any less desirable; but the extent of the problems to be resolved would make enlargement a much more difficult objective to attain satisfactorily. The unemployment situation would take on very serious proportions both in the Community and the applicant countries, and there would be considerable disparities between installed capacity and demand; the vital structural changes could not be made in view of their impact on employment, and, finally, critical conflict situations would tend to multiply. Such a scenario would be considered unacceptable, and it would almost inevitably lead to defensive reactions and protectionism. If such a situation were to develop, all the means available to the Community would have to be mobilized to overcome it. At present, however, it must also be considered as relatively improbable; at all events, the questions it raises go well beyond the problem of enlargement.

107. The most realistic approach to dealing with the question of enlargement is thus to work out possible strategies based on an average growth hypothesis of between 3% and 4% a year. The strategy to be adopted on the basis of this scenario should include two concomitant and complementary lines of action: firstly, a continuous and concerted effort to ensure the highest possible level of growth with a substantial positive differential for the applicant countries; secondly, the implementation of the back-up policies necessary to ensure that the integration process takes place as smoothly as possible and that the necessary structural changes are carried out without causing too much strain. Indeed, with the level of growth envisaged, the situation will remain difficult for the Communi-

ty as a whole in so far as underlying progress in technical productivity will remain high and will thus have an effect on employment. This strategy must seek to minimize the risks of conflict and to ensure that the efforts involved are shared fairly.

108. Here a fundamental choice would have to be made in order to overcome conflicts of interest arising from the implementation of the measures to be taken, whether they concern the opening up of markets or structural reforms. One possibility would be the systematic use of safeguard clauses enabling time limits to be extended or certain measures to be deferred indefinitely. Embarking on such a course could entail the risk of reducing the significance of Community membership. Without ruling out recourse to such extreme measures, efforts should be made to keep it to a minimum by endeavouring to define positive policies.

109. The overall strategy thus proposed implies that the problems should be seen from the viewpoint of a Community of twelve Member States, that is to say there should be an overall set of compatible options and priorities underpinned by the implementation of procedures and measures designed to ensure sufficient consistency and flexibility in the areas of internal policies and in their time path. It has not been possible at this preliminary stage of assessment to define precisely the content of such a programme, but a number of principles can be put forward.

The proposed approach would consist in defining for the Community of Twelve a multiannual action programme aimed at reconciling within a coherent whole the medium-term economic objectives — those of the present Member States being inserted in the Community medium-term economic policy programme — and the structural measures required as a result of accession. This common programme, which should correspond to the proposed timetable for accession, would be drawn up during the negotiation period and would cover the transitional period. A strict link would also be established with progress towards the gradual achievement of economic and monetary union.

110. The existing Community financial instruments, possibly adjusted or supplemented by new instruments, should also be included directly in this programme so as to give the Community the necessary leverage to encourage and support the implementation of the necessary policies. The Community's financial contribution should go primarily to the areas deemed to be of priority importance. This would ensure the necessary consistency between Community policies and their instruments. Given the Community-wide interrelationships between the policies to be pursued, such financial action should be conceived of in terms of the Community of Twelve. Given the nature of the problems, the absorption capacity of the applicant countries — which can increase only by stages — and the savings performance of those countries in the past, a policy geared exclusively to massive and non-specific transfers from the Nine to the Three will be inadequate.

The strategy briefly outlined here will without any doubt require the strengthening of the Community, and a tightening of and possibly some adjustment to the policies which it pursues or intends to pursue. This would seem to be a precondition if enlargement is to mean a further advance in the process of European integration and not its weakening.

Annexes

Table 1 — *Growth of GDP (volume) (at 1970 prices and exchange rates)*[1]

	Trend 1961-1975 (% p.a.)			1976[3]	1977[3]
	Ø 1965/1960	Ø 1970/1965	Ø 1975/1970		
F.R. Germany[2]	5.1	4.7	1.7	5.7	3.0
France	5.6	5.8	3.5	5.2	2.7
Italy	5.1	6.0	2.2	5.6	2.0
Netherlands	4.9	5.7	3.1	4.4	2.5
Belgium	5.0	4.8	3.4	3.0	2.7
Luxembourg	3.2	3.3	1.8	2.7	1.3
United Kingdom	3.2	2.3	2,0	1.6	0.4
Ireland	3.7	4.7	2.7	3.2	5.0
Denmark	5.3	4.4	2.1	4.8	1.0
Community of Nine	4.7	4.6	2.5	4.7	2.3
Spain	8.6	6.4	5.4	1.9	2.3
Greece	8.0	7.2	5.1	6.0	5.0
Portugal	6.4	6.1	4.7	n.a.	n.a.

[1] 1960-75: SOEC, ESA National Accounts, Aggregates, 1976 Yearbook.
[2] National data at 1962 prices.
[3] For *Community* countries—economic budgets, October 1977. For *Spain, Greece* and *Portugal*—OECD Economic Surveys.

Table 2 — *Occupied civilian labour force by sector of activity*

(%)

	Ø 1961-1965			Ø 1966-1970			Ø 1971-1975			1975		
	A	I	S	A	I	S	A	I	S	A	I	S
F.R. Germany	12.0	48.8	39.2	9.8	48.6	41.7	7.6	47.5	44.9	7.4	46.0	46.6
France	19.6	38.9	41.5	15.6	38.9	45.5	12.3	39.0	48.7	11.3	38.6	50.1
Italy	27.8	40.1	32.1	22.4	42.2	35.4	17.5	44.1	38.4	15.8	44.1	40.1
Netherlands	9.9	40.7	49.4	7.9	39.2	52.9	6.8	36.2	57.0	6.6	34.8	58.6
Belgium	7.4	47.0	45.6	5.5	45.0	49.5	3.9	41.5	54.6	3.6	39.9	56.5
Luxembourg	14.0	45.9	40.1	10.1	46.5	43.3	7.0	47.6	45.4	6.2	47.2	46.6
United Kingdom	4.3	46.8	48.9	3.5	45.5	51.0	2.9	42.5	54.6	2.7	40.7	56.6
Ireland	34.2	26.4	39.4	29.3	28.9	41.8	25.0	30.8	44.2	24.3	30.3	45.4
Denmark	—	—	—	—	—	—	9.9	33.8	56.3	9.8	31.5	58.7
Community of Nine	—	—	—	—	—	—	10.3	40.3	49.4	9.7	39.2	51.1
Spain	36.2	34.7	29.1	31.4	36.7	31.9	24.8	37.2	38.1	22.0	38.3	39.7
Greece[1]	56.3	18.0	25.7	—	—	—	38.9	26.3	34.8	—	—	—
Portugal	39.3	29.7	30.7	33.7	31.6	34.7	27.8	33.7	38.5	28.1	33.3	38.6

A = Agriculture, forestry and fisheries.
I = Industry.
S = Services.
[1] Greece — data for 1961 and 1971 only.

Table 3 — *Productivity: GDP in volume/occupied population*

(% p.a.)

	Ø 1965/1960	Ø 1970/1965	1971/1970	1972/1971	1973/1972	1974/1973	1975/1974	Ø 1975/1970	Economic budget 1976/1975	1977/1976
F.R. Germany	4.5	4.7	2.9	3.6	4.8	2.6	0.0	2.7	6.5	4.6
France	5.0	4.9	4.7	5.0	3.8	2.1	2.0	3.2	5.7	3.8
Italy	6.1	5.9	1.7	4.5	6.1	2.1	−3.5	2.1	4.9	2.5
Netherlands	3.3	4.8	3.8	4.8	5.9	2.5	−2.0	3.3	4.0	3.7
Belgium	4.0	4.6	2.9	5.5	4.9	2.4	−0.8	3.0	4.6	3.5
Luxembourg	3.0	3.0	−0.2	1.6	4.9	0.8	−7.9	−0.3	4.6	2.8
United Kingdom	2.4	2.7	4.0	2.7	3.5	−0.1	−0.9	1.8	2.6	1.1
Ireland	3.5	5.1	3.9	5.9	3.8	−0.6	1.5	2.9	5.0	2.2
Denmark	3.6	3.1	3.3	4.0	2.2	0.8	1.1	2.3	3.3	2.3
Community of Nine	4.3	4.5	3.5	4.1	4.3	1.6	−0.6	2.6	5.1	3.0
Spain	8.0	5.4	4.2	7.9	5.8	4.5	2.6	2.7	n.a.	n.a.
Greece	8.5	8.1	8.1	8.3	6.9	−3.7	5.8	4.9	n.a.	n.a.
Portugal	5.5	5.4	6.1	9.5	11.9	2.9	−3.0	5.4	n.a.	n.a.

Sources: For the *Community*—1960-75: SOEC, ESA National Accounts, Aggregates 1960-1975, 1976 Yearbook; 1976-77 economic budgets 18 May 1977; national data, 1962 prices. For *Spain, Greece* and *Portugal*—OECD, National Accounts 1977, Labour For.e Statistics, 1973 and 1976.

Table 4 — *Gross fixed capital formation as proportion of GDP (at 1970 prices)*

	Ø 1961-1965	Ø 1966-1970	Ø 1971-1975	1970	1971	1972	1973	1974	1975	1976	1977
F.R. Germany	26.4	25.5	24.5	25.6	26.4	26.3	25.2	22.5	22.2	22.1	22.0
France	20.7	22.7	23.9	23.4	23.8	24.2	24.3	24.0	23.0	23.0	22.4
Italy	22.8	20.9	19.6	21.3	20.3	19.9	20.0	19.9	18.0	17.4	17.4
Netherlands	23.1	25.9	23.1	25.7	25.4	23.6	23.6	21.8	21.1	19.8	20.9
Belgium	22.5	23.0	21.5	22.7	21.4	21.1	21.3	33.0	21.7	21.1	20.6
Luxembourg	27.8	23.8	26.3	23.8	26.2	25.9	26.6	26.7	26.0	24.1	25.0
United Kingdom	16.4	18.4	18.3	18.7	18.6	18.5	18.1	18.2	18.0	17.0	15.6
Ireland	17.5	21.1	24.1	22.6	23.2	23.8	26.8	23.9	22.0	23.1	24.5
Denmark	19.6	21.4	21.3	21.7	21.6	22.4	23.1	21.1	18.4	20.3	19.8
Community of Nine	21.9	22.5	22.2	22.8	23.0	22.9	22.6	21.6	20.8	20.5	20.2
Spain	19.0	21.9	23.3	23.3	21.7	23.0	24.3	24.2	23.2	22.3	21.6
Greece	21.3	23.4	23.8	23.6	25.2	26.7	26.8	20.8	19.5	19.6	19.9
Portugal	16.8	17.9	18.6	17.5	18.5	20.7	26.8	20.1	12.8	n.a.	n.a.

Sources: For the *Community*—SOEC, ESA National Accounts, 1960-76, and economic budgets, October 1977. For *Spain, Greece* and *Portugal* —OECD, National Accounts and Economic Surveys (OECD estimates for 1977).

Table 5 — *Exports as proportion of GDP (at 1970 prices)*

(%)

	Ø 1961-1965	Ø 1966-1970	Ø 1971-1975	1970	1971	1972	1973	1974	1975	1976	1977
F.R. Germany	14.2	18.7	23.1	20.3	20.9	21.5	23.1	25.6	24.3	25.9	26.3
France	10.2	13.0	13.1	15.3	16.2	17.2	18.4	19.7	19.2	20.0	20.8
Italy	11.5	15.9	19.7	17.2	18.2	19.7	19.1	20.1	21.6	23.0	24.5
Netherlands	34.1	40.7	52.4	45.6	48.3	51.6	54.9	54.1	53.2	56.4	55.0
Belgium	37.8	45.7	54.9	50.6	51.1	54.1	57.9	57.8	53.8	56.4	57.6
Luxembourg	68.2	75.8	85.5	83.1	80.1	82.1	89.6	90.2	85.6	86.0	83.3
United Kingdom	18.4	20.4	24.3	22.4	23.5	23.2	24.2	25.6	25.0	26.0	27.9
Ireland	25.7	31.8	34.8	32.3	32.6	33.0	35.4	35.3	37.9	40.1	42.9
Denmark	23.1	26.1	30.7	27.2	29.0	29.1	31.1	32.9	32.5	31.8	22.0
Community of Nine	16.2	19.9	24.9	22.0	22.9	23.8	25.1	26.6	26.0	27.3	28.1
Spain	10.0	12.3	14.1	13.2	14.2	14.5	14.8	13.0	13.4	14.4	15.2
Greece	8.0	9.8	12.6	10.0	10.5	11.8	13.6	13.4	13.8	n.a.	n.a.
Portugal	21.0	26.8	23.1	23.6	25.1	26.8	24.6	21.3	17.5	n.a.	n.a.

Sources: For the *Community*—SOEC, ESA National Accounts, 1960-76, and economic budgets, October 1977. For *Spain, Greece* and *Portugal* —OECD, National Accounts and Economic Surveys (OECD estimates for 1977).

Table 6 — *Foreign trade (volume)*

	Exports (% p.a.)		Imports (% p.a.)[1]		Import elasticities[2]	
	Ø 1970/1960	Ø 1975/1970	Ø 1970/1960	Ø 1975/1970	Ø 1970/1960	Ø 1975/1970
F.R. Germany	8.8	6.2	10.0	5.5	2.1	2.9
France	10.2	8.3	10.4	7.1	1.8	2.0
Italy	12.0	7.1	11.2	2.9	2.0	1.3
Netherlands	8.2	6.7	8.6	3.3	1.6	1.1
Belgium	9.3	4.7	8.7	4.9	1.8	1.4
Luxembourg	5.4	2.4	7.3	5.4	2.2	3.0
United Kingdom	4.7	4.4	3.9	4.2	1.4	2.1
Ireland	8.1	6.4	9.2	2.5	2.2	0.9
Denmark	6.9	5.8	8.1	2.9	1.7	1.4
Community of Nine	8.3	6.2	8.5	4.8	1.8	1.9
Spain	12.2	5.8	17.0	8.1	2.3	1.5
Greece	10.7	12.0	14.5	8.0	1.9	1.6
Portugal	9.3	−1.3	9.9	3.2	1.6	0.7

[1] Goods and services

[2] Ratio average annual import rates/GDP.

Sources: For the *Community*—1960-75: SOEC, ESA National Accounts, Aggregates. For *Spain, Greece* and *Portugal*—OECD, National Accounts.

Table 7 — *Implicit price deflators for GDP (% rate of increase p.a.)*

	Ø 1965/1960	Ø 1970/1965	Ø 1975/1970	1971/1970	1972/1971	1973/1972	1974/1973	1975/1974	1976/1975	1977/1976
F.R. Germany	3.6	3.6	6.7	7.6	5.7	6.1	6.9	7.1	3.1	3.5
France	4.3	4.3	9.1	5.9	6.3	7.9	11.5	14.1	9.6	9.0
Italy	5.6	3.5	11.7	7.2	6.2	11.3	16.8	17.6	17.8	19.3
Netherlands	5.0	5.1	9.0	8.4	8.9	8.2	8.7	11.0	8.6	6.5
Belgium	3.1	3.7	8.5	5.3	5.6	6.9	12.7	12.3	8.7	7.8
Luxembourg	2.4	6.1	5.7	−0.9	6.1	13.4	13.2	2.9	2.5	8.3
United Kingdom	3.5	4.9	13.0	8.9	8.0	7.9	13.4	27.8	15.3	13.9
Ireland	4.8	6.0	13.7	10.0	13.3	15.4	7.2	23.0	18.3	13.2
Denmark	5.7	6.2	9.5	6.1	8.6	10.3	11.2	11.4	9.1	9.0
Community of Nine	4.1	4.2	9.6	7.3	6.7	8.0	11.2	15.2	9.1	9.1
Spain	6.5	5.2	11.5	7.9	8.2	11.5	13.8	16.5	16.1	21.1
Greece	3.1	3.3	11.9	3.2	5.0	19.4	22.0	11.4	13.3	11.5
Portugal	2.0	4.2	10.9	5.5	7.5	9.5	19.5	15.8	n.a.	n.a.

Sources: For the *Community*—1960-75: SOEC, ESA National Accounts, Aggregates 1960-1975, 1976 Yearbook; 1976 and 1977: economic budgets, October 1977. For *Spain, Greece* and *Portugal*—OECD, Economic Surveys.

Table 8 — *Compensation of employees as % of GDP (value)*

	Ø 1961-1965	Ø 1966-1970	Ø 1971-1975	1970	1971	1972	1973	1974	1975	1976
F.R. Germany	49.3	50.5	55.4	53.1	53.9	54.2	55.4	56.7	56.6	55.6
France	46.4	49.1	51.0	48.9	49.5	49.3	50.1	52.2	53.9	54.0
Italy	44.8	46.5	53.3	48.3	50.9	51.7	52.6	53.7	57.6	56.8
Netherlands	51.6	55.5	58.3	56.8	57.5	56.9	57.4	59.0	60.7	59.4
Belgium	47.5	49.8	54.5	50.0	51.9	53.6	54.3	55.3	57.3	56.7
Luxembourg	50.0	51.7	58.0	48.7	54.4	55.7	53.1	57.4	69.4	70.9
United Kingdom	60.3	59.7	62.4	60.1	59.4	60.5	60.7	64.6	66.8	64.7
Ireland	48.4	50.4	53.5	51.5	52.2	50.7	50.8	56.1	57.5	56.7
Denmark	49.1	51.4	55.4	52.7	53.5	53.2	54.0	57.5	59.0	58.8
Community of Nine	50.5	51.5	55.4	52.8	53.6	54.0	54.6	56.7	58.1	57.2
Spain	46.3	48.7	52.2	49.4	49.6	51.3	51.7	53.8	54.5	56.3
Greece	28.6	31.3	31.4	31.4	31.6	31.9	30.1	31.2	32.3	
Portugal	n.a.	40.7	44.1	41.1	42.6	41.3	40.4	46.3	49.8	

Sources: For the *Community*—1961-74: SOEC, ESA National Accounts, Aggregates 1960-1975, 1976 Yearbook; 1976-77: economic budgets, January 1977. For *Spain, Greece* and *Portugal*--OECD, National Accounts

Table 9 — *Proportion of employees in total labour force*

(%)

	∅ 1961-1965	∅ 1966-1970	∅ 1971-1975	1970	1971	1972	1973	1974	1975
F.R. Germany	79.4	81.9	84.3	83.4	83.8	84.1	84.4	84.5	84.5
France	73.5	77.0	80.6	78.6	79.3	80.0	80.8	81.4	81.6
Italy	63.8	66.9	70.7	68.2	69.2	70.4	71.0	71.3	71.6
Netherlands	80.6	82.8	84.5	83.7	84.1	84.2	84.5	84.7	84.9
Belgium	75.9	78.6	82.6	80.9	81.7	82.2	82.7	83.2	83.1
Luxembourg	74.3	79.5	83.9	81.5	82.0	83.2	84.2	84.7	85.3
United Kingdom	93.0	92.8	92.2	92.3	92.2	92.2	92.2	92.3	92.3
Ireland	63.2	67.3	70.6	68.8	69.8	70.0	70.7	71.4	71.1
Denmark	77.9	78.8	81.4	80.1	80.1	81.6	81.8	82.0	81.7
Community of Nine	78.2	80.4	82.6	81.4	81.8	82.4	82.8	83.0	83.1
Spain	61.0 [1]	62.7	67.2	63.9	64.4	66.6	67.2	67.8	69.8
Greece	32.1 [2]	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Portugal	73.9 [1]	74.7	76.5	76.2	76.0	76.1	76.7	76.9	76.7

Sources: For the *Community*—SOEC, ESA, 1976 Yearbook. For *Spain, Greece* and *Portugal*—OECD, Labour Force Statistics.

[1] 1962-65

[2] 1961.

Table 10 — *GDP 1970/1975*

	1970		Average annual growth rate of *per capita* GDP (volume)[3] Ø 1975/1970	1975 *Per capita* GDP estimated on the basis of (2) and (3) in (USD)
	Per capita GDP in USD[1]	Idem, adjusted to take account of differences between domestic purchasing powers of various currencies[2]		
	(1)	(2)	(3)	(4)
F.R. Germany	3 159	3 518	1.3%	3 753
France	2 790	3 436	2.8%	3 945
Italy	1 869	2 558	1.4%	2 742
Netherlands	2 431	2 985	2.1%	3 312
Belgium	2 639	2 983	3.2%	3 492
United Kingdom	2 190	2 995	1.8%	3 274
Ireland	1 722	2 332	1.5%	2 512
Denmark	3 194	3 468	1.5%	3 736
Spain	1 089	1 904	4.6%	2 384
Greece	1 133	1 853	4.5%	2 309
Portugal	711	1 297	3.0%	1 504
United States	4 790	4 790	1.3%	5 109
Japan	1 968	2 764	3.8%	3 331

Sources:
[1] Yearbook of National Accounts Statistics, UN, 1975 Vol. III, Table 1A.
[2] 'Real GDP per capita', I. Kravis, A. Heston & R. Summers, 15th General Conference, International Association for Research in Income and Wealth, 19-25 August 1975, University of York, England.
[3] OECD, National Accounts, 1975, Vol. I, Principal Aggregates.
NB. The figures show that in 1975 *per capita* GDP in Spain and Greece was comparable with that, for example, of Italy (14 and 16% lower respectively). The size of the adjustment made by referring to purchasing power parities was confirmed, as regards Spain, by consumer price surveys carried out in autumn 1972 and autumn 1975 by the SOEC in the capital cities of Community countries and by INS in Madrid. The surveys revealed that the peseta was heavily undervalued.
The under-valuation in October 1975, revealed by the differences between the rates for consumer purchasing power equivalence in Madrid and market exchange rates (taken as a basis for comparison), amounted to 58% with respect to the French franc, 54% with respect to the German mark and 23% with respect to the Italian lira.

European Communities — Commission

Enlargement of the Community — Economic and sectoral aspects

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The analysis of the economic problems which the applicant countries will face and pose in joining the Community is one of the adjuncts to the Commission Communication to the Council 'Enlargement: the Commission's views'.

It concentrates on their growth capacity and the leeway they have to make up in their development, their employment problem and the effects of those problems in terms of unemployment and emigration of labour, the changes which will have to be made in sharing their resources between immediate and future consumption, and production intended for the home market or exports; the substantial structural changes which adjustment will require in terms of rural exodus, sectoral options and regional balance; the major macroeconomic equilibria without which lasting growth cannot be achieved.

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