

Brussels, 9 February 1972

Mr. Franco Maria Malfatti  
President of the Commission

Dear President,

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I think that in view of the mandate it has been given, the Commission is the only body in a position to make proposals from an entirely independent position.

May I begin by quoting some facts:

1. It is increasingly clear that the national governments are no longer capable of ensuring stable growth in their economics. This is not a phenomenon peculiar to Europe, since it can be found in all the industrialized countries (e.g. the United States, Japan, etc.), which are beset by galloping inflation even accompanied by increasingly serious unemployment.
2. Monetary equilibrium has not been established. At best we might talk of a respite, but even now all the elements of a new crisis have gathered together. International funds and other similar institutions are good only for treating the symptoms without helping to create lasting stability.

These are some of today's problems, but even more serious are matters with which we are soon going to be faced and which are becoming ever clearer. When I say "we", I am thinking not only of Europe, but of all mankind.

These problems are connected with the following factors which will play major roles in deciding the future of mankind:

- (i) Demographic trends in the world,
- (ii) Food production,
- (iii) Industrialization,
- (iv) Pollution,
- (v) Use of natural resources.

I have mentioned only these points because they form the basis of the report by the System Dynamics Group of the Massachusetts Institute of Technology, Cambridge, Massachusetts (July 1971).

The following topics might be added:

- (i) The meaning of human work,
- (ii) Establishment of a genuine democracy,
- (iii) Equal chances for all,
- (iv) Our relations with developing countries.

It could be argued from a legal point of view that the last field does not fall within the Commission's competence. Personally, the legal aspect does not interest me, for it is as a political body that we must give our opinion, probably in the form of a "last will and testament", to rouse public opinion and to bequeath directives to the new institutions in the Community of Ten.

The MIT report will shortly be published.

Although it is not yet known how exact the calculations are, its general line is already so clear that it can be used as a basis for our discussions and our studies.

The considerations that I put to you are built on the conclusions of the report and concern the following subject:

What can we do as "Europe" and what must we do to stop the machine seizing up?

The problems are so fundamental, so complex and so closely linked that we might ask: Can something in fact be done? Can Europe intervene? Does not this task involve the whole world?

Even if the problems exist primarily at world level, I think it is indispensable that Europe should do all in its powers to play a beneficial role in fields where it has some influence.

In this respect it is clear that policy must be radically redirected, but for the time being I shall forgo an examination of the means of making this policy acceptable to public opinion and hence of giving it concrete shape. Moreover, this task is one for the political parties rather than the Commission.

To my mind, it would be unrealistic to think that results could be achieved rapidly at world level. For the United Nations drag on from crisis to crisis and seem to be in confusion or powerless.

On the other hand, the Europe of Ten is about to become a very real factor of influence in the world and, in the years to come, with its institutions strengthened it will be able to pursue effective policies. At all events the Commission's immediate duty is to stress the need for this.

If Europe pursues a clear-cut policy, it will be in a better position to impose a policy on the rest of the world, and in particular on the United States and Japan.

If Europe does not adopt a clear policy, but allows itself to be towed along in the wake of events and forgoes all initiatives, I feel that the cause is lost, for in my opinion the United States has not the necessary political force to steer the world towards the solution of this great problem. The United States is on the downgrade and we will have extreme difficulty in saving it from total collapse.

The conclusion is that Europe has a task to fulfil.

The key problem is that of world population growth. It is above all in the developing countries that the birth rate is taking on agonizing proportions, but the industrialized West cannot escape the need to bring the birth rate under control. If nothing is done, world population is going practically to double in thirty years, to increase from 3500

million to 7000 million inhabitants by the year 2000. In the industrialized countries of the West the consumption of raw materials and energy is about 25 times higher per inhabitant than the average in the developing countries.

Even if we managed to make a "replacement family" the standard in thirty years or so, the population would nevertheless increase to some 6000 million. One of the reasons for this is the fact that in the developing countries some 45% of the population is under 15. It is likely that the demands of a population of 6000 million would also exceed the possibilities of what can be considered a reasonable level of supply. In any case it is more than desirable that in the long run world population should be stabilized.

Our duty is to point to economic action which can help in limiting births. Tax policy and the abolition of assistance for large families spring to mind. We should be able to make concrete proposals on this matter.

Supposing stable world's population, it would seem possible, at least in theory, to bring about a certain equilibrium in the growth of various factors; this is necessary if mankind is to survive (Run V of the MIT report).

For this, however, all the following conditions must be met:

1. Priority must be given to food production, with investments also being made in supposedly "unprofitable" agricultural products;
2. The consumption of material goods (social security, possibilities for developing intellectual activities, organization of leisure and recreation, etc.);
3. The life of all capital goods must be distinctly lengthened by avoiding wastage and by not producing non-essential goods;
4. The battle must be joined against pollution and the using up of raw materials by redirecting investments towards recycling and anti-pollution measures. This will naturally result in changes in demand and, consequently, in production.

As it would seem to be over-optimistic at the present time to suppose a stable world population, we must consider whether there are not grounds for adopting (political) measures much more radical than those above. We are then faced with the burning question of whether such steps would be possible in the established social order and whether, for example, the existing production system can be maintained in undertakings. In my opinion asking the question is the same as giving a negative answer. It is difficult, however, to find a more adequate solution.

As State socialism, etc. do not provide the solution, we should perhaps seek a wide variety of forms of production implying strongly centralized planning and largely decentralized production. In theory, the problem is as follows:

To achieve a stable balance, the world population will have to fall far more sharply still. Meadows calculated that for a world population of 500 to 1000 million (with a very low standard of living) the balance could be maintained for more or less 500 years. I do not think that we can take that as our starting point. We shall have to set our present political objective for a much closer date and consider which measures will help in attaining it, supposing a stable world population.

It is clear that tomorrow's society cannot be concentrated on growth, at least not as far as material goods are concerned.

To begin with we should stop directing our economic system to the search for maximum growth and to constant increase in the gross national product. A suggestion would be to replace the GNP by gross national utility. (It remains to be seen whether this utility can be quantified.) In this connection Tinbergen's concept of "gross national happiness": is relevant. We would do well to examine how we could help in establishing an economic system which is no longer based on maximum growth per inhabitant. To this end we will have to deal with problems of planning, tax policy, the distribution of raw materials and perhaps of certain essential manufactured products too.

To help in this work of reflection and to provide an example of what concrete implications such a policy might have, I should like to make a number of suggestions for a European policy. (See Runs V, VI, VII, VIII, IX and X and Run 9: agriculture.)

Here I shall consider only two aspects of the problem:

1. A rigorously planned economy which would ensure that for each person the minimum requirements for existence are met.
  2. A non-polluting production system and the creation of a recycling economy.
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1. To attain the second objective there will have to be a distinct fall in the material well-being of each inhabitant and restrictions on the free use of goods. If we are to set ourselves standards of fundamental fairness, our economy will have to be designed in such a way that it provides equal chances for all. For this we will be obliged to distribute the necessary raw materials and capital goods between the public sector and



the private sector. At the same time, planning will have to follow a line which ensures that essential goods and services are available for consumption with the lowest possible utilization of raw materials and energy. To offset the fall in material well-being, public authorities will also have to pay more attention to providing more possibilities for mental and cultural development and consequently they must arrange for all the necessary improvements.

I feel that the Commission should work out a proposal for drawing up:

- (a) A "European central plan" (or European economic plan). In this plan the search for the highest possible GNP is abandoned and replaced by the GNU.

We shall have to acknowledge that even if the greater concern shown by the public authorities for developing the mind would in reality require an increase in gross national product, we quite simply no longer have the means of achieving this increase, since our prime objective will be to safeguard ecological balance and to preserve sufficient sources of energy for future generations.

The European economic plan which would take the form of a directive, would then have to be respected when national economic plans were worked out.

- (b) A five-year plan for the development of a new anti-pollution production system based on a closed circuit economy (CR production = clean and recycling).

We must examine to what degree these rigorous measures will have to be propped up by supporting measures involving tax and tariff policies and if necessary by allocating raw materials.

I feel that the Commission could make concrete proposals in the following fields.

- (i) Establishment of a system of production certificates (CR certificates) with checks at European level.
- (ii) A change in the VAT system to favour products covered by a CR certificate and to tax classical products more heavily (the difference in the rate being equal to the difference between the costs of production with an additional "penalty tariff" for non-CR products).
- (iii) Encouragement of steps to give consumer goods a longer lifetime. This can result in large savings in raw materials. In addition to provisions affecting production,

tax measures should also be envisaged which would introduce the ideas of economy and long life to consumption. An example would be heavy taxes on car in the first five years of their life, followed by a reduction in the taxes for the next five years and finally no taxes.

In this connection consideration should also be given to banning the production of non-essential goods or else taxing them very heavily. At the present time we are indulging in inconsiderate wastage.

- (iv) A European system for distributing raw materials and various manufactured products would appear necessary:
  - (a) to give priority to goods intended for the public sector
  - (b) to avoid waste
  - (c) to guarantee equal chances for all, a penury economy requiring the distribution of goods first necessity.
- (v) Research  
There is still a vast unexplored field of problems raised by non-polluting production based on recycling.

Hitherto, research has in practice been centred on growth. It should now be switched towards utility and well-being. An obvious solution would be to put an end to the eternal squabbling over the Euratom research budget and to change it into a research programme aimed exclusively at attaining the objectives set out above. Scientific research is in fact faced with a large number of technical and biological questions for which no answer has yet been found. It would seem sensible to associate with this work the economic research which is necessary if account is to be taken in the new economic policy of the consequences of applying new methods (European central plan). All too often technical research is carried out without any consideration being given to its economic and, consequently, social implications.

I think that the research programme should deal in particular with:

- (a) protection of the environment,
- (b) ecological and biological balance,
- (c) closed circuit production,
- (d) economic consequences.

A programme based on the above points can be put into effect in the new Community of Ten.

We form a single market without any internal barriers, but protected against non-member countries. It would therefore be desirable to pursue a strongly integrated economic and, hence, tax policy.

It is self-evident that the result of putting into effect such a programme will be a sharp increase in costs and that there will have to be protection against external influences. This could be done in the following way:

Transformation of the present external tariff into a tariff aimed at protecting CR products. The present rules of GATT would, of course, have to be amended, but they are in any case already out of date and must be reviewed ready for the establishment of the Europe of Ten.

It would be possible to have:

- (i) a zero tariff for goods covered by an approved CR certificate;
- (ii) a tariff  $x$  for goods produced by classical methods ( $x$  = difference in production costs between CR goods and classical goods + "penalty tariff").

This scheme would considerably encourage the manufacture of CR products. If, for instance, Europe and the United States could agree on a tariff of this kind, the rest of the world would be obliged to follow their lead.

Special provisions will have to be made for developing countries. Aid would have to be made available to enable them to set up CR production. Their growth, which is at present too slow, could thus be changed into a rapid expansion, and it is in the immediate interest of the rich countries that the poor countries should go over to CR production as early as possible. A fund might be created to promote CR production in developing countries. It would grant investment aid to countries which chose CR production.

In conclusion, I should like to put to you some consideration concerning agriculture.

Natural balance will play an increasing role in food production. Although food production must be increased considerably, two restrictive factors are soon encountered:

- (a) The limited area of arable land (3500 million hectares) for the treatment of which sufficient unpolluted fresh-water is available (in this connection it should be noted that there is no sense in contemplating the massive desalination of salt water as this would use up an enormous amount of energy and would affect the thermal balance)'
- (b) The disruption of the ecological balance as a result in particular of the use of pesticides and insecticides which are required for mass production.

In this field the European Community can set an example:

- (a) by authorizing the use of:
  - 1. Readily degradable chemicals which in the long run do not disrupt the environment (e.g. not DDT);



2. Materials which have been proved to have no harmful effects on health.
- (b) Changes in quality criteria: laying the accent on food-value and taste qualities rather than on the external aspect of the products.
- (c) Measures to encourage closed circuit production in order to prevent the destruction of precious natural. (As examples, I could quote the re-establishment of the natural equilibrium in the world of insects and birds and the safeguard of the general ecological balance.)

Protection via-à-vis the outside world could be based on CR tariffs, while CR certificates in agriculture could also give entitlement to tax facilities and special policy on prices.

I have done nothing more than give a number of examples of politics and I have not attempted to outline an overall scheme.

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