NOVEMBER-DECEMBER 1981 NO. 228

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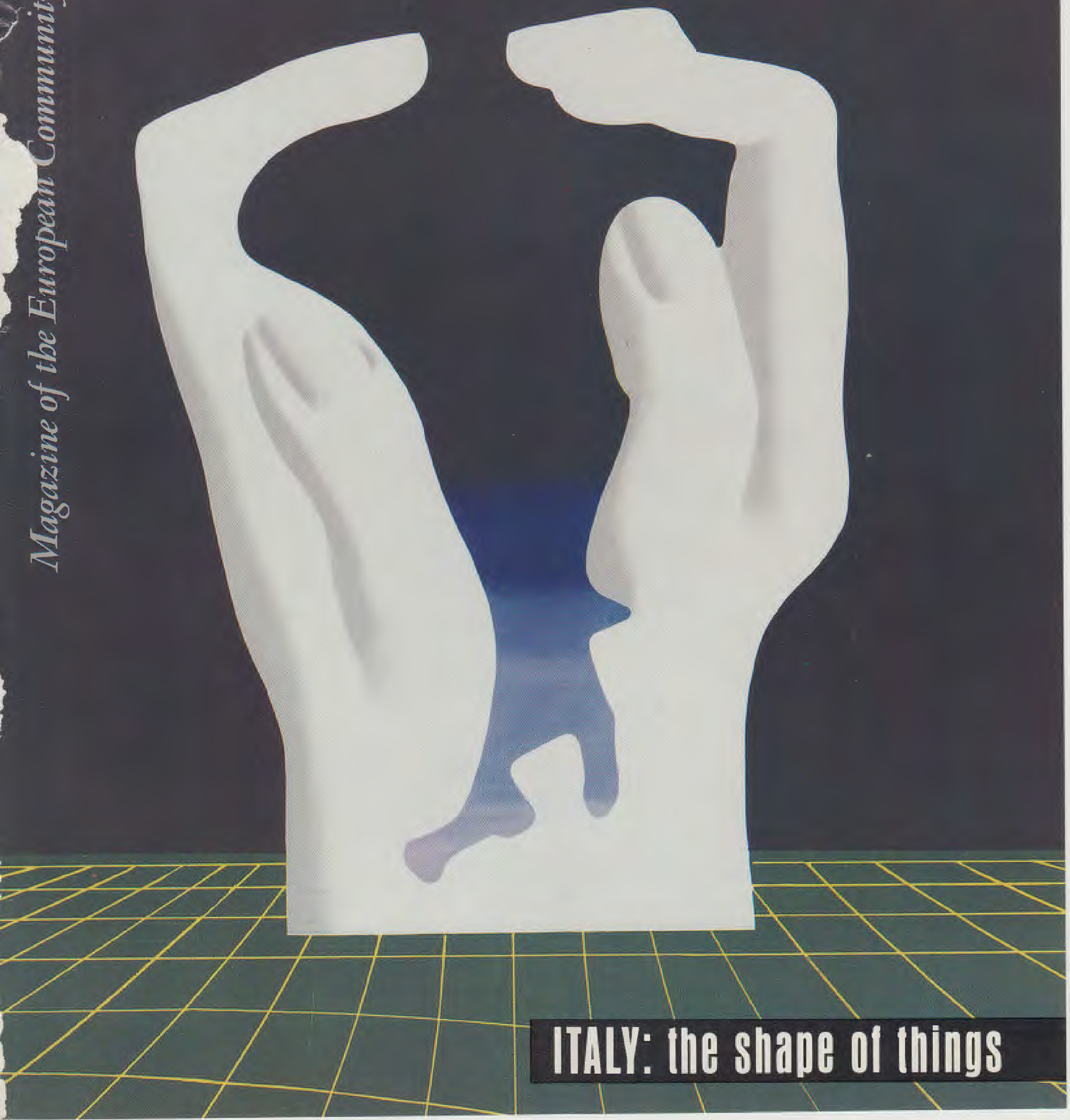
# EUROPE

*Magazine of the European Community*



ITALY: the shape of things

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SPIDER FIAT

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**Cover:** "Italy. A country shaped by man." This striking graphic design illustrates the theme of the Giovanni Agnelli Foundation's traveling exhibition on Italy. The excellent show, which combines audiovisual materials and art objects, is in Washington DC until November 22. It has already been seen in Chicago and at Yale University in New Haven and will travel to San Francisco in the Spring. courtesy Giovanni Agnelli Foundation


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## Publisher's Letter

*Italy, as even the casual visitor quickly discerns, is no open book. It is a country of apparent and simultaneous wealth and poverty, of great regional diversity, a study in contrasts between the new and the old.*

*Yet post-war Italy has also known many constants: Governments have come and gone with metronomic regularity, but the actors, indeed even the political plots, have been, it has seemed, directed by the same hand in the central casting office. Government has been the prerogative of one party, opposition of another, with compromise the assigned role of those caught between the Christian Democratic and Communist poles of power. In the meantime, no nation has been a more steadfast—and by no means consequentially—more needy member of the European Community than Italy.*

*On the surface, at least, Italy in 1981 presents a different face. For the first time in 35 years its Government is headed by a non-Catholic non-Christian Democrat: It is more concerned than ever before about the direction of the Common Market, because it stands to lose more through the admission of Spain and Portugal than any other current member. Its economy, always the most volatile, up or down, in Europe, is caught in the grip of circumstances in part beyond domestic control.*

*This edition of Europe examines some of the Italian problems and prospects, political, economic, and cultural. Giovanni Spadolini, the new Prime Minister, gives his sense, in an exclusive interview, of his country's place in the Community and the world, while prominent Italian writers, covering a wide range of political views, debate the state of the nation.*

*Italians are the first to agree that no nation is an island, either in Europe or in the world at large. Other issues tackled in this edition—international economic policy, banking, technological developments in communications and aviation, and the nitty-gritty question of the Community's own budget, not to mention the emotions fired by the Franco-Italian wine war—are common problems. Even the underground economy, which Italy had appeared to have elevated first to a minor art form, can now be said to be truly an international subject of concern.*

*Also of concern to American visitors, of course, are European mores. Thus we offer for serious delectation where to eat in Holland, where to buy Christmas presents throughout the continent, and why British newspaper sports pages read differently from their US counterparts.*

Andrew A Mulligan

MEMBER STATE REPORT: ITALY

# THE STIRRINGS

## *Vittorio Emiliani sees a need for more efficient government*

SINCE THE WAR, ITALIAN POLITICS HAVE ALWAYS BEEN MARKED by paradox. Governments came and went at a rate of more than one a year, suggesting instability. But there was a more important constant factor; every Government, until this year, was headed by a Christian Democrat, and thus a Catholic, and, with the strange exception of 1977–79, the second largest party, the Communists, never took part in national Government.

On the surface, at least, this year has seen a change. The Prime Minister, Giovanni Spadolini, from the small Republican Party, is neither a Christian Democrat nor a Catholic. Yet he heads a five-party coalition Government, including Christian Democrats but excluding Communists, that in many respects is quite traditional—and just as fragile as its many predecessors.

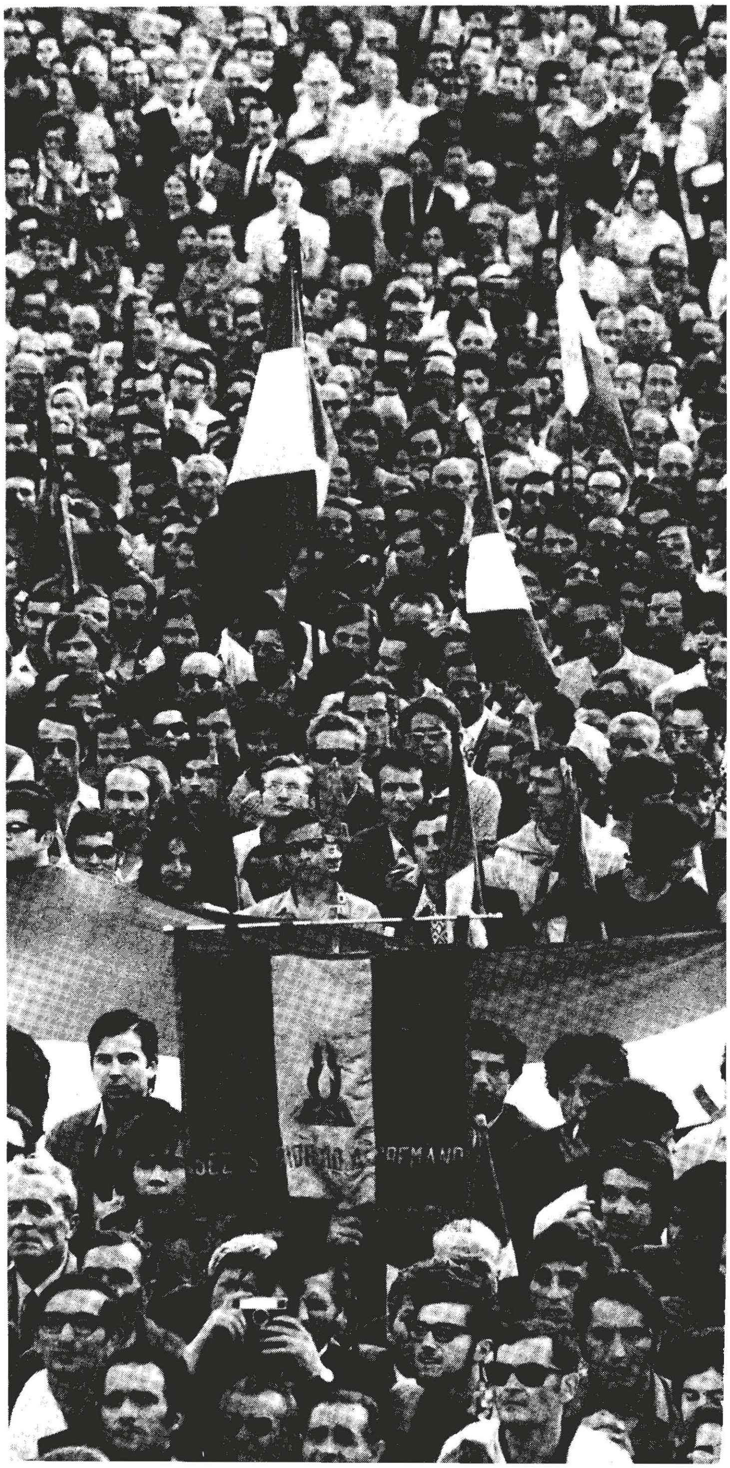
Any understanding of political Italy must start with the realization that Italian parliamentary democracy contains characteristics that are notably different from "classical" democracy. Elections have tended not to throw up alternatives to the Government in power; poly-partisan politics have been the rules by which the game is played and coalition Governments then result. At a local level, changes, often dramatic, have occurred in cities, provinces, and the regions, but these have yet to be repeated nationally.

Why is this so? A key consideration is that Italy has been, since 1945, a border country, between Western Europe and Communist Eastern Europe and this has essentially conditioned the electoral choices in front of the Italian people. This was perhaps less severely felt so long as Tito's Yugoslavia was at odds with Moscow, but East-West tensions, now badly strained, and the instability of the Mediterranean region have once again transformed Italy into a vital strategic country.

In the immediate post-war period, the Italian political scene was dominated by three forces: the Christian Democrats, the party of the Catholics, composite, with a large peasant base but effectively run by the conservative middle class; the Socialists, heirs to the oldest popular opposition party in the Mussolini era; and the Communists, to whom at the time the Socialists were closely connected, undoubtedly the best organized of the anti-fascist parties, Leninist in persuasion and philosophically close to Eastern Europe.

Torn by bitter internal disputes and unable to form a common front with the Communists, the Socialists soon left the field to the other two main parties. Given its great reformist traditions and its strong ties to other Western European so-

*Voter participation in political activities has always been high in Italy by European standards.* © Keystone Press Agency



# OF POLITICAL REFORM

*Women and students are two elements in Italian society that are beginning to make themselves felt.*

© Sipa Press/Black Star

© Fabian, Sygma

cialist parties, the Socialist demise as a positive political force has probably been detrimental to Italian political development ever since. By the early 1960s, the Socialists became a Government party but paid a high price in popular esteem for their intermittent collaboration with the Christian Democrats in assorted center-left coalitions.

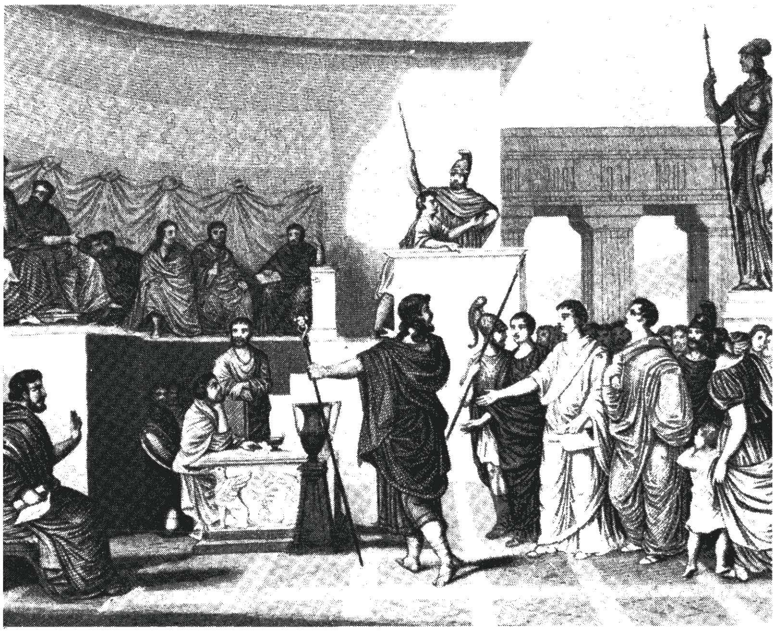
In retrospect, it is apparent that in the 1960s Italy missed a great opportunity to reform its governmental institutions. The so-called "economic miracle" of the period provided the right climate for reform of a system which was being held back by a notoriously inefficient central bureaucracy. It was not until 1970 that important administrative changes, the establishment of the regions as effective entities, were made, but even this was done in a confused way and certainly did not match the goals stipulated in the constitution drawn up 23 years before—that Italy should become properly decentralized leaving the national Government and parliament with the tasks of formulating long range plans and local authorities with responsibility for day-to-day operations.

Italy is an extremely diverse country, as much so as are the United States and Germany. In the north it reflects central European cultures, in the south Mediterranean influences. For years Italian theoreticians have maintained that it is ideally suited to a federal system. Of course, the Fascist regime had no interest in promoting decentralization because it might lead to less sure political and social control.

By the same token, the Christian Democrats, enjoying uninterrupted power for so long, became accustomed to the power and patronage of the existing system and complacent of its inefficiencies and indeed its corruption. The Communist alternative was suspect, given its ties with Moscow (less strong now than then). Even the constitution itself, designed to prevent a renaissance of fascist authoritarianism, is so hedged with institutional checks and balances, such as proportional representation, that, for all its prudence, it has produced immobility.

From a political point of view, the Italian electorate has generally favored the Christian Democratic Party on the grounds that it constitutes the lesser risk, and that, though it has been unable to guarantee efficient government, it has kept the country secure in its pro-Western alignment. It is significant that the shift toward the Communist Party in 1975–76 stemmed from its growing distance from Moscow as well as its proven record of providing competent local Government.

The late Prime Minister Aldo Moro, sensitive to the national mood, had in fact been an early advocate of cooperation between his Christian Democrats and the Communists, but the historical compromise of 1977–79 turned out to be a disap-



*The Roman Senate: Modern Italian democracy is far removed from its classical past.* © The Bettmann Archive

pointment. The gulf between the two major forces was inherently too wide to be easily bridged and in 1979–80, though without dramatic swings, the electorate moved to the small "lay" parties (Liberals, Republicans, and Social Democrats) and, once again, to the Socialists, apparently awakening from a long sleep.

While obviously frustrated by recent electoral setbacks, the Communist Party remains a potent force in Italian politics, especially at local level. It still proclaims its Leninist beliefs but tempers them with the advocacy of policies more in the European Social Democratic tradition. It is fair to say that it is still not completely autonomous from its East European background and displays certain internal authoritarian characteristics (its central committee votes, for example, almost always end up in a unanimous decision, even if disagreements are patently public.)

The Christian Democrats, on the other hand, are experiencing a worrisome period. The assassination of Aldo Moro deprived the party of its most substantial leader, a man singularly adept at reconciling intra-party factional fights and harmonizing its two disparate souls—its populist and progressive traditions, the latter sometimes masked by more obvious conservatism. In spite of membership of the EC, both major parties have difficulty in identifying themselves with European counterparts, though the Christian Democrats pay lip service to Franz Josef Strauss and the Communists to Georges Marchais, both seem to have more in common with less doctrinaire European political leaders. The Christian Democrats, in particular, refuse to accept the label of being the conservative end of the Italian political spectrum.

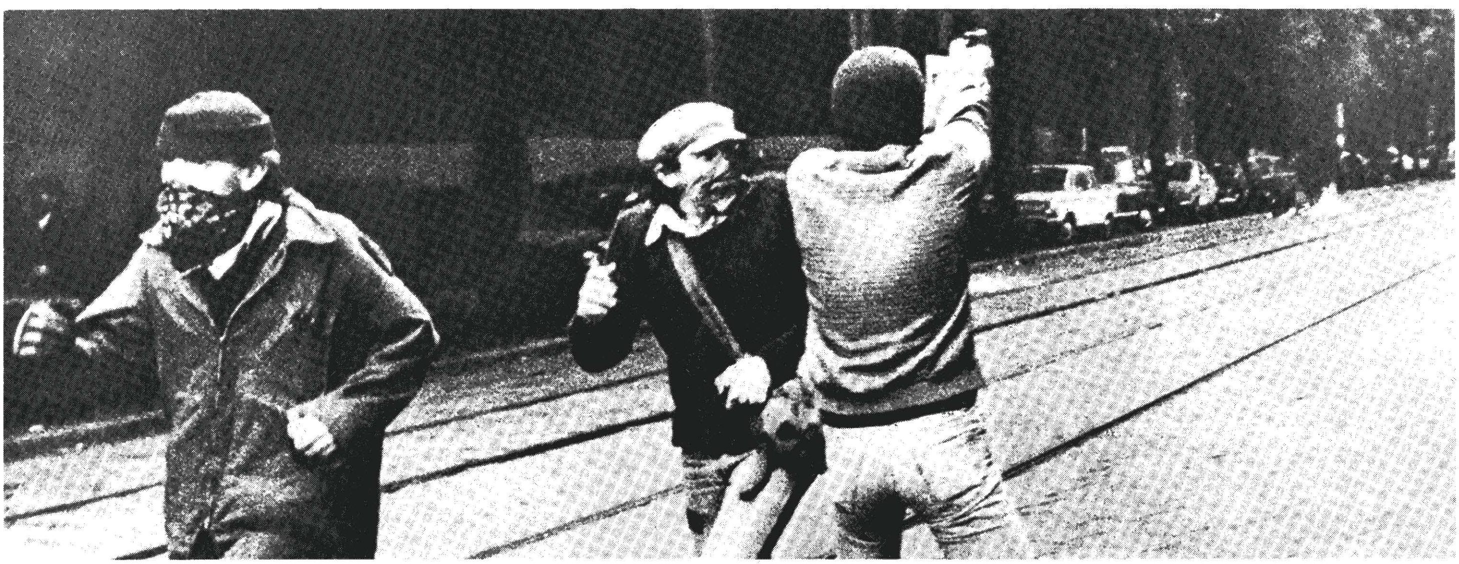
Italians generally are very severe in their judgment of their own politicians and parties. This reflects a deep national commitment to representative parliamentary democracy. Voter participation in elections is among the highest in Europe. In spite of the tribulations of recent years, especially the wave of terrorism of extreme right and left that has taken so many lives, democratic traditions are holding fast; Italy continues successfully to avoid sliding into another era of authoritarianism and its constitutional values remain intact.

The problem in Italian politics and government lies not with its underlying value system but with its responsiveness and effectiveness. The parties themselves have become machines which are all encompassing and the more expensive to run. An indication of public dissatisfaction surfaced in 1978 when over 43 per cent of the electorate voted to end public financing of parties. Yet, subsequently, the parties are receiving even more generous public funding. There is now virtually no major appointment that escapes party control and it is too often the case that such patronage does not reward the able administrator but instead the faithful political servant. This is perhaps less prevalent at local level, where the quality of government is clearly superior, especially in the north of the country.

But, nationally, the process of evolution must be pressed. In spite of vast pressures from inside and outside the country, democracy in Italy has a solid base. What it needs is machinery more suited to the realities of a diverse nation of regions. €

*Vittorio Emiliani is editor-in-chief of* Il Messaggero.

*Italian politicians have steadfastly opposed terrorism by the extreme left and the extreme right.* © Sipa Press/Black Star




© Gianni Giansanti, Sygma

# SPADOLINI: What Europe Needs

Giovanni Spadolini is a man of many parts, historian, University professor, journalist, editor-in-chief of newspapers including the most prestigious Italian daily, *Corriere della Sera*, political representative of the progressive "lay" sector of the Italian political spectrum embodied in the Republican Party. He became President of the Council of Ministers on June 28, 1981, 7 days before his 56th birthday. Unmarried, he seems to have adopted his party as his family. Most significantly, he is the first non-Catholic Prime Minister in the history of post-war Italy. In this interview, he explains the Italian position toward Europe, analyses the most diffficult questions facing the European Community, and discusses the relations between Europe and the two super powers. He is interviewed for *Europe Magazine* by Paolo Garimberti, Rome bureau chief of *La Stampa*.

**Senator Spadolini, for the first time in the history of republican Italy the Government is led by a non-Christian Democrat. Is the vision of Europe held by a lay Premier different from the one held by the numerous Christian Democratic Premiers that lived at Palazzo Chigi before you?**

It is not by chance that, in Italy, when we think of Europe and of the man who fought the hardest for it, our mind goes to the name of De Gasperi, the great Christian Democratic Premier of the post-war reconstruction. But to De Gasperi we have to add two lay statesmen: Carlo Sforza, the architect of Italy's adhesion to the North Atlantic Treaty Organization, and Ugo La Malfa, the major impulse behind the liberalization of commercial exchanges with our Western partners. Both of them, Sforza and La Malfa, were the sons of the *Risorgimento* and understood that a European Community of nations was a way to go beyond national barriers and narrow-mindedness. The reintegration of Italy into Europe and the contribution that our country has made to European integration since the Rome Treaties would not have been possible without the grafting of this lay *Risorgimento* tradition onto the liberal Catholic tradition. My effort, as President of the Council of Ministers, consists in accepting this precious heritage without wasting any of it and adapting it to the grave problems of the 1980s which require without any doubt the revival of the will, the enthusiams, and the passions which De Gasperi characterized in the years following the end of World War II.

**Europe is running the risk of being fragmented by commercial disputes, like the wine-war between France and Italy and by the self-centered interests of Governments, as demonstrated in the budget debate. Is the very idea of European unity itself in crisis?**

The thousand commercial disputes, large and small, are the very phenomena which reveal today the dimming—I don't want to say crisis—of the European ideal. The exhausting negotiations on butter, milk, wine have not helped European unity progress one single step. Without a qualitative jump, without going back to a political conception of Europe and of its role, we cannot hope to get out of the present difficulties. Italy, which in terms of commercial interest has always paid more than the others, has always made the European charter one of the fundamental imperatives of its international policies. We want to remain faithful not only to the letter but above all to the spirit of the European charter and we do hope that our friends and partners want to do the same.

**If Europe recovers its political and economic unity can it play, according to you, a decisive role in East-West relations which are today very strained?**

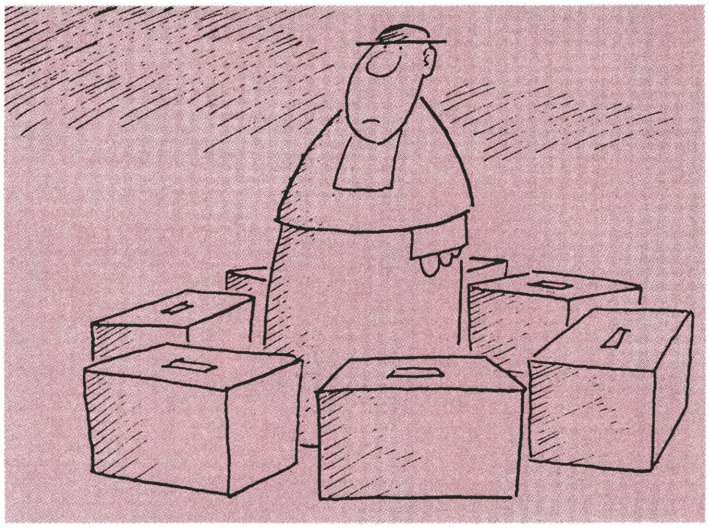
Yes. The tensions that disturb the international scene today, derive from the absence of one European voice or of this voice being too weak. To the East-West confrontation one can add today the North-South confrontation and it is really in the Third World that a united and conscious Europe could play an enormously positive role. It seems to me that there are signs that that consciousness has begun to develop in our Governments. Let us hope that we would not be distracted from it by our internal commercial disputes.

**How do you see this role concretely? Do you see Europe as a third force between the two super powers or Europe allied to the United States according to its Western vocation but at the same time the mediator between the United States and the Soviet Union?**

The myth of a Europe as a "third force" is contradicted by facts and by history. Because of its geo-political location and its traditions, but also because of its recent history, Europe cannot do without friendship and alliance with the United States, just as the United States is linked to the Europeans by a community of values, cultural values even more than political ones. *"Ich bin ein Berliner"* was the cry uttered by John Kennedy in front of the Berlin wall just before the beginning of the slow and troubled steps of détente. It was a great Italian historian, Vittorio de Caprariis, who emphasized that the adhesion of our country to the Western Community "is defined more for its moral value than by military conveniences." In other words, we are Western not merely because destiny put us in this part of the world, as happened to the colonials in Latin America when the Pope would outline on a map the boundaries of the Spanish and Portuguese possessions. What follows therefore is that the image of a Europe equidistant from the two power blocks should no doubt be rejected. Nor would I speak of a Europe mediating between the two super powers, which would presuppose a strength that Europe does not have and will not have in the foreseeable future. The role of Europe consists instead in the exercise of a critical stimulation of relations between the super powers, in a moderating function of balance and conduit. This is an essential role, especially these days. Often the day-to-day interests of the two super powers entail the sacrifice or, at the very least, the inadequate consideration, of European interests. In the nuclear area, this is a shortcoming of no small dimensions.

**According to you, can Europe play this kind of political role without its own autonomous defense?**

I have said that defensive, that is nuclear, autonomy for Europe is not foreseeable in the near future because Europe seems still so far from its political unity. Nevertheless I wish to see a Europe always more aware of its own commercial strength and of its own common interests. A Europe that will not hesitate to have its voice heard loudly in all international fora. A voice that could speak for peace, with measure and balance.



*"Italy."* © Bas, Tachydromos, Greece

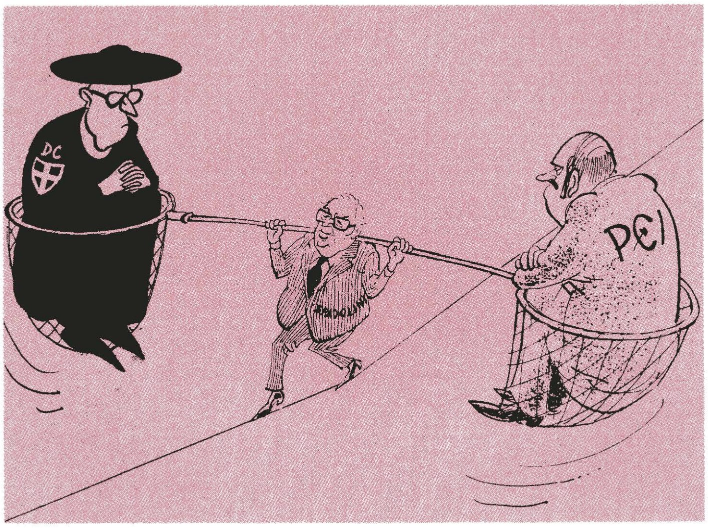
**Economic independence is perhaps just so important as military independence. What is your opinion on this and what are your forecasts as far as the delicate economic relations between the United States and Europe are concerned?**

If the great Euro-American technical complex succeeds in resolving the problems of underdevelopment and backwardness in the Third and Fourth Worlds, then the economic relations between Europe and America will find their proper level. The industrialized world (including the Soviet Union) has been called upon to answer the problems of hunger and poverty, worsened by demographic explosion. How can we tie together the prospects of well-being in the industrial world and the vital challenge that developing countries will have to confront in the years between now and 2000? A new international economic order is indispensable but we have not outlined it.

**Do you think the creation of the European Monetary System (EMS) two and a half years ago has been beneficial? And do you think that the adhesion of Italy to the EMS has been a mistake, as some observers say, and has exacerbated difficulties for the currency and the economy?**

If Italy had not joined what we call "the snake" it would find itself in worse shape than it does in its struggle against inflation. The recent realignment of currencies inside the EMS has not changed my mind one bit. Today we have to go to a second phase of the EMS, toward a process that would lead to an effective monetary union of the countries of the Community. And to those who tell me today that the economic difficulties of Italy stem from the monetary system, I answer that our "monsters" are called public spending, technological backwardness, industrial conflict. The Government is trying to ease these elements of disintegration. The 1982 budget goes in this direction and so do the negotiations that have begun with the large labor unions and employers' associations. The road is long and obstacles are not lacking, but we should not lose sight of the true causes of our crisis.

**Senator Spadolini, what is and what could be the future of the role of Italy in Europe? According to you, in the coming**



*"Try-out in Italy . . ."* © Behrendt, Het Parool, Amsterdam

**years which dimension of Europe will become more important—the Mediterranean or the Continental one?**

I have never believed in the image of a Mediterranean Europe separated from, or opposed to, a Continental Europe. I share the vision of the democratic school which has portrayed Italy as reaching out across the Alps toward continental Europe. We are fighting against risks of an Italy drifting off in the Mediterranean, turning away from its natural partners. Of course we are aware that the Mediterranean can, and must, be a bridge toward North Africa, in the framework of a peaceful cooperation among all the countries bordering on the Mediterranean. In this direction the Italian Government's intentions and efforts have always been clear. The guarantee given by Italy to the neutrality of Malta fits in this framework, in the same way as does the development of relations with the countries bordering the Mediterranean.

**Italy has always strongly opposed, even if not always totally successfully, the idea of the so-called "directorates", that is the tendency to create among European partners some who are more equal than others. But do you believe that Italy can with its perpetual Government crises, the weakness of its economy, the seldom edifying disputes among its political parties, legitimately appear a trustworthy partner?**

I think that the idea of directorates, which is proposed from time to time, lasts the space of a morning and one can understand easily why: A Western Community split in two, divided between so called strong nations and so called weak nations, is in no one's interest. It would have the sole effect of reducing the solidarity of our alliance and, consequently, of reducing the capacity of the West to respond to international challenges, including that of a Soviet threat. In fact, every country has its own international problems—Italy no less than the others—but these problems should not in any way affect the loyalty toward the partnership and the respect of the obligations that this kind of relationship implies.

**Mr. President, according to you, does the participation of Italy in the economic summit of the seven most industrialized countries still make any sense? Isn't there too big a difference in political and economic might between Italy and the other six, or at least the other five, excluding Canada?**

Despite the recurring portrayals of Italians as a people dancing on the deck of the "Titanic" (images often produced by the fantasy of foreign observers), we have to say that in spite of everything, in spite of the terrible difficulties that our country has gone through and is now experiencing, Italy is demonstrating its capacity to get itself out of the crisis—through the adoption of severe and rigorous policies that we define with the English word "austerity." Italy is, and remains, the seventh largest industrialized country in the world and has every right to be a protagonist of the great processes of transformation that are going on in the world economy. In Ottawa I saw that Italy's role, in the context of the industrialized countries, has acquired in the past years a relevance that no one can either underestimate or ignore. And I saw also the importance of this annual meeting; beyond the concrete results, it is useful for the heads of states to get to know each other and to discuss things, in the end to improve mutual comprehension. It is in this perspective that the experience of the summit is positive and we intend to go on with it.

**How do you see the future for the relationships between Europe and North Africa, the difficult cohabitation with rich countries led by difficult or incoherent leaders?**

If you are talking about the initiatives of Colonel Muammar Qaddafi of Libya, let me say in all frankness that the Italian Government has viewed them with deep concern, even before the incidents in the Gulf of Sidra and the following threats by Tripoli to our military installations in Sicily. As Italians we have always demonstrated our will to develop peaceful and constructive relations with Libya, but at the same time we deem dangerous for peace in the Mediterranean some of Qaddafi's actions—such as the attempt to establish unilaterally the limits of territorial waters. This has an obvious destablizing effect for the balance of the region. I always think of the Middle East as suspended between peace and war. Respect for the rules of international coexistence lies at the foundation of any prospective cooperation. We should never forget that we are Europeans, that is, sons of the part of the world from where, as Voltaire used to say "the ambassadors are always safe to go home." Elsewhere it is not the same and we have the responsibility to extend to the world the sphere of tolerance, of human respect for civil rights.

**What about relations between Europe and the Middle East? What can be the role of Europe in the relations between the two super powers? The attempt made in Venice at the European summit in the summer of 1980 to try a European mediation seems to have gone astray; why? Perhaps because the Amerians, even more than the Soviets, do not want "a third force" inserting itself in the struggle for influence in the Middle East chessboard.**

Look, the Italian Government finds that the peace process that began at Camp David is essential, with all the integrations and the improvements that the reality of this troubled region will require—along the lines of the resolutions adapted by the European Council meetings in Venice and, more recently, Luxembourg. Again, even there, there is no desire to impose "mediation" on the parties involved, but rather to work positively, to seek agreements with the United States and the other nations concerned, keeping in mind that the peace process will be anyway long and difficult. Italy will continue participating in new developments and new searches in the European context, convinced as we are that Europe must and can in some way help create a climate of trust which could make it possible for the parties involved to come together. One point is clear, the security and the safety of Israel should not be in question. This is a role that Europe can have in the Middle East as part of that positive role and functon that I described above. The more Europe is united and coherent in its behavior, the better it will succeed in exercising a central role in that chessboard, above and beyond the mistrust of the super powers. €

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# Reappraisal for Christian Democrats

GIORGIO VECCHIATTO

The Italian Christian Democratic Party, foreigners have discovered to their displeasure, is one of the great mysteries of Italian life. It is easy to pick out your local Socialist, Communist, or neo-Fascist, but very few people will admit to being Christian Democrats. Nevertheless, at each election, without fail, the party gets just under 40 per cent of the national vote.

For years, the party was able to bear the slings and arrows of editorial writers, largely because it enjoyed the compensation of being in power. But that has changed: The Italian President, Sandro Pertini, who has a mind of his own, called on a non-Christian Democrat to head the Government. The subsequent appointment of Giovanni Spadolini has had nothing less than a traumatic impact on the Christian Democratic Party.

For a start, it reminded the party of the importance of making political alliances. This, of course, has always been a factor in Italian politics, which, as the left-wing Socialist Riccardo Lombardi has pointed out, have come to resemble a company with fragmented ownership: Anybody can become chairman of the board with less than 20 per cent of the stock if the big stockholders fail to get together.

Spadolini's trick, with only 3 per cent of the vote, was to be able to put together the necessary coalition of 38 per cent of Christian Democrats, plus 10-12 per cent of the Socialists, plus his own party. That had traditionally been the work of a Christian Democrat, but the party has stood aloof since the last elections, creating the void which Spadolini filled.

Given the fact that Italian Governments last, on average, for less than a year, his permanence must be in question: He may last until next spring, when the party conferences are called, or perhaps longer. But, no matter how long he lasts, the Christian Democrats must face, and overcome, substantial internal problems of their own to prepare for the day when they might reclaim what they have come to regard as their natural position.

The present picture of the party is one where new ideas and new leadership are lacking. It continues to draw strength from the Catholic working classes but it is still losing ground in the cities. Some believe this is a product of the age of secularism, manifested by emptier churches, the consumer society, or what has otherwise been called the "me" generation.

Others note that the tacit closeness between the party and the Church is vanishing; the current Pope, John Paul II, is, of course, not even Italian: his Papacy has an international caste to it and his own interest appears more directed at what is happening in his native Poland than in Italy. More generally, it seems that one of the party's most fundamental tenets—that, as a Christian movement, it was in the forefront of the fight against Communism and was guaranteeing freedom—has lost its appeal.

Many Christian Democrat leaders acknowledge the problem and today talk increasingly in terms of giving the party new direction and reorganizing it to make it more in tune with considerable transformation that is taking place in Italian life. But talking about renewal is easier than accomplishing it. There are concrete plans afoot: The party congress next year is being designed to open up membership to what are known as "auxiliary forces"— trade unions, farmers, intellectuals. But any wind of change will not come with hurricane strength. This was very evident this summer when several Christian Democratic elders like Giulio Andreotti and Mario Scelba warned bluntly that it would be a mistake to dump out of hand all that the party had found profitable in the past 30 years.

That summer session of the national council also demonstrated much factionalism. Traditional local party leaders were openly skeptical of the proposals of some of the newcomers; those already in Parliament protested that their say in the party's deliberations was being excessively reduced. Others more confident of the future lost themselves in vague orations.

Yet, at the same time, there is movement. There are signs that the party leadership is playing that Byzantine game known as Roman politics with some flair again. Thus, efforts are being made to try and build bridges with the Socialists under the banner of institutional reform while similar overtures for the same cause are being made discreetly to the Communists. And while the Socialist Party leader, Bettino Craxi, appears to be moving closer to his Communist counterpart, Enrico Berlinguer, on matters of foreign policy, the Christian Democrats are cleverly biding their time, expressing simultaneous sympathy with Craxi while not excluding eventual negotiations with Berlinguer.

This type of calculated, even devious, politics is made imperative by the fact that the Christian Democrats presumably must avoid the sort of direct confrontation with the Communists which defeated its last two premiers, Francesco Cossiga and Arnaldo Forlani. But in the meanwhile, and certainly for as long as Spadolini holds the reins of power, it is the internal party debate that commands the stage. In this process, some new names are indeed emerging, like Scoppola and Formigoni. What cannot be said at present is whether their reforming drives will meet with success. There is always the chance that when the day of reckoning comes the 3 million small farmers, the party's traditional backbone, will end up exerting more influence than the academics and reformers whose eyes are fixed on the future.

In any event, the dialogue goes on and the goal remains renewal. Italians, it seems, are watching the process with some perplexity. Renewal ought to mean, in due course, better-managed, more efficient, honest Governments; it should mean that Governments will stay in power longer than just a few months. But good intentions can only be proven by practical policies and behavior. It is probably not enough merely to persuade a national assembly or a party congress that a change of course is in order; more vital is to persuade Italians themselves and that requires making the party comprehensible to the average citizen. This will not be easy and it will take time. €

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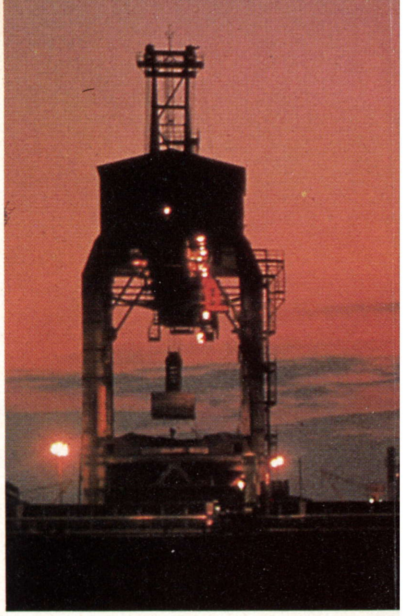
*Giorgio Vecchiato is an editorial writer for* Il Giorno *of Milan.*

## THE ITALIAN ECONOMY

# a study in contrasts



*Italian merchant ships in the harbor. As i*

ANTONIO DUVA

THE ITALIAN ECONOMY ALWAYS DEFIES STRAIGHTFORWARD analysis, but rarely have its apparent contradictions been so marked as at present. On the one hand, there is no lack of evidence of genuine economic vitality and increased productive capacity, but matching this are just as many examples of inefficiency and even crisis.

The list of contradictions is long. In many areas of the country, for instance, unemployment has assumed disturbing levels, especially in the south and in several important urban areas, such as Turin, Naples, and Palermo. Yet, elsewhere, the availability of jobs exceeds demand to the point where immigrant labor is needed, as in Trieste and Sicily, where Yugoslavs and Tunisians respectively are filling the void.

The balance of trade is similarly confusing. The deficit in 1980—$17 billion—is serious enough but its composition is something else. Much of the shortfall is not accounted for by imports of essential goods, such as oil, but by Italian purchases of luxury items and of those products which Italy itself produces in abundance, especially in the agricultural sector.

On the financial front, a strange conflict exists between the commercial banks and the Government, the result of the latter's policy of offering its own paper (in the form of Treasury bonds and certificates of credit) on terms better than the private sector can muster. This has led to a decline in deposits with the banking system and a stock market depression. It has also kept the cost of money high and, consequently, made it more difficult and costly to "clean up" some of the large state-controlled industrial complexes, most notably steel.

Yet, despite this, many Italian enterprises are thriving. In the last five years, Italian exports to the United States have jumped from $2.3 billion in 1975 to $4.3 billion in 1980. Last year, in spite of a 21 per cent rate of inflation, the economy continued to grow in real terms.

The 4 per cent real growth in 1980, the highest in Europe, however was not evenly spread throughout the year, but was concentrated in the first half. In the later months, and throughout this year, in common with the rest of the Continent, the economy has stagnated and few experts forsee much improvement in the immediate future. Personal expenditures have slowed down appreciably.

The drop in demand has had a marked impact on industry, which has gone to great lengths to avoid an excessive build-up in inventories. This reflects its bitter experience in the 1973 oil-induced recession when it was caught short of liquidity but long on inventories. Additional factors this time include the high nominal cost of money and the difficulties in finding adequate sources of finance. The net effect of the low level of stocks has been that inventories have not played the usual cushioning role between supply and demand, leaving industry exposed to a painful degree.

The worldwide slump in demand has compounded the problem by adversely affecting Italian exports, which have traditionally been oriented toward the consumer. On top of this, Italian companies, like their counterparts elsewhere in Europe, face fierce competition from Japan and, especially before the appreciation of the dollar this year, from the United States.

The Italian economy has also, for several years, been hoist on the petard of uncertain fiscal policy. The general impression

### ITALY IN FIGURES

| | |
|---|---|
| **Population** | 56.9 million |
| **Area** | 116,313 sq. miles |
| **Gross Domestic Product** (1980, at current prices and exchange rates) | $99.2 billion |
| **Industrial production** (index 1970 = 100) | |
| 1980 | 141.5 |
| 1979 | 134.0 |
| 1978 | 125.7 |
| **Unemployment rate 1980** | 8% |
| First half 1981 | 8.4% |
| **Inflation rate** (1980, CPI) | 21.2% |
| **Trade 1980** | |
| Exports | $77.8 billion |
| Imports | $99.5 billion |

Source: Eurostat

*other countries, Italian exports have been affected by the worldwide slump in demand.* Courtesy of Giovanni Agnelli Foundation

is that successive Italian Governments have tended to respond to the exigencies of the moment rather than pursue a more constant course reflecting economic needs. Thus fiscal policy was restrictive early last year, when the economy was still expanding, but promptly became expansionist as soon as signs of weakness showed up. The budget deficit widened only marginally from $26 billion to $27 billion from 1979 to 1980 but has jumped to an estimated $39 billion in the present year though much of the increase can be attributed to "uncontrollable" items of social expenditure.

The Italian Government has been by no means unique in responding in this way. But it is hard to avoid the conclusion that what was bound to be a difficult period, both for Italy and the rest of the world, has not been eased by Government vacillation. The inherent instability of the economy has been enhanced because Government first excessively depressed internal demand when external demand was itself in a clear decline and later began supporting internal demand at exactly the time when external factors were becoming less recessionary. In other words, Government succeeded in swinging the pendulum of economic fortunes more violently than might have been the case if its position had been more neutral or constant.

*A jewelry shop on the Ponte Vecchio, Florence. Italy has become a major force in the world market for sophisticated consumer goods.* © Ted Spiegel, Black Star

The picture of the Italian economy at the end of 1981 is thus marked by much internal uncertainty and vulnerability to external circumstances, such as the high level of US interest rates. Looking ahead, it appears that the prospects for economic recovery depend mainly on three factors.

- First, the level of capital investment in industry must rise. Declining investment is assuming serious proportions in the construction sector and presents an even graver problem in mechanical engineering.
- Second, the policies of economic competition within the European Community must be strengthened in order to help Italian industry handle the two big problems it has faced in recent years—adapting to higher energy costs and modernization of its traditional sectors. Because it is an economy still in transition from an agricultural to a mixed base, Italy would probably be the EC member country most adversely affected if the protectionist tendencies already evident inside the Community were to become widespread.
- Third, the war against inflation must be won. This is clearly the most decisive area, since any accomplishments on the first two fronts will be vitiated by failure to bring prices under control. The Government of Giovanni Spadolini has shown itself fully conscious of this and is sparing no effort. Its strategy calls for restraining public spending especially in those sectors not directly related to production. Simultaneously, while respecting the right of collective bargaining, the Government is trying to get employers and the unions to agree to a voluntary system whereby wage settlements do not exceed a tolerable rate of inflation. The goal is to reduce this to 16 per cent in 1982, which, while still too high by Western standards, could at least be portrayed as living up to the targets set at the Ottawa summit in July.

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*Antonio Duva is editor-in-chief of the monthly magazine* Espansione.




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# An Embarrassment of Riches

## *Arturo Zampaglione sees trouble ahead if Spain and Portugal join the EC*

Italy is the world's leading producer of wine and olive oil and stands second in the international tomato league table. These are essential commodities to the Italian economy. Not only do they substantially help the country's external trade, but, more important, they form the backbone of agriculture in the south, a region in much need of economic assistance.

At present, among the 10 members of the EC, only southern Italy, parts of rural France, and now Greece dominate the market for these typically Mediterranean products. But Spain and Portugal, both Mediterranean nations and rich in similar agricultural output, will shortly be joining the EC. Their entry will present Italy, more than any other member state, with some profound problems. Will Italian agriculture be able to withstand competition from Spain and Portugal? And what will be the consequences for balanced development of agriculture in the Mediterranean region?

Italian farmers, politicians and the general public acknowledge these challenges, but their fundamental position is clear. For a variety of reasons, Spain and Portugal should join the Community. Membership, Italians argue, can only help the still fledgling democracies in both nations and, by enhancing their stability, can only contribute to the overall security of the region. Furthermore, a Europe without Spain and Portugal would be incomplete. Italians believe in European unity more than most; it also happens that should Spain and Portugal join, the Community's center of gravity would shift southwards and should lead to a greater Mediterranean say in EC affairs.

However, whatever the political imperatives, the economic consequences of enlargement on Italy are another matter. Both Spain and Portugal have extensive agricultural sectors; on a Community-wide basis, their membership would mean a 55 per cent increase in the number of agricultural workers, a 49 per cent increase in arable land, a 57 per cent increase in the number of farms, and a 24 per cent rise in agricultural production.

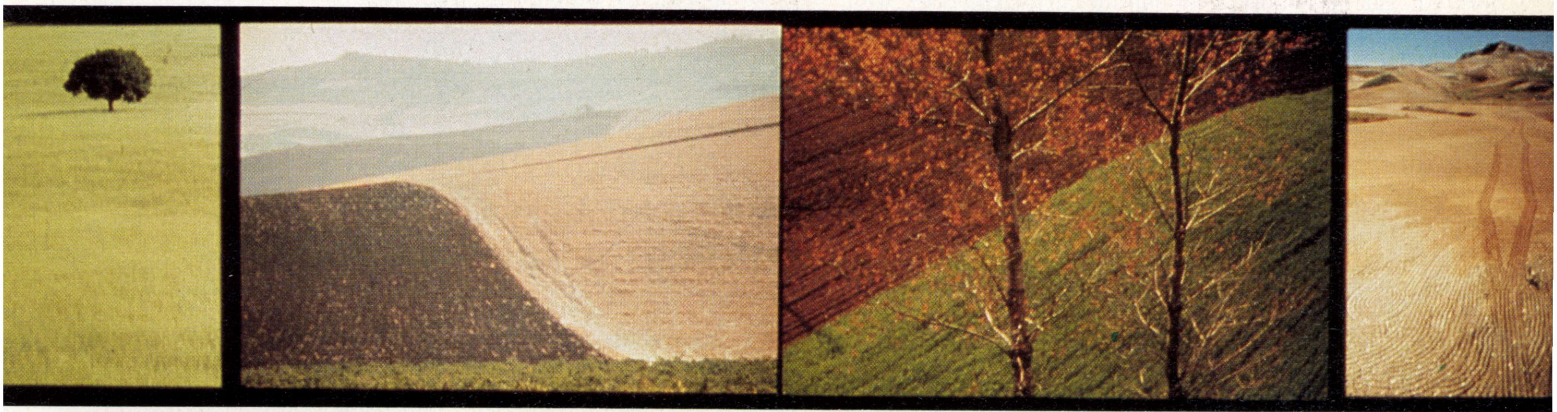
Even though this last figure demonstrates lower productivity in the candidate countries, their volume of output is already similar to that of Italy. Spain is the third largest European grape grower and the world's second largest olive oil producer. Spain and Portugal are indeed an existing potent force.

They also produce more cheaply than does Italy, mostly because of lower wage rates. At present Spanish oranges cost only 53 per cent of the Italian price, tangerines 43 per cent, and tomatoes 79 per cent. Italian agricultural exports are already encountering difficulties within the Community and would face even stiffer competition from the new entrants—unless there is a very extended transitional period.

More serious, however, than the threat to Italy itself are the possible consequences of enlargement to the Community as a whole and, above all, to one of its most controversial cornerstones, the Common Agricultural Policy (CAP). Recent attacks on the CAP have focused on three issues: It has been accused of creating unwanted surpluses (of butter, powdered milk, and tomatoes) which either go to waste or are put in storage; its costs are too high, with the result that some EC members, such as Germany, have no intention of meeting higher payments; it is said to have accentuated the imbalances already existing between the richer and poorer countries of the Community, between Mediterranean and Continental output, and between small and large farms.

All these problems may be exacerbated by enlargement, especially in the case of Spain, whose potential for greatly increased agricultural output is undeniable. If Spain and Portugal, for example, divert some of their meat and milk output (which is insufficient in any case to meet current demands, but which could be supplemented from other EC countries) into other sectors, enormous surpluses could result. Some projections see substantial oversupply in olive oil, wine, and peaches, to name but three. How, Italians ask, is the Community going to use up all this oil, wine, and fruit?

The second question is how will the Community foot the bill. EC financial aid for olive oil would rise from 800 million to 1.5 billion



*From the traveling exhibition of the Giovanni Agnelli Foundation.*

*The world's second largest producer of tomatoes, Italy faces keener agricultural competition within the Community as soon as Spain and Portugal join.* © J.A. Pavlovsky, Sygma

ECUs as soon as Spain joins, under current formulas. But the reluctance of some member nations to pay is already well known, even though, in the Italian view, it is the poorer countries with underdeveloped agricultural sectors which would benefit. The fact of the matter is that the CAP is designed to favor northern Europe, with its output of cereals, meat, milk, and sugar and with its bigger and better equipped farms—at the expense of the relatively backward Mediterranean region.

There is the real risk that EC enlargement to include Spain and Portugal could further widen the gap between northern and southern Europe, leaning to a weaker and more fractured Community of nations rather than the desired bigger and stronger one.

Italy believes these problems must be overcome and that there is probably only one way to do it. A step-by-step approach or technical negotiations over enlargement will not suffice. There should be instead, a new and effective political thrust inside the Community and change in many of its existing policies. Only thus can an enlargement which satisfies the objectives of the present membership and the newcomers be achieved. Policy change must begin with the CAP, which, after all, accounts for about 70 per cent of the Community budget. Further progress for all could follow: Enlargement achieved through political initiatives and changes in the CAP could set the ball rolling for even further Community-wide integration on a broad front. €

*Arturo Zampaglione is head of EC policy for the Italian National League of Cooperatives.*

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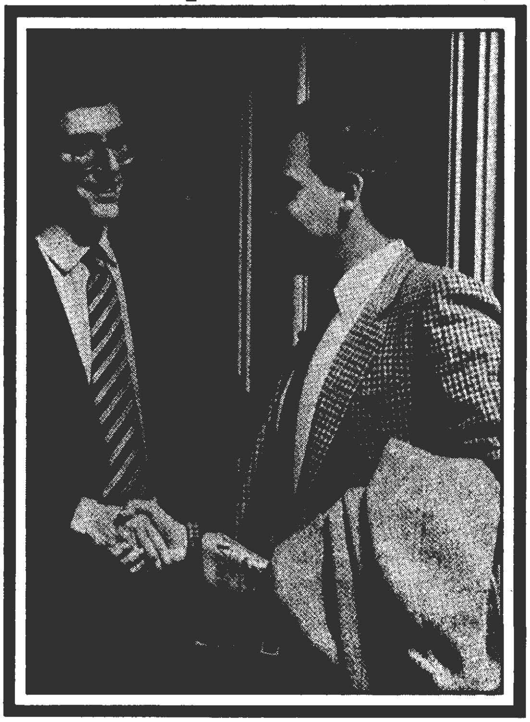

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# the regulated skies of Europe

Courtesy of Alitalia Airline

*American travelers are often aghast at the high level of European air fares. Indeed, the EC Commission has recently proposed a regulation that would enable the Treaty of Rome rules on competition to be applied fully and effectively to EC airlines. In light of this* EUROPE *Magazine asked Umberto Nordio, president of Alitalia, for his views on deregulation.*

**What do you think of deregulation, US style?**
I like your expression, US style. It indicates that you assume a fact, which is indeed a fact, that what Americans call deregulation is not deregulation at all. There are a number of measures that were designed to bring some more competition into the market, but there was not removal of all the constraints that do exist in the exercise of transport by air, to answer your question.

What do I think of deregulation? Deregulation is a policy. Policies you do not discuss in abstract terms like philosophies. We look at the effects. International deregulation was a disaster. We just have to give a look at what is happening in international air transport and the companies involved in it and we will see why it was a disaster.

Since international deregulation, US style, was enacted, most US airlines have had difficulty and I would not say the public stood to benefit out of this mess because access to our network has not improved. Flights are at

*The American air traffic controllers dispute caused long lines to form at Charles de Gaulle airport outside Paris last August.* © Alain Keler, Sygma

times booked solid. The purchase of tickets is always a sort of lottery. You never know whether you can acquire your ticket at the cheapest possible rate because no travel agent has enough knowledge to indicate to you what is the best rate available at the moment. This is because of the lack of coordination between rates, which is what promoters of deregulation call price fixing.

Let me remind you, first of all, that price fixing depends on the will of Governments in the world who never gave up their rights to approve or disapprove fares proposed, not fixed, by airlines. This was true during the last 30 years, even when people said that the International Air Transport Association (IATA) was fixing prices, and it's still true today after supposed deregulation took place. Whenever we enact a new fare, we first have to get approval from the two governments involved. The US Government, while applying this US-style deregulation, never gave up its right to approve and disapprove fares for passengers arriving and leaving from the United States.

The second thing that was not deregulated is access by carriers to routes. Internationally speaking, there was never a complete freedom of access. There always was the need to apply to two Governments for permission to carry people and goods through a given route. So this is the second constraint which was not removed.

Therefore, even if you wanted to look at this policy of so-called deregulation not from the point of view of the results but from a strict philosophical point of view, it would not take much to foresee that it would be a failure because two essential elements to a free market were not present, pricing, the control of which was not given to operators, and access to the market, which was not freed but remained in the hands of the Governments.

**So deregulation has not resulted in freedom of the airways?**

If there was complete freedom of the skies, if there was a real open-sky policy, people would fly from Miami to New York on Singapore Airlines, but not even the US Government is willing to do that; no government is willing to do that sort of thing.

Those who proposed deregulation were either theoreticians or people acting in bad faith for demagogic electoral reasons. It is plain to see that the deregulation issue to some political persons in the United States was an interesting weapon in order to catch more votes and that this public-relations vote catching operation is what brought about deregulation, not a real belief in the benefits of the free market, which even those people, as limited as their knowledge of the system was, could have known and should have known and knew did not exist.

**What do you think of the European Community's attempt to apply the rules of free competition to air transport within Europe while the European airlines are being accused**

**of price fixing, and the present fare structures seem to be too much in favor of the interests of the airlines, while in many routes consumer choice is too limited?**

Well, I would like to start by saying that I believe a certain measure of competition is very healthy. God forbid that we get into a situation where competition is eliminated and everything in the air market is agreed upon and fixed between companies and Governments.

No matter what people think, this certainly is not the case. I realize that the American experience in domestic deregulation may induce some people in Europe to follow suit, but first of all let me remind you of two important differences.

In one way, Europe was well ahead of the United States in terms of deregulating the domestic market. Within the United States there was no charter traffic whatsoever on account of existing regulations, whereas today in Europe about 50 per cent of the traffic within Europe moves by charter airline and not by scheduled airlines. This means that about 50 per cent of the people in Europe who travel by air have access to a different kind of transportation at different rates. The United States did not have this.

A second aspect is that the United States is a vast market, but it's one nation, one market. In our case we have several nations, and I do not need to go into the obvious consequences of these geographical and political differences. We know we have a Common Market, but we are still very far from having accomplished complete uniformity and unity in this market. Witness that Italian wine cannot go freely into France, for example.

In the case of air operation, I believe that practically it would be very difficult to achieve complete uniformity and complete unity of services in Europe. Whether you try and do it by coordinating existing airlines or you try and do it by forming one single European airline, you would have removed any real competition from the market.

**What about high European air fares?**

Are the rates in Europe unfavorable to the customer? At times I am at a loss to understand what people mean by this expression. If your rate is well above the cost, it's too high. If your rate is well below the costs, it's too low. I do not know any other measure. If your rate is well above the cost, it's too high. If your rate is well below the cost, it's too low. I do not know any other measure. I understand that the customer wants to pay as little as possible, but if we are dealing in a free economy, that means that enterprises must be self supporting and must produce a profit. Otherwise we go into a controlled economy where everything is run by the Government and by the state.

I can tell you European air fares are not excessive. Now you may say they are not producing profits because the big airlines have been used to running their business in a leisurely fashion, without enough competition; that because of this their costs went high and thus they are making the passengers pay excessively high rates. This is total nonsense.

I just said a moment ago that 50 per cent of the people in Europe travel on chartered airlines at very cheap prices. How do we the price fixers manage to survive in this competition from the charters? We manage by being efficient. There is a pressure on us to be efficient. Aside from the pressure of competition from Lufthansa, Alitalia, and others, there is the added competition of the chartered airlines. And I can assure you that anybody who operated in a network of our size, with planes of our quality and with all that goes in an organization of our kind, would most likely have our costs. There is no miracle airline. We may be marginally a little above or a little below the average, but that means a few percentage points, certainly not enough to make great differences in fares.

Putting up a seat in the air, flying a seat in the air, depending on the kind of aircraft, will cost you somewhere between $50 and $100 per hour. Now, tell me, how many people can afford spending $50 to $100 per hour? Is this a mass product or do you have to accept that it's not a mass product? It's something that some people may not afford. This is an unfortunate truth, but we'd better face it because we cannot treat air travel as Coca-Cola or toothbrushes or movies. It's something different. Not everybody can fly with the same regularity as mass products are attainable by everybody in the population.

**It's very difficult for Americans to understand how European airlines operate. For example, Air France is 98 per cent state owned, Alitalia is 99 per cent, and KLM is 100 per cent. Yet you have stockholders. What's the story?**

Recently the very same question that you are asking me was asked of me during my session with Vice President George Bush and I am going to give you exactly the same answer. I understand that this is very confusing to an American, but the fact is that in Europe we have economies where the Government becomes a shareholder of a given enterprise, and in the same country you may have a case where the state owns an enterprise outright.

Now, you should not confuse the two things. One is to be what they call in England a crown agency, namely a unit which the Government owns and the Government has set up for the purpose of achieving something, *i.e.* transport of steel or whatever. Another thing is that within the regime of private property you establish a company. You put the shares of this company on the market, and anybody including the state can buy those shares. That is a private company in which the state can be a majority shareholder. But nevertheless that company will be something very different from the crown company. It's a different animal.

A manager of a crown company is appointed by a government minister, and he's answerable to that minister not on the basis of paying or not paying the dividends but on the basis of achieving or not achieving the objectives he is given.

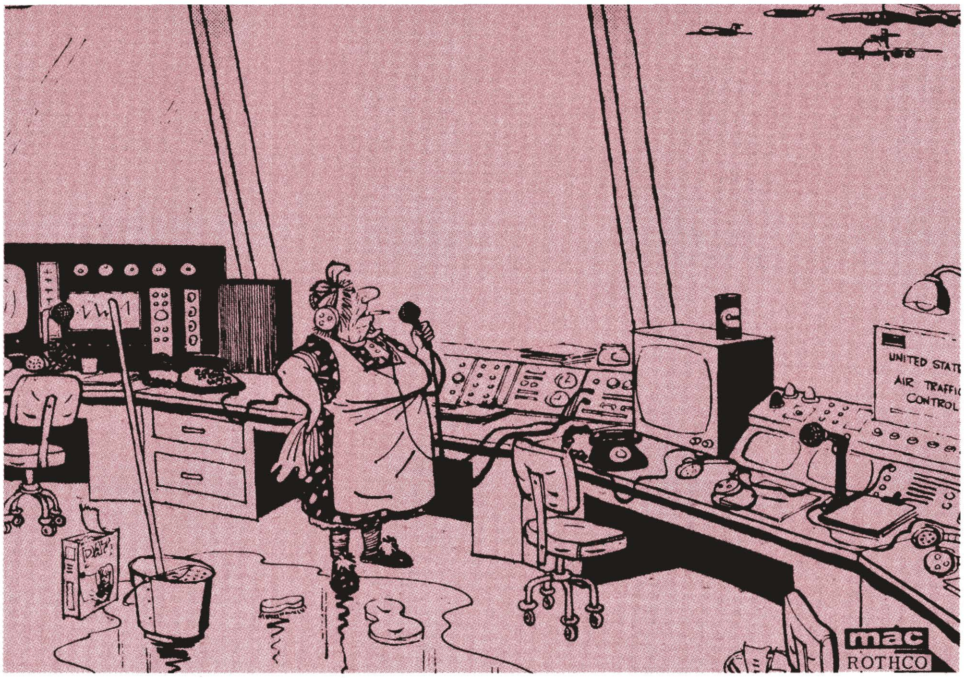
The manager of a private company is answerable according to his country's law to his shareholders, among which there may be the Government. But the measure for his performance is the bottom line at the end of the year, did he produce a profit or not. For instance in Italy, a shareholder with one single share has as much right to criticize the manager as the Government with the 99 per cent of the shares.

Today my secretary can go to the United States and back with a week's pay, and this is because we passed on to the customer the benefits of technology, and this is why I say that, if you compare our costs today and our prices today and compare the cost of your shoes and your home, to what they were 20 and 30 years ago, you will see that our customer has not been treated so badly.

And, finally, there is another aspect which I think is worth looking into. Obviously everybody would like to have airplane service available at his doorstep. Nobody wants to run by car or train for 30 or 40 minutes to catch a plane. Every community would like to have an airport. But an airport is an expensive structure. An airport must operate several flights per hour to justify the investment of billions of dollars. If you build an airport that is not operating through 10 to 13 hours a day and if you have an airport that runs 10 flights a day, 20 flights, that airport is a losing venture, and someone has got to pay for this losing venture.

On the other hand, a community that is not producing enough travel to fill up all of the planes that it takes to run an airport is a community that cannot afford an airport. It's as simple as that. Small aircraft are more expensive to operate than big ones, and they cannot give transportation at comparable fares.

Also we are becoming, or perhaps I should say we should become, an energy-conscious community. We import most of our energy. In most European countries over 50 per cent of our energy needs come from oil. We import all our oil and airplanes can not fly on anything else but kerosene. Flying in short stretches—100 to 200 miles—is uneconomic. Surface transportation is much more energy conserving and when new fuels become available, surface transportation will use them well




*"Now hear this . . . The big red one with the yellow stripes is the last one I bring down. I got my own goddam job to do."* © Mac, Daily Mail, London

before they are available for use in air transportation. Far-sighted governments should discourage, not encourage, people from traveling by air for short distances.

There's a degree of autonomy, a degree of managerial ability to decide in a company that is set up in the private way which is not available in the crown company. And this is why when we say we, Air France, we, Alitalia, are answerable to our shareholders, we are perfectly correct. The fact that one of our shareholders is the Government does not make any difference.

There is another difference between European airlines. There are those that have their home market, like France, Italy, Germany, and Britain, and you have countries that do not generate traffic of their own—Switzerland, Holland, Belgium. And the attitude of Governments in these three cases is different. They live off someone else's traffic—we live within our own traffic.

The attitude of those companies toward complete freedom is a very positive one because they think of coming and picking business in the traffic-generating countries. The attitude of the traffic-generating countries is the reverse. They would like to keep a certain barrier, a certain amount of control over the situation because otherwise their market share would shrink to make room for those who do not have a market of their own.

You have examples where the two things go together. For instance, Sabena is a totally state-owned company in a non-traffic-generating country.

You have other companies that belong to countries where traffic is generated and where the setup makes them private companies—Alitalia, Air France. We are not in such a bad shape.

**So what are your conclusions? Where do you stand on these issues we've raised?**
As you can see, I speak for competition. I am saying that where the premises exist for a certain amount of competition, the enterprise is healthier. I am in favor of private companies rather than state-owned and state-controlled companies. But I understand that there is a limit to which you can go. Complete freedom cannot be achieved. Complete freedom will bring the situation to a total chaos, to a catch-as-catch-can out of which most airlines would suffer.

In other words, the system which has been in existence and working fairly well for the past 30 years, namely the system which was created right after the war with the Chicago agreement, the system of IATA should not be dismissed so lightly. It was perhaps not the most logical setup. It had loopholes. At times it came into being sort of haphazardly. But nevertheless it worked and it performed the very commendable task of supplying a service at rather reasonable cost without asking a cent from Governments. €

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## THE ITALIAN CINEMA

# the need for a middle wave

MARGO HAMMOND

For the past decade Italians have been sounding the death toll of Italian cinema. Reams of articles and countless conventions have been devoted to discussing the *crisi del cinema*. The film industry that gave us Sophia Loren, neorealism and *commedia all'italiana,* the Cassandras have been warning, is facing a deep and irreversible decline.

A quick look at the statistics shows that this pessimism has not been entirely unfounded. In 20 years the number of filmgoers in Italy has been nearly cut in half from a whopping 745 million in 1960 to a disappointing 370 million in 1980. Italians who had been churning out 200-250 films a year, in 1979 released a low 141. Worse yet was the share of the film market that the Italian films represented. At the beginning of the 1970s, homegrown films brought in 65.1 percent of all film revenue in the country. By the end of the decade the Italian share of its own market was reduced to 37.5 percent.

In looking for reasons and scapegoats, some point an accusatory finger at television which has lured audiences away from the movie houses. The drop in attendance corresponds, in fact, to the introduction of color on the Italian *piccolo schermo*, but more importantly perhaps with the introduction of private television channels which make heavy use of old films in their programming. The merging last fall of three commercial stations—ingeniously dubbed *Rete 4* (Channel 4) following the three state-run networks of RAI —promised only to exacerbate this competition.

Others argue that terrorism and the rise in street crime have contributed to the decline of the Italian film industry. People, so the argument goes, would rather stay in the safety of their homes than venture out to a movie. This argument, however, loses some force if

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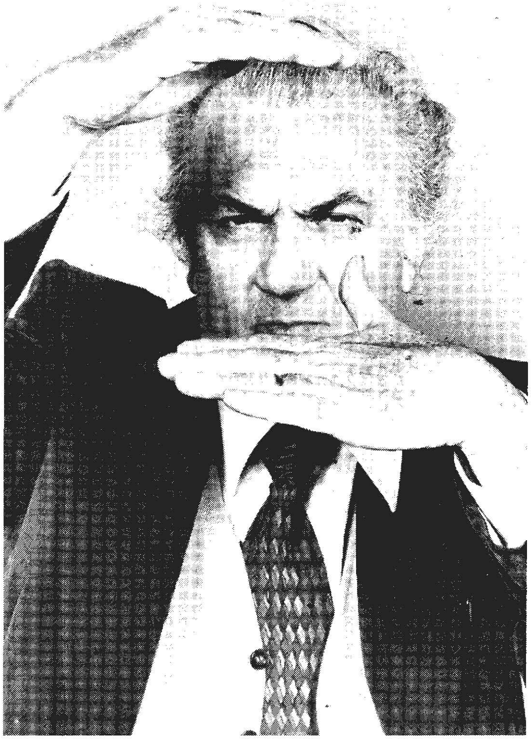
*Margo Hammond is editor-in-chief of the* Baltimore Sun Magazine.

the rise in the number of foreign films, particularly American, that have successfully penetrated the Italian film market is considered. In 1975 313 foreign films were shown: In 1979 that figure had inched up to 381. In 1975 132 of those films were American, representing 26.8 per cent of the country's film revenues. By the end of the decade, the Americans with 156 films were cornering a disturbing 43 per cent of the market. Clearly Italians were being torn away from their television sets and were braving the pickpocketers to see films made outside Italy.

The real crisis then seems not to lie in the number of people who decide to stay at home

In Cannes, May 1980: (L-R) Vittorio Gassman, Serge Reggiani, Stefania Sandrelli, Marie Trintignant, and
© Sipa Press/Black Star



Federico Fellini. © Fabian, Sygma

to watch television rather than go to the movies (after all, this phenomenon is worldwide and Italy still is the second best film market in the Western world after the United States, counting more moviegoers than all the other European Community countries combined), but in the declining share the Italian products hold in their own market. The enormous increases in ticket prices during the 1970s (a ticket which in 1970 cost an average of 346 lire now costs over 1,000 lire) have to some extent offset the drop in attendance. Those revenues, however, are no longer going into Italian hands.

Ironically during this period quality Italian films have continued to attract worldwide attention. In 1978 the Italians won both the Cannes' Golden Palm with Ermanno Olmi's *Tree of the Wooden Clogs* and the Montreal

*Lina Wertmuller.* © Bettye Lane, Photo Researchers

*director Ettore Scola representing "The Terrace."*

top prize with Salvatore Nocita's *Ligabue*. Francesco Rosi's *Christ Stopped at Eboli* took top honors at the 1979 Moscow film festival while that same year Federico Fellini was awarded the Prix Moussinac for *Orchestra Rehearsal*.

This year at Cannes Ugo Tognazzi was named best actor and director Ettore Scola (*We All Loved Each Other So Much, Down and Dirty, A Particular Day*) was honored for his entire body of work.

Other Italian films, including Franco Brusati's *Bread and Chocolate* with Nino Manfredi, a re-release of Lucchino Visconti's last film, *The Innocent*, with Laura Antonelli and Gian Carlo Giannini, not to mention the films of Lina Wertmuller, were smashing successes in the United States in recent years. And when the Venice Film Festival, which was after all the father of all film festivals, re-opened, it was heralded throughout the film industry, attracting quality films from both Italy and abroad, threatening even to upstage Cannes.

But to support a healthy film industry, movies destined for the great annals of film history are not enough. "The truth is," says Lino Micciche, one of Italy's leading film critics and president of Pesaro's New Cinema Film Festival, "a cinema where on one hand there are top talents and on the other hand low grade commercial products with nothing in between is essentially a cinema without quality." What Italy needs, argues Micciche, are good, middle ground films that can fill the gap between Fellini and cheap pornography, a gap once filled by Sergio Leòne's spaghetti westerns and Dino Risi's and Luigi Comencini's Italian-style comedies, genres which have long since run their course.

"There is no cinema that represents the new Italy," laments Maurizio Nichetti who presented his first film, *Rataplan,* at the European Community film festival last February in Washington. "Today's comedies are still made by people of the 1950s who present an Italy that has long ceased to exist."

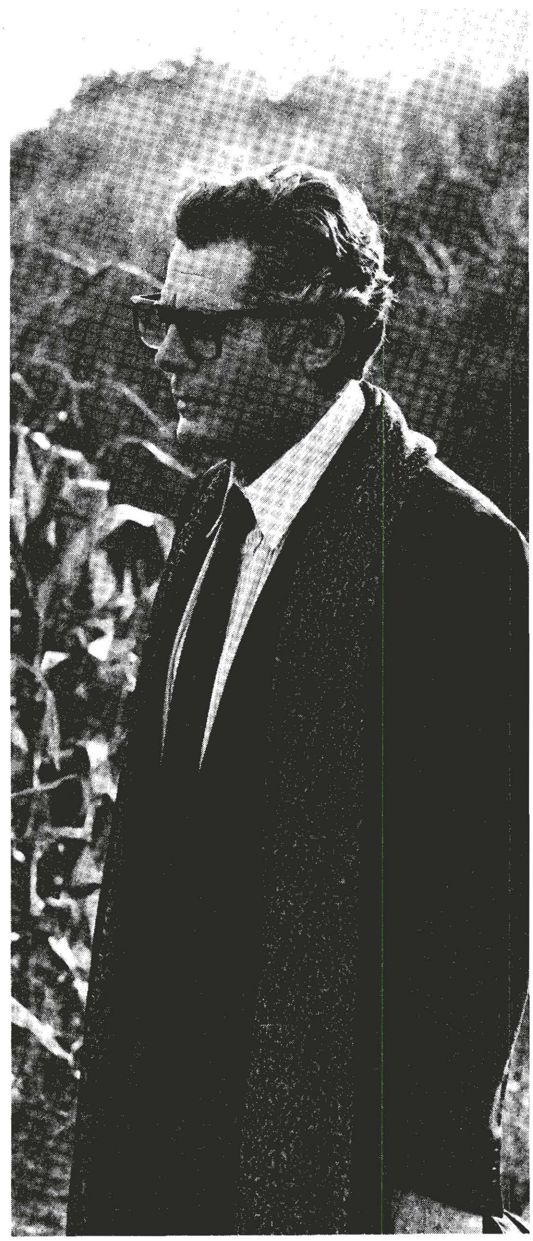
Nichetti, whose *Rataplan* and *Splash* were instant successes at home may himself represent that long-awaited new wave in Italian cinema. The 33-year-old director/actor who specializes in nearly silent films in the Buster Keaton and Charlie Chaplin style, is joined by two other young directors who have departed drastically from the self-effacing style popularized by Alberto Sordi: Nanni Moretti *Ecce Bombo* and *Golden Dreams*, which was honored with a special mention at this year's Venice festival and Massimo Troisi *(Let's Go Back to Square Three)*. While each of these directors—who also write their own scripts and star in their own movies—have significantly distinct styles that reflect their regional differences (Michetti is Milanese, the 28-year-old Moretti is Roman, and Troisi, also in his twenties, is Neapolitan), they have several points in common: Their films were all made on a shoe string budget, their films appeal to the young, and, above all, their films are funny. They are, in many ways, the most encouraging by-products of the Italian *crisi del cinema.*

The Italian filmgoer—like Italy itself—has become more demanding. The image of the provincial green grocer who drags his wife and five kids on a hot summer night to the local parish cinema to see a B-grade film is no longer a realistic picture of film tastes in Italy today. Movie houses are now concentrated in urban centers; they are no longer makeshift halls, but plush centers of entertainment where people expect a certain quality for their money.

More and more the Italian audience has been turning to the slick American film with its fast action and compelling plots. But this is not necessarily an irreversible trend. The success of films like *Rataplan, Ecce Bombo,* and *Let's Go Back to Square Three* prove that if the Italian is offered a sophisticated product, he will actually prefer the locally produced film to the foreign one.

If that competitive edge is to be maintained, however, the local product must be given some help. Young directors like Nichetti, Moretti, and Troisi face enormous problems of financing and distribution. The state-supported television has given support to film makers in Italy in recent years, but the films tend to be at the top end of the spectrum and are not the films with mass appeal. RAI, for example, produced both *Ligabue* and the *Tree of the Wooden Clogs* which along with *Orchestra Rehearsal* were distributed abroad by SACIS, the sales arm of RAI.

Support must also be given to that middle range of films, the *cinema medio* as Micciche puts it. Films to reflect the new Italy, to attract a new generation of movie goers; films that break with the past and look to the future. Films that can compete with the sophisticated products from other Western industrialized countries which are flooding the market but that are uniquely Italian. Only then will we be able to say, like a famous critic did at this year's Venice festival, *"Il cinema e morto, viva il cinema."* €



*Marcello Mastroianni on location for the filming of "The City of Women."* © Fabian, Sygma

# REAGANIZING THE

## *The US laid down the law at the last annual meeting: Jurek Martin reports*

THE WORLD, RICH AND POOR ALIKE, WAS PERHAPS UNPREPARED for Reaganomics. Election promises, after all, are made to be broken and, in any case, there was always the faint hope that if medicine was dispensed, the patient would be principally American.

That hope, fond though it must always have been, was disabused with a vengeance in Washington in the course of the joint annual meeting of the International Monetary Fund (IMF) and the World Bank. It was not simply a case of 10,000 and more finance ministers, government officials, and private bankers being told that there would be no deviation from the course on which US domestic economic policy was embarked; this much was predictable. More serious, and less widely foreseen, was the explicit American message that the United States expected, and may even seek to require, that other nations pursue similar policies.

More than this, even, was the unambiguous American position that the IMF and the World Bank themselves would be derelict in their duties if they did not play central roles in ensuring that the supply side miracle—or, as President Ronald Reagan himself put it in an address to delegates, "the magic of the market place"—be appreciated in every corner of the world.

The strictures obviously came as less of a traumatic shock to the World Bank than to the IMF. It has long been accustomed to American political disaffection, especially in Congress, and earlier this year was warned by Beryl Sprinkel, the dogmatic Treasury undersecretary, that it was suspected of promoting socialist, or even communist, values. It also has the consolidation of knowing that its new president, A.W. Clausen, is a solid American banker who might be able to find a better *modus vivendi* with the hardliners of the Reagan Administration than Robert McNamara ever could have hoped to.

But for the IMF, the impact was nothing short of searing. For more than 35 difficult years, the institution has managed to preserve a reasonable vestige of political virginity. It has clearly always been dominated by its largest shareholders, the developed nations in general and the United States in particular, but rarely has this hegemony been egregiously exercised. In the 1970s, in particular, the IMF outgrew its pubescent role as policeman of a world of fixed exchange rates and lender, sometimes of last resort, to the richer nations.

Its expanded horizons now embrace smoothing out the turbulent financial imbalances throughout the world that the oil shocks have caused and helping countries anticipate need, as well as react to it. Through adept and inventive fund raising, including directly tapping the Saudi surpluses, and through significantly liberalizing its lending ceilings, it has become an institution to which the less affluent nations could reasonably turn. The conditions the IMF exacted in return for assistance have remained a matter of controversy and are still criticized as too draconian by some developing countries. But, on balance, the IMF has modified the application of conditionality to take account of those political and social considerations which do not easily lend themselves to orthodox economic planning.

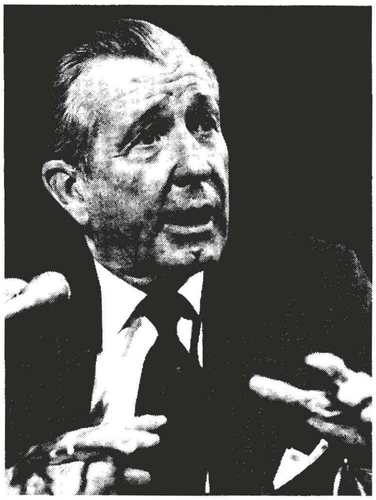
Saudi Arabia now has a permanent seat on the board of directors, the People's Republic of China has been readmitted to membership, and, generally, the Third World voice in the institution's internal deliberations has been more listened to. Last spring, in Gabon, the IMF's policy-making Interim Committee even elected, as a new chairman, the Canadian Finance Minister, Allan MacEachen, in preference to Sir Geoffrey Howe, the British Chancellor who had US support, in good measure because MacEachen was perceived as more alive to the sensibilities of the poorer nations.

It's new direction had given the IMF new needs, above all that of expanding its own liquidity to meet the likely demands

*International Monetary Fund headquarters in Washington.* Courtesy of IMF

# IMF

IMF *Managing Director Jacques de Larosière.* Courtesy of IMF



*Treasury Secretary Donald Regan.* © Bruce Hoertel, Washington

on its services. At a rough estimate, internal staff projections foresaw an extra $7-10 billion per year until the middle of the decade above the present capital pool. The assumption was this could be raised through conventional means—through the next scheduled increase in quotas and through a further allocation of Special Drawing Rights (SDR), the IMF's own reserve currency—or through innovation, such as by tapping the private markets, as the World Bank has done for years. Indeed, this annual meeting would normally have seen substantive negotiations on this whole process.

But that was until the United States lowered the boom. Keen students had seen the writing on the wall in Gabon, where the Managing Director, Jacques de Larosière, had some sharp altercations with the US delegation, led in the absence of Treasury Secretary Donald Regan by Sprinkel and Deputy Secretary R.T. McNamar. But the script was writ large in the week before the annual meeting when Regan told the American media that the IMF was in danger of becoming too much like the World Bank and needed to get back to its fundamentals. Even his message was a little blurred, because simultaneously Secretary of State Alexander Haig was telling the United Nations in New York that the United States would remain sensitive to Third World needs.

In the event, the specifics of the US position undercut the Haig thesis. The IMF did not need any more liquidity; any quota increase should be small and selective (and benefiting the likes of West Germany and Japan), not large and across the board; any further allocation of SDRs was viewed with similar disfavor and the suggestion that such a distribution be linked to aid was frowned upon; the IMF could forget about tapping the capital markets, if for no other reason than that the United States did not want to see corporate borrowers "crowded out" by Governments and powerful international organizations.

The United States, it must be pointed out, did not stand alone in its proscriptions. It suited nations like Britain and West Germany, whose conservative, though different, economic philosophies are well known, to hide behind American skirts. Japan, as usual, tended to follow the American lead. Resistance was provided by MacEachen and a handful of the smaller industrialized countries, including Belgium and Holland, as well as the developing bloc. It remains possible that they will effect a compromise whereby small allocations of SDRs will continue to be made in the years ahead, perhaps at the 4 billion SDR annual rate of the previous three years.

More generally, the United States made it crystal clear that it believed the IMF was going "soft" on conditionality. The suspicion persists that the United States, however, will display dual standards in this regard. It may support, for example, continued relatively benign IMF treatment of those nations it considers strategically important (Turkey and Pakistan come to mind), but will look askance at help for those which are not its friends.

Its opposition to a loan to Grenada earlier this year tipped its hand. More recently, it is indisputable that the US was particularly put out by the process of negotiations for a large Indian credit—overtly because it concluded the proposed terms were too lenient and discreetly because Washington is out of sorts at present with Indina Gandhi's Government. A keener test of the US position would come when (or if) China approaches the IMF for a substantial standby arrangement.

Caught squarely in the middle is de Larosière. At the best of times, the managing director's role requires a fine political touch in balancing the demands of the poor and the concerns of the rich. In the view of his critics, de Larosière, unlike his predecessor, Johannes Witteveen, lacks the politician's skills and tends to be caught offguard by shifts in the prevailing winds. Thus he stuck with the proposed dollar substitution account long after its political constituency had collapsed. He preached the virtues of tough conditionality when the international mood was for softer treatment, but, switching horses, continued to advocate more imaginative structural adjustment policies even after a profoundly conservative Administration had assumed power in Washington. His most recent switchback toward a tougher stance seems to some unconvincing.

But de Larosière is only an international civil servant, one cog in a vast international wheel, none of whose gears seem to be meshing at present. At the time of writing, the prognosis for the North-South summit in Cancun, Mexico, is not favorable, principally because the ideological divide has become so vast. Yet it is precisely in this void that international institutions like the IMF can play a discreet, indispensible, and non-doctrinaire role. The chances are that it will be denied both the tools and the freedom to exercise that function.

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*Jurek Martin is editor-in-chief of* Europe Magazine.

# THE INVADERS TAKE STOCK

DAVID LASCELLES

"IT'S QUITE EASY TO SEE WHY THEY COME HERE. IT'S THE world's last growth market," remarked a senior US financial official recently about the phenomenal rise in the foreign banking presence in the United States in the last few years. Nonbankers may find it odd that America, the shrine of capitalism, should have taken so long to attract foreign bankers' interest. But the fact is that 10 years ago there was scarcely a foreign bank in the country, apart from some agencies operating on Wall Street. Today there are nearly 400, and they have offices or branches in most of the big states that admit foreign banks (some still do not). As of the middle of this year, they had about $230 billion in assets, some 15 per cent of the total.

This inrush has not been entirely welcome of course, even in the competition-minded United States, and last year there were serious attempts in Congress to shut it off. Alarm has eased somewhat since then, but there are still enough misgivings in political and banking circles to make the "foreign banking invasion" a touchy issue.


Photos by Andy Levin, Black Star

Foreign banks, chiefly European and Japanese, began to get interested in the United States in the early 1970s when they realized that, far from being saturated as they supposed, the United States market was very unevenly served, mainly because of archaic United States banking laws which severely limit how and where American banks can operate. These same laws did not apply in all respects to foreign banks, leaving them enormous loopholes, one being the freedom to open branches in any state that would have them. US banks, by contrast, may only branch in their home state. The foreign banks' perception of the opportunities of the US market coincided with their mounting need to strengthen their "dollar" base to diversify portfolios and improve access to the world's most important currency.

The British banks, which have a long history of overseas expansion nurtured by the Empire, were the pioneers. Barclays Bank, Lloyds, Standard, and Chartered were the first to buy or establish retail operations, chiefly in New York and California, the two best markets. The Japanese were also quick to move into the West Coast, a natural market for them. Other European banks, chiefly French, Italian, and Dutch, joined the acquisition trail and ended up owning medium-sized US banks with anything from a handful to several hundred branches. The Germans and Swiss have generally shown less interest in retail banking, preferring to open up agencies or commercial loan offices around the United States and concentrate on business lending and deposit-taking.

Although the banks which arrived all claimed to have a good reason for seeking to enter the US market, the invasion had a bit of a "me too" look to it, and inevitably this bid up the price of US bank stocks. While the early arrivals snapped up complete banks for less than $100 million, the latest, Midland Bank of Britain, is currently paying $820 million in a deal which will net it only 57 percent of the Crocker Bank, the 4th largest bank in California.

Whether these huge sums are justified in the long run remains to be seen, of course. But the profit record of foreign banks which have gone into the highly competitive and tightly regulated retail banking business has been mixed, to say the least. The Californian banks may be doing quite well, but life on the East Coast is tougher. Britain's National Westminster Bank has run up a string of declining quarterly earnings at National Bank of North America, the $6 billion New York-based bank it bought in 1979. Many of the problems have to do with the quirks of the retail market (even mighty Citibank of New York loses tens of millions of dollars a year on retail


banking), and for this reason the Germans and Swiss may have been wiser to opt for the wholesale market. But US banking law is being reformed and the economics of retail banking may yet improve.

Not that commercial lending has been especially profitable in the last couple of years either. Record-high interest rates have added hugely to funding costs, while competition has led to widespread undercutting of the prime rate, the rate which banks supposedly charge their best customers. Foreign banks have had to be especially competitive to break into markets dominated by giants like Bank of America, Chase Manhattan, and Morgan Guaranty. Many have played on the strength of their foreign connections to win business, especially from multinationals.

The precarious state of many large corporate borrowers has also called for cool judgment. Even so, foreign banks have had to write off millions in loans to Chrysler and other casualties like White Motor, and Itel which went bankrupt. The fate of large borrowers like International Harvester (which owes $5 billion) still hangs in the balance. Some foreign bankers claim to have suffered more defaults from US borrowers than from Third World countries whose problems get so much publicity.


The striking point about the invasion is that foreign banks were quick to realize that there was more to the market than New York. Apart from California, they have established themselves in fast-growing markets like Texas, Flórida, Georgia, and Chicago, though usually with a home base in New York. The Midland-Crocker deal was the first where a major foreign bank by-passed New York altogether. But each region presents its special challenges. Chicago (which foreign banks use as a springboard for the industrial heartland) is a massive market, but it throws up more than its share of problem loans. California has all those fast-growing, high-technology companies, and plenty of wealthy individuals, but there are more banks competing for the business than anywhere else. Miami is one of the most glamorous centres, but much banking business is built on the somewhat precarious foundation of capital fleeing Latin America.

The foreign banking invasion went largely unnoticed until the late 1970s when a string of multi-billion dollar bids caught the national attention and gave rise to cries that the US banking system was rapidly passing into foreign control. This was far from being the case, of course. A more pointed complaint came from the US banking industry about the loopholes that were giving foreign banks an unfair competitive advantage. This was corrected by the 1978 International Banking Act which put foreign banks on to more equal footing with US banks, though it "grandfathered" (left unchanged) foreign banks which had already established themselves in ways that contravened the new law, mainly by branching in more than one state.

But this did not iron out all of the anomalies. A foreign bank can still come in from abroad and bid for a US bank, something a domestic bank cannot do unless it is in the same state. This infuriates the large US banks which are itching to expand into new markets.

Last year, Congress imposed a brief moratorium on foreign bank takeovers to give it a chance to examine the issues. But though the General Accounting Office subsequently produced


a report which described the growth of foreign banking in alarming terms and called for a new moratorium, Congress had by then been diverted by the presidential elections. The moratorium expired and the issue subsided.

The large US banks are determined not to let it die, however, because they see in the foreign banking issue a chance to press for further deregulation of the US banking system. Far from wanting to shackle foreign banks with their own fetters, they would prefer to advance to the freedoms enjoyed by the new arrivals. Their cause has the backing of bank regulators like the Federal Reserve Board and the Office of the Comptroller of the Currency who see the foreign banking problem as part of the broad issue of banking deregulation, which they favor. The official view is that foreign banks have on the whole been a good thing: They have behaved well, they bring new capital into the system, and they sharpen competition. A frequently cited example is Hong Kong and Shanghai Bank's acquisition of Marine Midland of New York, the United States' 12th largest bank, which resulted in a $300 million capital infusion into what was considered to be a problem bank. Other deals like the Midland-Crocker one have greatly expanded the equity capital of thriving banks.


Outright opposition is more likely to come from smaller banks which enjoy the cozy protection of current regulation, and are not keen to see more "money center" banks muscle into their territory, let alone more foreign banks. Foreign ownership of an industry as sensitive as banking also arouses powerful emotions which could easily be fanned into life in the years ahead, particularly if another mega-dollar takeover bid comes along. Because of this foreign banks contemplating an acquisition are watching the political temperature somewhat more carefully than before. €

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*David Lascelles is the* Financial Times *bureau chief in New York.*

# "farewell to primeval bliss"


*Commerzbank headquarters in Frankfurt.* Courtesy Commerzbank

STEWART FLEMING

Puffing and wheezing like a middle aged executive who has climbed all the stairs to his 26th floor boardroom, the German banking industry entered the 1980s badly in need of a *kur*—the visit to a health farm which is one of the more outrageous benefits provided by the Federal Republic's social security system.

The elegant and apparently trim universal banking machine which made such an impact on the world's financial markets in the 1960s and 1970s has in the past two years suffered a succession of shocks and setbacks unprecedented in the post-war period.

The industry's problems have been most visibly symbolized by the doleful news emanating from the third and fourth biggest banks in the country, Westdeutsche Landesbank, a publicly owned institution, and Commerzbank, one of the "big three" private banks. In the past year both banks have had to find new chief executives following announcements of heavy losses on bond portfolios and startling declines in profitability as a result of ill-judged business decisions.

Commerzbank in 1980 became the first big private bank in Germany's post-war history to have to tell its shareholders that it could not pay a dividend, while West LB joined a growing list of publicly owned banks who had to accompany such sad tidings with demands for new injections of capital. For the shareholders of the second largest German bank, Dresdner, the news was not quite so grim; they got a dividend, albeit much reduced, as some compensation for the extra capital they were called on to subscribe.

Only shareholders of Deutsche Bank, the industry leader with assets of DM175 billion, had no cause to complain about their banks 1980 results. Its increased dividend and profits put its competitors in the shade. Its performance was an embarrassment to its rivals for it demonstrated conclusively that shrewd management could overcome the turbulent economic climate in which the banks were operating; and it undermined the excuse that bad luck alone, and not bad policy choices, was the big problem.

In comparison with their experience of the two previous decades, the German banking industry could indeed claim to be unlucky in late 1979 and 1980. The German banker had become accustomed to conducting his affairs in a growth economy, with a low inflation rate envied around the world and with customers who relied on him for the bulk of their credit needs and kept a big part of their savings, at relatively low interest, on deposit with him. Through the 1970s he was protected from the storms sweeping around the world's financial markets by a currency rising strongly on the foreign exchange markets.

That this scene of, for a banker, primeval bliss, should be rudely shattered was partly a result of the second surge in world oil prices in 1979. That so many German bankers reacted so slowly to changes such as the plunge of the Federal Republic into current account deficit and the steady tightening of Bundesbank monetary policy, even when they were well underway, can best be explained by a combination of complacency and uncritical optimism. Johannes Volling, the chief executive of West LB before he stepped down earlier this year, most aptly summarized the change in attitude of many bankers when the penny had finally dropped. "We have learned our bitter lesson," he remarked. "Growth is no longer our top priority. Profitability is our goal."

> Growth is no longer our top priority. Profitability is our goal.

The first results of the new leaf that the German banking industry has turned over have been appearing in recent months. Sensitive now to the dangers posed by big swings in interest rates, the banks have been much more cautious in their investment and lending policies, trying for example to ensure a better balance between long-term, fixed-interest loans and long-term, fixed-interest deposits.

Most of them have choked back the growth of their balance sheet assets and concentrated their lending on lines of business with the best levels of profitability.They have been quick to raise interest rate charges to their customers when market interest rates increased, but have been much less speedy in raising deposit rates. They have been more cautious in their international lending, playing a much less prominent role in the international syndicated loan markets where lending margins have been thin and, most bankers agree, risks high. The German banks, for historical as well as business reasons, are amongst the most heavily committed of the Western banks to Poland. Their nagging fear about these loans and the tenuous political thread, which is for some of them the last line of security, has made the German bankers particularly sensitive to the dangers inherent in cross-border lending.

These issues have been thrown sharply into relief by expectations that the Government in Bonn would be undertaking a fundamental overhaul of the strict German banking law. Although the law itself is strict, it was not designed with the growth of international banking in mind. The result has been that the banks have been able to side-step key provisions, and secure for themselves freedoms they would otherwise be denied, by opening subsidiaries in places like Luxembourg which do not have to abide by German law.

The danger of a Government reform of the law has been postponed until next year at the earliest. But in the meantime the banks have agreed to submit to a voluntary agreement which will incorporate, in a somewhat milder form, many of the most important elements of what legislation in Bonn would have aimed at. In particular this involves more disclosure and more regulation of international lending. This too has made the German banks more cautious in their international business.

**But the bankers are wary of being dazzled by the expensive gadgetry the computer salesmen can offer.**

Some German bankers have been heard to complain that the net result of the current situation, low profits coupled with tighter regulation, will be that the industry will be less competitive in international business and less able to serve the vital international interests of Germany's export industries. The regulators reject the charge, saying that the banks will carry on doing the business but more efficiently and profitably, which is what they should have been doing all along.

It is not just in international business, however, that a wind of change has been blowing through the banking halls of Frankfurt, Dusseldorf, and Munich. Domestically the banks have seen the need to reassess their policies in what is undoubtedly one of the most competitive banking markets in the world.

The ambitious branch and personnel expansion programs of the past have been abandoned in pursuit of cutting costs. The implications for the banking industry of the rapid development of micro-electronic technology are being looked at with greater enthusiasm in the hope that economies can be gleaned and perhaps a competitive advantage secured from embracing this new technological world. But even here it is possible to detect a more cautious and critical mood behind the assessments being made.

The major segments of the banking industry have recently announced the formation of a new company to examine more closely issues related to the introduction of automated teller machines, the expansion of the use of credit cards or the introduction of the "intelligent chip" bank payment card. But the bankers are wary of being dazzled by the expensive gadgetry the computer salesman can offer, and want to be sure that new technology will indeed mean lower costs. Thus, the initial result of the typically German approach of securing a concerted industry-wide policy to these issues, rather than letting unbridled competition set the pace as in the United States, will probably be the cautious introduction of the new technology. After the experiences of the past two years, bold and expensive experimentation is something the German banker is determined to avoid. €

*Stewart Fleming is a Frankfurt correspondent for the* Financial Times.

# out of thin air

## *David Bell examines some projects for worldwide television*

IT IS 1987. A BUSINESSMAN IN DUSSELDORF TURNS ON HIS BETAMAX at breakfast time to catch the CBS Evening News recorded via his rooftop satellite receiving dish while he was asleep. Meanwhile in France, Britain, and Germany, the top show in the ratings is "Star Wars Ten," which is beamed simultaneously from space in French, English, and German versions to an audience of 120 million people. Advertisers are lining up to buy time on this pan-European network which is controlled from offices in the Bahamas. And in Manchester, engineers for a British company are preparing their nightly peak-hour programming for the Far East, Australia, and the United States, which has transformed viewing habits "down under" and which has really begun to worry the American networks.

Such a scenario is perfectly possible. But what has begun to worry Governments all across Europe is how such an explosion of programming can be controlled. What will it do to the mostly state-run broadcasting operations that currently dominate the European airwaves? Will the satellites be used to beam political advertising which is presently strictly controlled in most European countries? Will viewers be able to receive, say, pornographic programs from satellites outside the control of any one Government? What happens to the laws of libel?

The list of questions is long and already, as in the United States, the technology threatens to run ahead of the answers. For there are currently eight European satellite projects on the drawing board which could transform forever communications on the Continent.

The most important of these is Lux-Sat, a satellite whose "footprint" would extend over Germany, Holland, France, and half of England. It could be in service by 1985. German Chancellor Helmut Schmidt has already protested plans by German firms to buy time on this embryonic network because it could severely damage the regional German television system set up so carefully after the last war to prevent any one group getting too firm a hold on access to the media.

British, Swiss, and Swedish companies are planning similar schemes. Meanwhile France and Germany are contemplating Government-backed satellites, but they have promised each other that they will not broadcast rival programs but will use satellites only to improve picture quality.

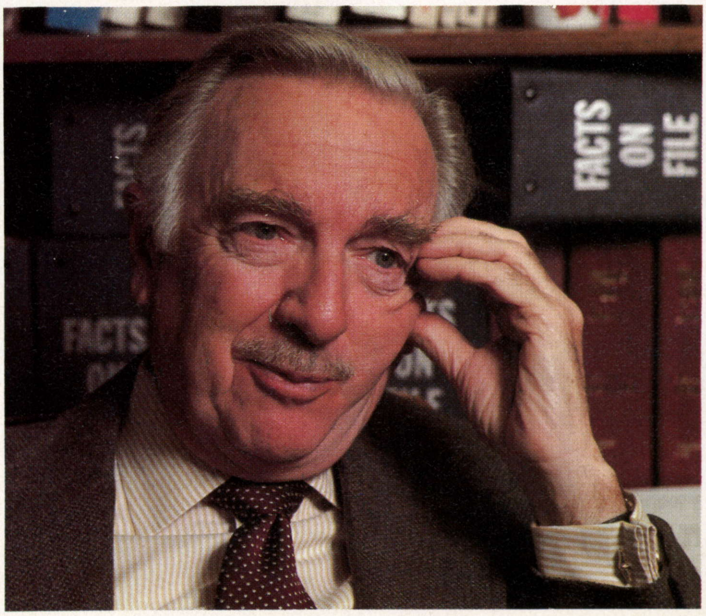
Such a promise may come to resemble the proverbial finger in the dyke. American experience already demonstrates the enormous potential of satellites especially if they are used to link cable systems in different parts of the country. But Europe has relatively few cable subscribers (except in Belgium and the Netherlands) and companies could decide to leap-frog cable and go straight to direct transmissions from space.

In the United States, of course, it is relatively easy to regulate such programming provided the networks or program providers are companies registered in the United States. In Europe, however, it will be far harder to develop rules in the case, for example, of a Luxembourg company whose programs may be seen half way across the Continent in several different countries where regulations and standards differ greatly.

Even developing rules for cable broadcasts is posing problems. In Britain, the Home Office, which exercises all the functions of a Federal Communications Commission and which takes a cautious view of broadcasting, has gingerly agreed to allow a cable experiment in several British towns this autumn. But the official permission is hedged with restrictions and the Government has made little secret of its basic desire to protect the British Broadcasting Corporation (BBC).

By contrast, in Italy, a recent court ruling striking down the near-monopoly previously enjoyed by the state-run RAI network has produced a proliferation of small television stations. Italian authorities are now struggling to find some way to outlaw some of the more appalling programs that have re-

*Walter Cronkite: Australians and Laplanders could watch his successors simultaneously.* © Andy Levin, Black Star



# Bridging the Atlantic

*Gaston Thorn*

*Relations between the United States and Europe have clearly deteriorated. In a speech in Nice on October 19th, the highlights of which are presented here, the President of the EC Commission, analyzed what has gone wrong and what must be done to repair the damage.*

In studying in detail all the various aspects of relations between the European Community and the United States, the question that must be asked is this: What kind of wind is now buffeting us? Is it a wind of isolationism? Or is it one which portends greater unity between the two principal partners in the Western world?

Let us look at the facts and examine the consequences. Without American aid on an unprecedented scale and without the determined American stand against the tidal wave which threatened to engulf us from the East, Western Europe could not have survived the 1940s. The Marshall Plan, the Berlin air lift, and the Korean War were the essential elements which made possible the development of the generous ideas of Robert Schuman, Alcide de Gasperi and Konrad Adenauer.

The economic foundations laid in the 1940s enabled the United States, the European Community, and Japan to enjoy economic growth unparalleled in modern history. From the ruins of World War II sprang factories, which, in Europe and Japan, incorporated the most advanced technology to produce unequaled improvements in productivity and hence in the material well-being of all.

Progress was enhanced because new institutions were founded at the same time—the United Nations, the General Agreement on Tariffs and Trade (GATT), the Organization for Economic Cooperation and Development, the Bretton Woods organizations, the North Atlantic Treaty Organization. The United States played a decisive role in establishing these bodies and in laying down their rules of conduct. The United States was later to support European integration from the outset.

The combined effect of all these factors, the apparently bottomless well of cheap energy, and the extraordinary drive in investment, research, and development produced a spectacular growth in per capita incomes throughout the Western world. A certain political and military balance between the superpowers allowed our countries to concentrate their efforts on the economic and social issues.

And then, in the 1970s, the tide turned:

- The political climate has deteriorated. Détente is compromised by renewed tension in various parts of the world—especially in the last year or two.
- The international monetary order is crumbling, while soaring energy prices have become the major cause of the sudden slackening in the growth which ensured our earlier prosperity.
- Unemployment, from which Europe had been largely free for a generation, has us in its grips and is squeezing harder and harder. Inflation is moving at ever faster and more alarming rates. Exchange rate fluctuations are unduly large and the higher cost of oil has presented major trade-balance and recycling problems for developed and developing countries alike. For those nations which, as in Western Europe, are heavily dependent upon imports for their energy needs, energy has become a major bottleneck.

It is against this background that recent developments in relations between the United States, Europe, and other members of the Western economic system must be seen.

Now I should like to turn more specifically to relations between the European Community and the United States. Over the last 35 years, trade across the Atlantic has developed beyond wildest expectations with the result that our economies are now more interdependent than ever. Visible trade between America and Europe is worth some $100 billion a year and cross-Atlantic investment by American and European firms in new plant totals over $130 billion.

There are also unprecedented exchanges of thoughts

*The Americans appear to be so intent on the East-West conflict that they tend not to see any other aspect to the problem.*

and ideas. Recent world events and threats to peace have underlined more strongly than ever the basic identity between our political and economic systems and our goals. How then can we explain the growing barrage of mutual criticism which is flying back and forth across the Atlantic?

The internal economic crisis goes on. The continuing everyday problems tempt both partners to become introspective and prompt politicians to indulge in strong words for internal consumption. The result is that suspicion and mistrust grow and doubts arise about the real intentions of the other partner. Differing specific interests may then become magnified out of all proportion. Europe is accused of being seduced by the siren song of neutralism while Europeans think they see a new form of isolationism arising in America. The Americans appear to be so intent on the East-West conflict that they tend not to see any other aspect of the problem.

At the beginning of my address, I asked whether the wind that was blowing was the wind of isolationism or one of greater unity of purpose between the two principal partners of the Western world.

As long ago as 1965, Henry Kissinger looked at the problems facing the Atlantic alliance at the beginning of the period of détente in his book "The Troubled Partnership." He concluded that the alliance, forged at a time when the United States was incontestably the dominant partner, had still not found a new balance to accommodate Europe's refound strength, on the economic front at least, and even on the political front too.

Today, 16 years later, this has still not been resolved. The European pillar of the "two-pillar partnership" in which John F. Kennedy wished a united Europe and the United States to share has still not been erected. In fact, a considerable section of European public opinion is challenging the need for a defense policy while, at the same time, the situation

*The Soviet Union's arms strength, events in Cambodia, and the occupation of Afghanistan show that its intentions are still expansionist.*

outside gives cause for concern. The Soviet Union's arms strength, events in Cambodia, and the occupation of Afghanistan show that the Soviet Union's intentions are still expansionist. For a year Poland has lived under the permanent threat of foreign intervention which would deal the death blow to what is left of détente in Europe. The assassination of Anwar Sadat reminds us that the unresolved struggle in the Middle East is a constant threat to our own security.

**Sterile wrangling**

In the face of this external challenge and the internal problems which confront us daily, I should like to propose that we put behind us the sterile wrangling over issues of minor importance and resolve to create a closer union between the Community and the United States. To do this, we must make maximum use of the mechanisms which exist to deal with specific problems, especially those affecting trade, and we must reflect on the kind of dialogue which is required in other areas. Let us try to concentrate on points of common interest rather than search for scapegoats.

Was that not how the Marshall Plan was conceived?

*I should like to propose that we put behind us the sterile wrangling over issues of minor importance. . . . Let us try to concentrate on points of common interest rather than search for scapegoats.*

That reflected common interests: Democracy had to be safeguarded and defended in a large part of the Western world and American industry needed a "megamarket" which could absorb its enormous output when it switched production from the weapons of war to the goods of peace.

Now, rather than the two sides shouting louder and louder about American interest rates or the Common Agricultural Policy, a more constructive approach would be for us to try to understand the reasons for our respective policies and seek ways of making them more consistent with both our common interests and those of each partner.

But, in reality, are our interests so different? I do not think so. For example, neither the American public nor the Reagan Administration is pleased to see high interest rates, for they are an obstacle to economic recovery and they depress Wall Street. High interest rates are however a means to an end about which we are in agreement with America—the removal of the inflationary, and therefore destabilizing, elements which disrupt economic decisions both internally and internationally.

It is also probably true that high interest rates in the United States have pushed European rates above the level we would have wished. This does not mean that we are pursuing contradictory policies but rather that our policy mix is slightly different.

The real reason for European concern over American interest rates is their impact on the exchange rates of our currencies resulting from the disproportionate influence of the dollar on financial markets. But we must also recognize that the internal tensions of the European Monetary System (EMS) exacerbated the problems caused by high American interest rates and the dollar exchange rate until the realignment on October 4. But after this realignment, and you will have observed for yourselves how smoothly it was done, the future trend of the dollar should be far less of a problem for the Community.

### Monetary reform

Disagreement across the Atlantic about the level of interest rates is perhaps only a reflection of the international monetary system. If we recognize this, we shall understand better what is happening and perhaps we shall be able to work to improve the system. We must now consolidate what has been gained by the successive rounds of trade negotiations since the 1960s by renewing efforts to remove barriers to invisible trade and giving fresh impetus to the movement for monetary reform which ran aground on the beaches of Jamaica five years ago.

The steps which the Community is about to take to consolidate and develop the EMS should contribute toward world monetary stability and give the Community a great say in international monetary cooperation.

For the second stage of the EMS progress needs to be made and agreement rapidly reached on the following points: the nature, structure, and responsibilities of the institution responsible for managing the European Monetary Fund (EMF), greater use of the European Currency Unit, particularly in transactions with the central banks, and the consolidation and development of community credit systems managed by the EMF. All this will serve to strengthen the foundations of the monetary system and confirm the Community's determination to secure greater stability in international monetary relations.

The Common Market has been and still is a key factor in the management of the international trading system and its existence was indispensable to the opening of the Dillon Round, the Kennedy Round, and the Tokyo Round which helped both to liberalize international trade and to buttress GATT against the often severe pressures favoring protectionism. The liberalization of international trade cannot make progress unless there is order on the monetary front, not only at world level, but between the Community countries too.

### Agricultural trade

The EMF is not only essential to monetary and economic negotiation and coordination at world level but a precondition for free trade and survival of the Common Market. It is a challenge which Europe cannot ignore in the interests of a greater Atlantic and international economic order. The same argument could be applied to growing American concern about certain aspects of the Common Agriculture Policy. Let us begin by recognizing that while systems may differ, agricultural markets are usually organized. The diversity of systems can be explained by numerous factors such as security of supply, income distribution, and the power wielded by lobbies on both sides of the Atlantic. The need for changes in agricultural policy—particularly ours—cannot be denied. Difficult though it may be, it is a must if the Community's budget is to play its proper role, if expenditure is to be kept within reasonable limits.

This then is another area in which our interests coincide, an area in which disagreements used to be the order of the day. It would be unfortunate if our efforts to revamp our agricultural policy were to be impeded by a new "chicken war" or the like.

*On the North-South issue, I can see an Atlantic war of words looming.*

### North-South

On the North-South issue, in other words on relations between developed and developing countries, I can see an Atlantic war of words looming. I can visualize Europe being accused of not importing enough from the developing countries and the United States being criticized for not providing enough in the way of development aid. The truth of the matter is that

Europe does more on both points. But this is not the right way to approach the problem. Any deadlock in North-South discussions resulting from a prolonged dispute between the United States and Europe could upset economic relations between the Atlantic powers in the long term.

What is to stop us endeavoring to improve on our performance in areas where our record is poor? Why shouldn't the United States and the Community move ahead together, the United States on the aid front by giving more support to the International Monetary Fund and multilateral development banks, the Community on the services front—banks and invisibles for example. Better still, why shouldn't we work together to further energy cooperation with the Third World, to encourage and protect foreign investment in the developing countries. This was first advocated by the EC Commission in 1974 and the Reagan Administration is now looking into the possibilities.

### Research and Development

Shouldn't we attach greater importance to devising a scheme for cooperation in new fields? I am thinking in particular of the various sectors of research and development which will share tomorrow's world. Perhaps this is the time to give cross-Atlantic cooperation on R&D a new lease of life with the ultimate aim of promoting our own economic growth and facilitating development in less fortunate countries. A likely area could be joint research into new technologies for saving energy and exploiting new sources—geothermal energy, solar energy, or biomass energy. If we were to succeed, we could lessen tensions associated with oil supplies and give a boost to the development of indigenous energy sources in the developing countries.

Similarly, more effective collaboration in coal or nuclear energy R&D should enable us to promote the technologies that will be so badly needed on both sides of the Atlantic. Scientific collaboration should not be confined to energy alone, although present difficulties make it an obvious choice. It should go much further to embrace all the scientific disciplines of the future, such as telematics, biotechnology, space, and so on.

Nor should collaboration be confined, as so often in the past, to areas in which the public sector provides the bulk of the finance. We must devise mechanisms which would create a favorable climate for collaboration between our universities and our industries in the area of advanced technology. The techologies of the future should make it possible for the men and women of tomorrow to evaluate and exploit our planet's resources more effectively and live in a better world. It is for us, the advanced industrialized nations of today, to work together to ensure that this technology is harnessed not merely to our particular needs but to those of the world as a whole.

The objective is undoubtedly an ambitious one. But it could be achieved if collaboration between the United States and Europe were organized in a coherent fashion. The idea merits reflection, because a lot is at stake.

### The dangers of inertia

I am aware, ladies and gentlemen, of the obstacles, the problems, the inertia which hinder all forms of progress. My aim today has been to plead for a more vital, a more active partnership between the United States and Europe.

I know that Europe does not always speak with one voice. I realize that in many cases it is difficult for the United States to seek Europe's opinion because it does not know whom to ask, and consultation with only some of the member states is no way of solving the problems.

If we want a stronger Atlantic alliance and dialogue with the United States we must, as Henry Kissinger said a long time ago, strengthen the European pillar. The EC Commission, of which I am President, is doing everything in its power to do just this, because it is well aware that, without a strong Europe, all that has been achieved over the last few decades could be put in jeopardy. But the United States and Europe together can take up the challenge of the future and move towards greater cohesion in the Western world and hence towards greater international stability.

INTELSAT *receiving dish in Sweden.* Courtesy of INTELSAT

sulted. The problem is not just Italy's, since cross-frontier broadcasting could easily mean that satellites will beam into every European home such mixed Italian virtues as the show in which housewives take part in a live striptease once a week.

Generally, however, Governments are probably less worried about sex than politics. In Britain, for example, campaign finance laws are much tighter than in the United States and paid political advertising on radio and television is banned. Instead the political parties are allocated free air time according to a formula based on their strength, the number of their candidates, and their share of the vote.

"What is there to stop a party—or its supporters—buying time on a satellite in an election," asks a senior member of the British Home Office. "There's not a lot we could do about it." The same problem could affect commercial advertising, which is covered by different regulations in different countries. Companies could presumably circumvent such rules by having recourse to satellites.

However, the satellite era has not yet arrived and there may be some grounds for thinking that, when it comes, it may not be quite the cataclysm that Schmidt and others fear. Indeed there are interesting parallels with the 1930s when Europe-wide radio broadcasts were generally expected to wreak almost as much havoc, economically, politically, and culturally. In the event, the offshore commercial stations of that period had only limited impact. Language was one reason, varying national preferences another. Reception problems also gravely impaired the audibility of the stations.

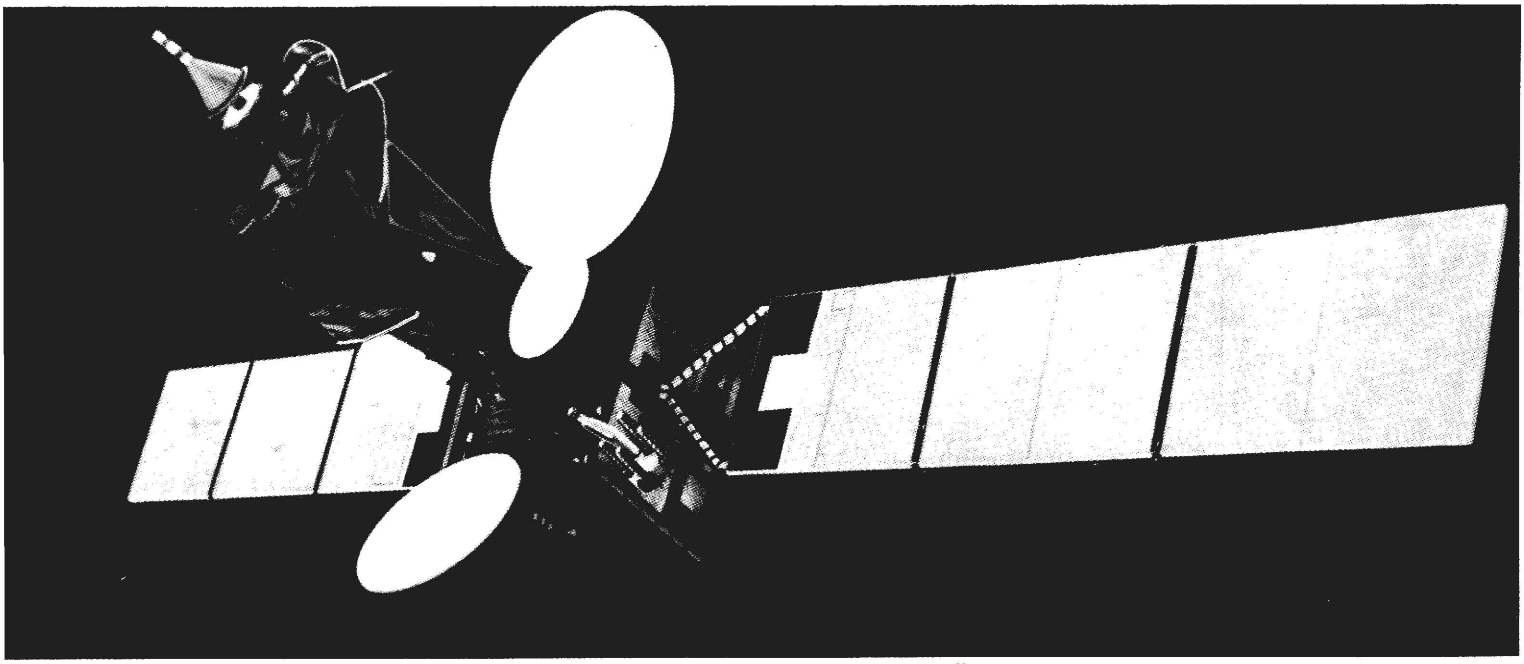
Now, of course, Europe is a more homogenous market. Improved dubbing techniques have eliminated much of the language obstacle and several series (Bonanza, Kojak, and The Muppet Show), all US products, have proved popular from one end of the continent to the other.

But other problems persist. A pan-European satellite system will be extremely expensive to launch and to maintain and its economics will depend on a large audience for advertisers, preferably for a single set of programs. European audiences are still sufficiently varied for this to be no easy task. Despite the greater homogeneity of Europe, it is still the case that an Italian situation comedy will almost certainly fare badly with Swedish audiences—and vice-versa. Sports events excepted, cross-frontier programming looks very risky.

Furthermore, up until now, European viewers have had less television to watch than those in the United States. In most countries programming is confined to the afternoons and evenings, with no more than two or three stations available. In most countries breakfast television is still beyond the horizon and it has taken even Britain, the excellence of whose two existing networks is broadly acknowledged, 10 years to agree on the shape of a fourth channel, due to start operations in 1984.

And there are still some technical problems. Satellite dishes have to be aimed with great accuracy and producing a dish which can be redirected to several different satellites accurately, as well as being sold at a price the consumer can afford, represents a substantial technical problem. Even then, there must be an uninterrupted "view" from dish to satellite, or there is no picture—the modern equivalent of the reception problems that bedeviled radio 40 and more years ago.

For all these reasons, there are those in Europe who doubt that Lux-Sat and others will ever get off the ground. Instead they expect companies to lease space on existing communications satellites and beam programs to cable companies, much as is now happening in the United States. If so, of course, then many regulatory problems will not present themselves. Cable companies will be subject to the mercy of Governments for licenses to operate and their impact on existing networks thus more directly controlled.



INTELSAT V *satellite.* Courtesy of INTELSAT


*(Left) Back-yard satellite receiving dishes allow individual homes to pick up dozens of television stations and entertainment networks, but the international legal ramifications are complex.* Courtesy Society for Private and Commercial Earth Stations

Equally, it is obviously much cheaper to rent space on existing satellites than to launch your own. This, in turn, means that companies can emulate US cable firms and begin "narrow casting," that is, producing programs for much smaller audiences who can be reached at a profit, via cable.

Of one thing the regulators can be sure. As they struggle to keep abreast of all these new developments, technology will outpace them in opening the way for changes in television and radio transmission that are not yet even gleams in the eyes of network executives on either side of the Atlantic. Whether the consumer will actually get better quality along with this huge increase in quantity, only a convinced optimist, or a doctrinaire believer in free market theories, would argue that the omens are favorable. €

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*David Bell is features editor for the* Financial Times

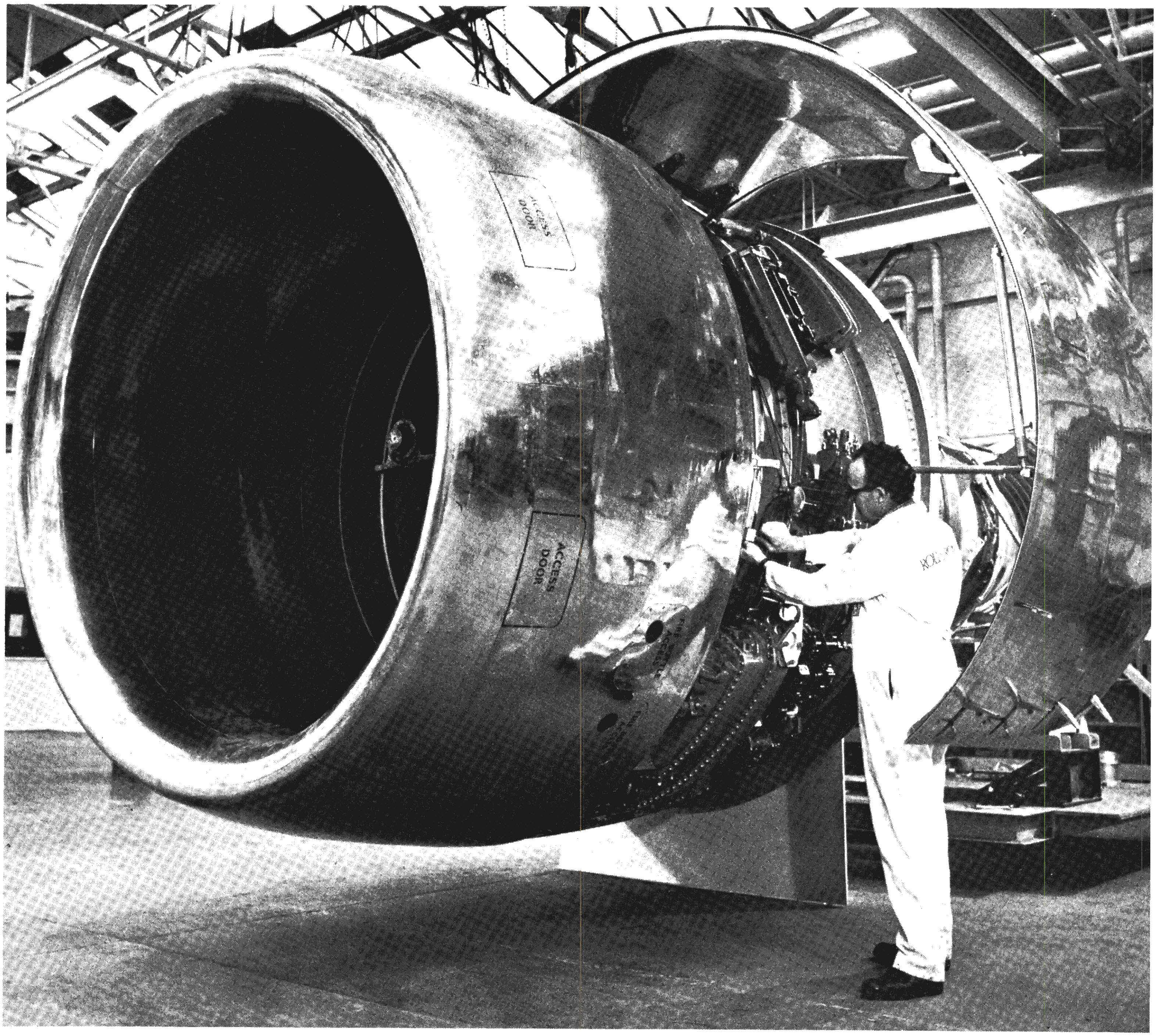
**JET ENGINES**

# partners of necessity

HOWARD BANKS

COLLABORATION IS THE NAME OF THE GAME THESE DAYS FOR THE makers of jet engines for the civil aviation market. All three of the world's top engine companies—Rolls-Royce from Britain, General Electric (GE) and Pratt and Whitney from America—are concerned about the upcoming battle for the market to power a new class of airliner that will carry 150 passengers. And while all three are anxious to have a piece of the pie, not one of them cares to risk financial indigestion by investing alone.

The cost of developing a modern fuel-efficient jet engine from scratch has grown to at least $1 billion, or more, for what are called the initial nonrecurring costs that do not in-



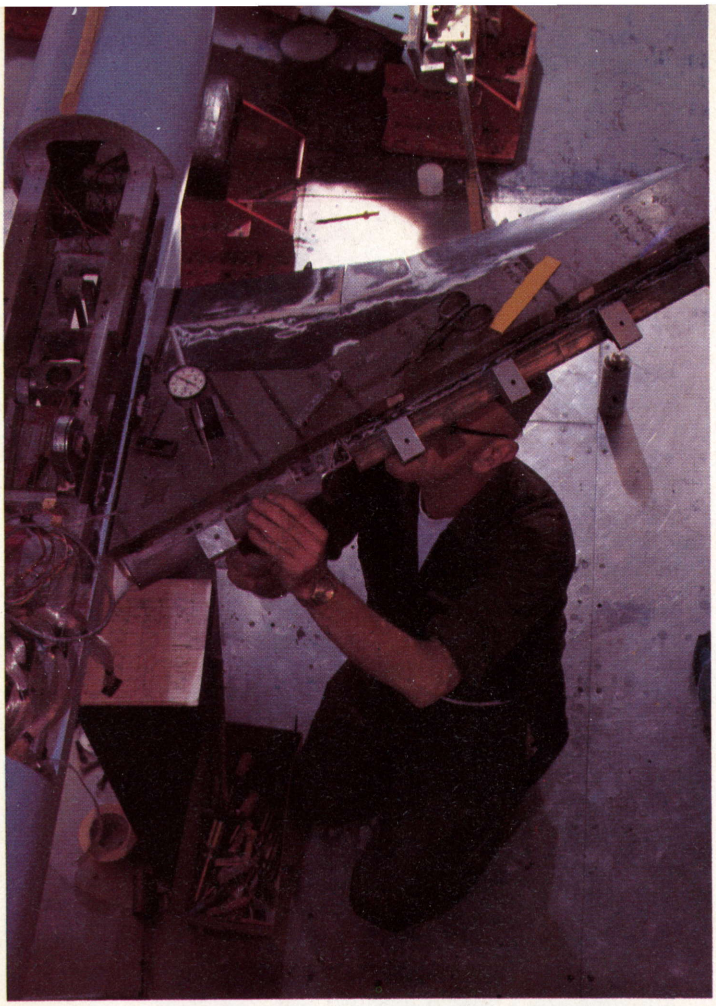

*A cowling for the Rolls-Royce RB211 turbofan engine.* Courtesy of Lockheed-California Company

Pressure is being put on the engine makers because airlines (notably Delta Air Lines of Atlanta) insist that they would like to have a new 150-seat machine in service by 1986. Time is already running short for the makers to design and develop an engine to that timetable. Hence the frantic talking that is now going on.

The three engine makers either have, or are discussing, links with smaller companies in the business in Europe and Japan. To complicate matters, Pratt and Whitney and GE are separately holding talks "of an exploratory nature" with state-owned Rolls-Royce about collaboration, though such a deal could likely run into antitrust problems with America's authorities. Leaving such possible combinations aside for now, the three major companies find themselves in different positions.

GE has a firmly established arrangement with state-owned Snecma of France to develop and build jointly the CFM-56 engine. This engine is being used to modernize existing DC-8 airliners that have useful life left but are fitted with gas-guzzling, older engines. The CFM-56 has also been chosen to power an updated version of Boeing's 737 jetliner, which has begun to be ordered in some numbers.

GE's other main civilian engine program, its big-fan CF-6, has not been selling well recently. It is used on the McDonnell Douglas DC-10, orders for which have more or less dried up



*Makers of airframes as well as jet engines are talking collaboration . . .* © John Launois, Black Star

clude any of the costs of getting the engine into production, just design and development. Potential sales, on the other hand, could well be limited to fewer than break-even point, especially if more than one competing engine is launched. And, because fuel costs have risen to such a dominant point in airline costs (50 per cent plus of direct operating costs and rising), the airline customers will no longer put up with an engine derived from an existing one, since that would be less fuel-efficient than an all new engine.

The recently appointed president of Pratt and Whitney, Bob Carlson, best summed up the dilemma at the time of the Paris Air Show in June. The airframe makers, he explained, are also talking about getting together in the same way now being proposed for engines, but it looks as though there could well be three competing airliner designs in the 150-passenger field: Airbus is already off and running with its A320 proposal; Fokker of the Netherlands has joined with McDonnell Douglas; and Boeing will eventually launch its contender (for now called the 7-7) with or without a partner.

The total initial investment if all three airframe projects are launched would be \$4.5 billion (at 1981 prices). Add in the investment for the three engines—and then double the total to allow for the investment needed to put these projects into production—and it is obvious, Carlson said, that nobody is going to make money from all this \$15 billion investment, even if as many as 1,500 airliners of this size are purchased by 1995 or thereabouts.

*. . . on the design and development of a new class of airliner.* © James A. Sugar, Black Star

since a series of crashes, and on Europe's A300 Airbus where orders have, for a while, hit a plateau. This engine maker lost out, too, in the competition to power Boeing's new 180-seat 757; Rolls-Royce got the opening orders with a version of its RB211, and then Pratt trumped that by getting orders for its brand-new and therefore more fuel-efficient PW2037, which was chosen by Delta and American Airlines. Now GE needs a new program to fill its factories.

The company has made it clear, however, that while it has all the technology needed in its own hands, the new engine it plans for the 150-seat market will be built with its existing partner, Snecma. Although the engine will share at the most 2 per cent of its parts with today's CFM-56, it has already been named the CFM-56-2000. There are several reasons for this, not least of which is appealing to France's ego and hence to persuade the French Government to put up a share of the development costs. It is also seen as politically important by GE, to ensure that the company's lead role as engine maker for the larger Airbus should be continued on the proposed smaller one.

Pratt and Whitney, on the other hand, is stuffed with work on its existing big-fan engine, the JT9D (for Boeing's 747 Jumbo, the new 767, and, to a lesser extent, the Airbus) and the new PW2037 for the Boeing 757. This latter program is still at an early and expensive stage of its development and the last thing the company wants is to be forced, for competitive reasons, to start yet another billion-dollar engine program. Simply scaling down the PW2037 would not result in a fuel efficiency that would compete with GE's all-new design. Pratt and Whitney, if forced to, will start its own new engine program, regardless. In part, all this explains Carlson's rush of commonsense at the Air Show. Pratt and Whitney at the very least hopes by one means or another to persuade the market to wait awhile.

Pratt and Whitney is also short of possible partners. At one time, it had a deal with Rolls-Royce to develop jointly the design that eventually led to the PW2037. Rolls-Royce pulled out of that arrangement in order to push a version of its own RB211, a move that paid off for a short while on the Boeing 757. Pratt and Whitney has its first offshore risk-sharing subcontracts on the PW2037, but for only 15 per cent of its total costs; Motoren- und Turbinen-Union (MTU) of Munich has 11 per cent, and Fiat of Italy 4 per cent.

Rolls-Royce, having walked out of a deal with Pratt and Whitney, later got into another one with the Japanese, to develop a smaller engine called the RJ500. Rolls-Royce's technology is being swapped for Japanese finance. This program is already well along and a test prototype engine is to be run next year. Since the program began, however, it has become apparent that the original aim of using existing technology to reduce development costs would not produce a competitive engine, so now a large part of the design will have to be reworked and expensively brought up to scratch.

Rolls-Royce was at the time of the deal hard pressed to raise the cash even for this first version of the RJ500 and now the Japanese are casting wary eyes on the eventual bill for redoing the design. It was in this atmosphere that Pratt and Whitney took the opportunity to open talks with Rolls-Royce and the Japanese. To protect its position (and despite its avowed loyalty to Snecma), GE followed suit. No outcome from either set of talks has yet emerged.

Collaboration, license deals, and cross sub-contracting are commonplace in the aeroengine business. In jet engines, it dates back to 1946 when Rolls-Royce licensed Pratt and Whitney and got it started in the field, to build the engines that later were used by America's forces in the Korean conflict. Rolls-Royce is perhaps the most prolific doer-of-deals: for instance, with Pratt and Whitney on the vertical take-off Pegasus, with Snecma on the supersonic Concorde engine (the Olympus), and among many others, with Detroit Diesel Allison (a General Motors subsidiary) on a fighter engine. Pratt and Whitney in addition has a major deal with North Atlantic Treaty Organization countries to offset some of the cost of the F16 fighter (the "arms deal of the century").

Most collaborations tend to be in the military field, usually with a separate company being set up to manage things, program by program. A case in point is the RB199 engine for the Eurofighter Tornado, which is made by Rolls-Royce, MTU and Fiat through Turbounion which they own jointly, 40, 40, and 20 per cent respectively. These specific company deals are costly to set up, usually involve assembly in all the partners' countries (for feelings of national security) and usually die when the program does.

There is no marketing rivalry to bury in a military program, since the work-shares relate to national funding and to how many engines of a particular project are to be purchased by which air force. That is far from the case in civilian engines and makes arranging a civilian collaboration that much harder. Rivalry was the root cause of Rolls-Royce's pulling out of the deal with Pratt and Whitney. Where such rivalry does not exist (GE-Snecma; Rolls-Royce and the Japanese industry), a partnership has a chance of flourishing. Where there is rivalry—even if only potentially, at some future date (as with Rolls-Royce and either GE or Pratt and Whitney)—the chances of a lasting commercial relationship seem slim.

In any case, selling engines often depends on giveaways in other areas, as with free training or cut-price spare parts. And often it can include helping out with rebuilds on earlier engine designs that an airline already has in its fleet. Such items are hard to account for in a partnership when they affect (and profit) only one partner.

Persuading a smaller company to sign up with a much bigger one—and risk being submerged, if only in spirit—can be just as difficult. It is worthwhile for one of the big three only if the small company has a dowry large enough, even if this usually is Government money that brings with it political strings. It is far from a straightforward commercial matter.

It was, for example, Pratt and Whitney that offered the French Snecma the best financial terms back in the early 1970s. But the French company was not reassured that the men from East Hartford, Connecticut, were sincere about looking after their putative smaller partner's best interests. So after much vacillation, the French chose GE, which bent over backward to make them feel that all would be well. So far, it has been. And it is the sort of collaboration that the rest are now looking for. €

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*Howard Banks is West Coast correspondent for* The Economist.

# THE CASE FOR CHANGE

ALAN OSBORN

A PERSONAL BUDGET IS THE FINANCIAL EXPRESSION OF POLICY priorities. If I choose to spend more on food than rent I am saying something about my life-style, just as the absolute amount I spend on either reflects my income. So it is with Governments. And so, too, with the European Community. An organization which devotes three quarters of its revenues to serving the needs of 8 per cent of its population lays itself open to questions about its judgments. But the parallel can only be pressed so far.

The Community budget as it exists today is both dated and technically over-sophisticated. Its modes of operation, both for raising revenues and spending money, were devised a long time ago and for a membership that has changed a great deal. As a result huge distortions have arisen. These have now become politically intolerable. And in the process of correcting them the Community is inevitably changing its own character. In reexamining its basic budget patterns the Community is inviting fresh thoughts about its role internationally as well as domestically.

Two main goals lay behind the formation of the Community a generation ago: the establishment of a single internal market permitting free movement of goods and a Common Agricultural Policy (CAP) with the twin goals of raising living standards in the farming sector and guaranteeing food supplies. To the six countries which signed the Treaty of Rome there was nothing suspicious or impractical about these ambitions or the methods chosen to effect them. Question marks arose, however, at the time of the entry of Britain, Ireland, and Denmark to the Community in 1972, becoming more and more troublesome as it became clear how poorly Britain's financial patterns were meshing with Community procedures. For many years the problem was indeed seen as the "British" one but few EC diplomats or officials now dispute that its importance stretches far beyond that and influences the entire evolution of the Community.

*EC Commission President Gaston Thorn is pushing for reform.*

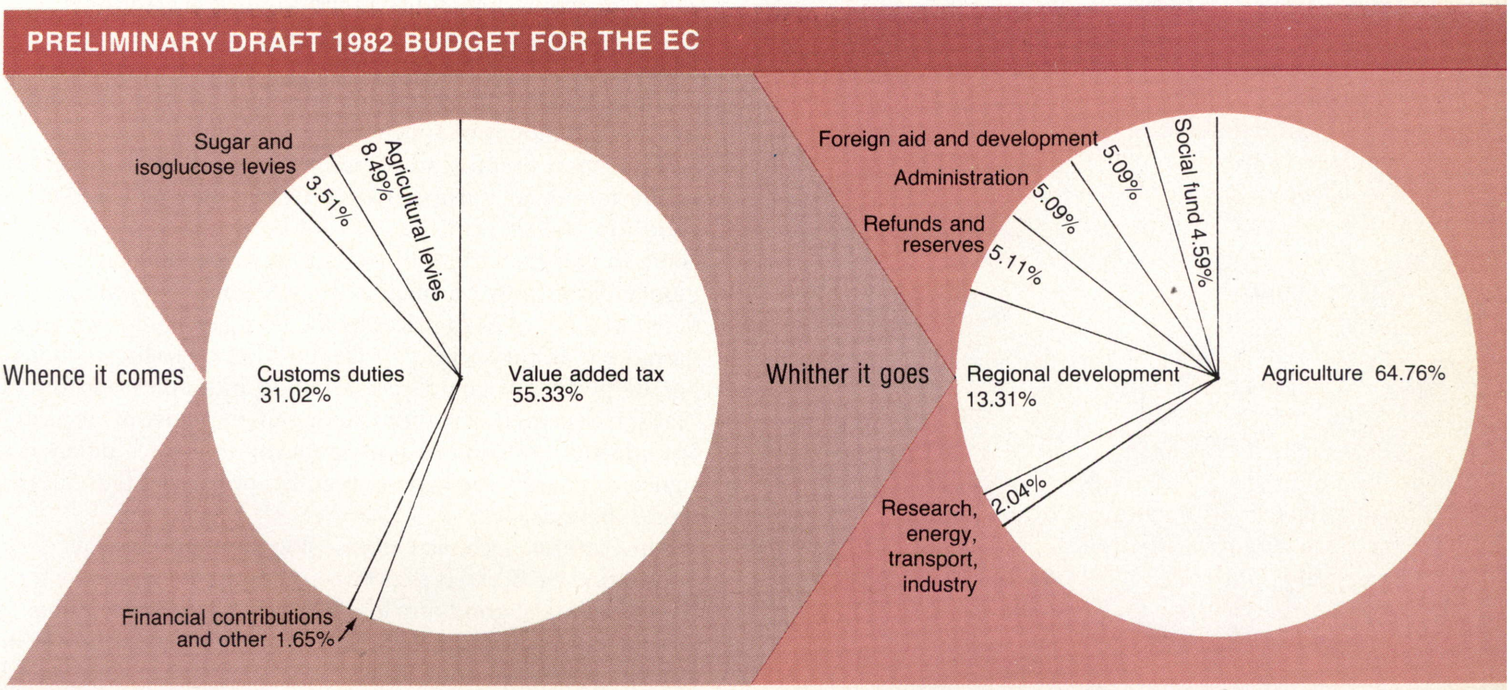
In looking more closely at the EC's budget it's as well to remind oneself of the novel challenges that faced its architects and the almost revolutionary leaps they were required to take to set it up. It wasn't merely a question of asking each founding country to set aside funds for running a jointly operated, farm-price-support operation—they had to hand over real financial responsibility for the condition of a vital economic sector to a supranational authority. In such a situation the danger is that one or more countries will constantly measure their inputs

*Selling surplus production, such as in the dairy sector, at guaranteed prices is one of the underlying reasons for the budget dilemma.*

*Directing the process is Budget Commissioner Christopher Tugendhat.*

system for any country that didn't conform to that pattern were shown up. It was also the case that Britain, Ireland, and Denmark joined at a time when the routine economic growth patterns of the 1960s had evaporated, and while this may not have affected the basic inequity of the system it did greatly increase the pressure on the British Government to find a solution.

The basic flaw which British membership exposed was that concerning a country's *net* position. Although Britain was quite hard done by on the question of *gross* payments into the Brussels budget, because its intra-Community trade was well below average and therefore its payments under the heading of duties and levies were disproportionately high, it was




Source: Eurostat

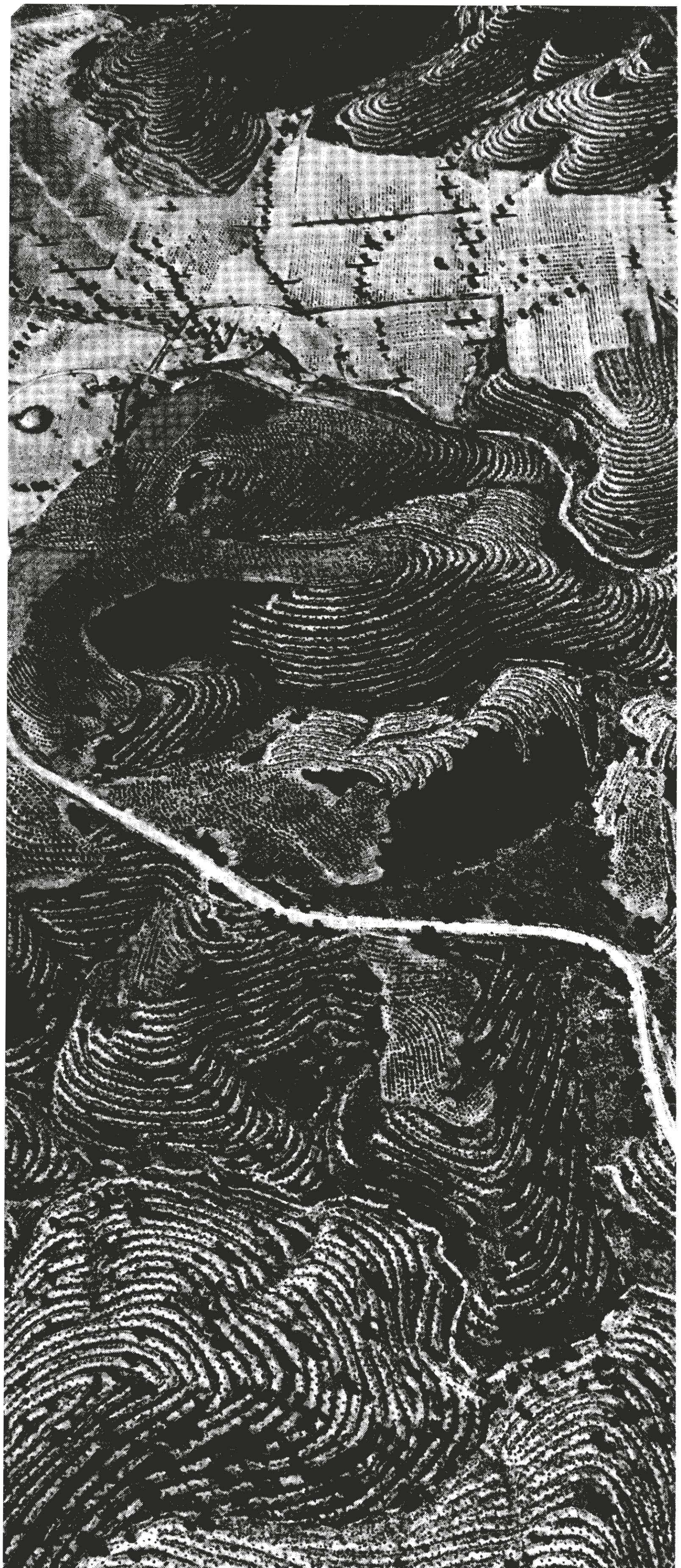
against their receipts and cry "foul" the moment they see themselves out of pocket.

To avoid this a system of raising revenue was devised that gave the Community an automatic right to certain money supposedly beyond the ability of Governments to affect on any scale. Thus the Commission in Brussels—the operational limb of the Community—would be entitled automatically to all customs duties on goods imported from outside the EC and to agricultural levies on imports from third countries. Besides providing an unassailable revenue to the EC, it was felt this procedure would also serve to promote integration by encouraging purchases between member states. But because such revenues were inadequate to support likely levels of Community spending, and in any case held little capacity for growth, member Governments were also asked to hand over to Brussels up to 1 per cent of their total revenues from the value added tax (VAT).

How pleasing this must have seemed on paper to its originators! And for some years it did indeed work very well. But that was largely because the original six members were approximately alike in their industrial-agricultural configuration. It wasn't until Britain joined that the serious flaws in the Britain's "takeout" from Brussels that caused all the trouble.

Put simply, the problem arose from the fact that Britain's farming sector is relatively much smaller than that of any other Community country and also, by some measures, much more efficient. Set these facts against the background of a budget overwhelmingly devoted to the support of farmers' incomes and you have a prescription for real trouble. Thus last year Britain contributed about 20 per cent of costs of maintaining the CAP —which represents over 70 per cent of the entire EC budget—but got back only 8 per cent of all farm spending.

It's useful to have an idea of absolute amounts here. Total Community spending of around $30 billion isn't sky-high by the standards of national budgets. It's little more than many a medium-sized American city would spend in a year. The total cost of the CAP is less than 0.5 per cent of the Community's gross national product. But for Britain in recent years the disproportion between its gains and receipts from Brussels, measured against the balance sheet of other far wealthier member countries, became politically explosive. Looking at a figure for Britain's net contribution to Brussels of some $2 billion little more than a year ago, Prime Minister Margaret Thatcher called it totally unacceptable. British ministers, pointing out



*Fruit and vine terraces in Spain: Competition from future Community members causes worry in the agricultural sector.* © Georg Gerster, Photo Researchers

that the sum was equivalent to a sizeable cut in income tax or the funding for the country's entire road-building program, argued that the "unacceptable situation" provided for in Britain's EC entry terms had been reached and claimed redress as a matter of right.

The British argument, perhaps stated to zealously and backed up by ill-defined but unpleasing threats, was only reluctantly conceded, but on May 30 last year foreign ministers agreed to a plan to place a cash limit on Britain's net contributions in 1980 and 1981 and to instruct the Brussels Commission to devise a more permanent solution to the budget inequities. The Commission's recommendations were released in June this year. The language can be faulted as imprecise and sometimes contradictory. But measured by any but the most exacting demands, the Brussels proposals come through as a blueprint for change in EC spending, and therefore in the nature of the Community, as sweeping and revolutionary in its impact as anything to emerge under an official imprint since the founding treaties were signed.

What the Commission is essentially saying is that the day of the farmer in Europe is over. While the CAP has done a good job and its principles should be retained, the time has come to end the farm lobby's sacred, perennial claim on EC money. From now on suggested the Commission, the annual determination of farm prices by EC ministers should be based on more than the security of farm incomes. Producers should not be given full guarantees for food in surplus and prices "must reflect market realities more than they have in the past." Specifically the Commission wants to see a price policy designed to narrow the gap between EC prices and those in the world markets.

This careful, technical phraseology amounts in fact to a declaration by Brussels that farmers should no longer look to the EC to make good any losses they might sustain by being unable to sell surplus production at guaranteed prices. Given that EC prices are often 40 to 50 per cent higher than world prices for some important products, the importance of the move is plain. The Commission goes on to note that if these ideas are taken up, agricultural spending in the years ahead will grow less rapidly than the Community's own resources, making it possible to release additional resources to reinforce Community solidarity in other sectors.

Such sectors, it says, should include the regional and social policies which are much more directly applied to the problems of regional economic decline. In short what is recommended is a clear shift of EC spending priorities away from agriculture and toward regional and social development, a move that would carry in its train not just a permanent solution of the "British" problem, but also a marked break with all traditional EC spending practices which have given agriculture undisputed sway. However because such a change would take years to be effective, the Commission is suggesting special, exceptional budget relief for Britain alone, justified by, and geared in value to, its peculiar features in agriculture.

What the Commission proposes and what eventually becomes law are not necessarily the same thing, however. Ministers and officials of the 10 member countries are now engaged in a searching examination of the Commission's package. The hope is for agreement, at least in broad outline, at the London summit meeting of Community leaders in November, but given the extreme distaste in many countries for the new ideas, that is far from certain. No country, not even Britain, is wholly enchanted with the Commission's thinking, while some of the smaller countries like Holland, Ireland, and Denmark that do very well out of the CAP are downright hostile.

Not entirely clear is what attitude Germany will take. Any resolution of Britain's budget problems will leave the Germans the largest net payers and there is acute sensitivity to this possibility in Bonn. But two reasons have emerged to suggest Germany may regard the situation with less urgency than at first thought. The first is the German Government's interest in promoting agreement among the Ten on a new treaty covering European union. Rightly or wrongly it is felt that undue insistence by Bonn on the dollars and cents of the budget might sit oddly beside its call for greater European integration.

The second reason is the recent and unexpected improvement in EC finances as a result of currency movements in world exchange markets and healthier crops, leading to a narrowing of the gap between EC and world food prices which in turn means less spending by the EC on subsidies and supports. The EC budget Commissioner, Christopher Tugendhat, has warned that this is an exceptional conjunction of events. Nevertheless the Commission feels happy enough about it to hand back some of this year's contributions to the member states.

More importantly for the debate on budget reform however, the financial windfall has served to put off the moment when Brussels will have to ask the member Governments for extra resources or contemplate some cuts in its spending. The point here is that the Commission's automatic claim to up to 1 per cent of the members' VAT revenues is now almost fully made. At one time it had been felt the ceiling would have been reached this year. That is now improbable but before the end of 1982 it seems likely that there will simply be no extra money available for the increased cost of the farm and other programs unless Brussels can persuade the member Governments to raise the limit or agree on some other source of financing.

Both the British and German Governments have stated there should be no increase in the VAT limit. The Commission in turn has said it is imperative if Community programs are to continue. On both sides there is an element of saber-rattling here. But if London and Bonn do yield on the matter then their price could be some sort of constraint on farm spending—a possible insistence, for instance, that the CAP budget grows at no faster a rate than the increase in EC revenues.

Or there could be some entirely new form of raising money for the Community. Tugendhat believes that such ideas as a tax on oil imports, the transfer to Brussels of steel and coal levies or even a direct charge on a country's GNP are worth examination. It is essential that any such scheme be simple, not involve a new bureaucracy, and allow for the fact that some countries are better than others at collecting taxes, he says. Ideas like these might have been regarded as heretical a mere two or three years ago. Now, they barely raise an eyebrow—a sure sign of the growing mood for a comprehensive and lasting solution to the Community's budget problems. €

*Alan Osborn is Benelux correspondent for* The Daily Telegraph.

*Orchards on the Elbe River in Germany.* © George Gerster, Photo Researchers

# WINE WARS

## John Wyles on the latest outbreak

As wine wars go, the one which first broke over the European Community in August was of a particularly good vintage. French producers in the Midi took to the streets to give François Mitterrand's Government its first nerve-jangling taste of civil disorder, cheap Italian imports were contaminated before they could be unloaded, and by the middle of the month the affair had ripened into a rich and fruity brew which caused much heartache for Italy and the EC Commission and numbed all those concerned with maintaining the Community's free trade rules.

Seasoned wine war reporters claimed to have seen it coming, although some were surprised to be reporting acts of aggression comparable to the last major outbreak in 1960. France was generally pictured as the guilty aggressor, refusing to allow around 1 million hectoliters (one hectoliter equals 1,000 liters) through its customs posts on the flimsy, but probably legal, grounds that the wine was not accompanied by the proper documentation. Once France had taken this stand, it could not quickly respond, of course, to appeals from the EC Commission to open the floodgates and, toward the end of September, the Italian wine was still only dribbling through. Throughout the affair, Rome showed remarkable restraint, resisting domestic demands for reprisals and riding out popular allegations of weakness and defeatism.

While both Italy and the Commission were making the first moves toward action in the European Court of Justice, the search for a political solution continued. It was rewarded in mid-October by a Franco-Italian agreement that all of the wine held up at French customs posts would be released within two months.

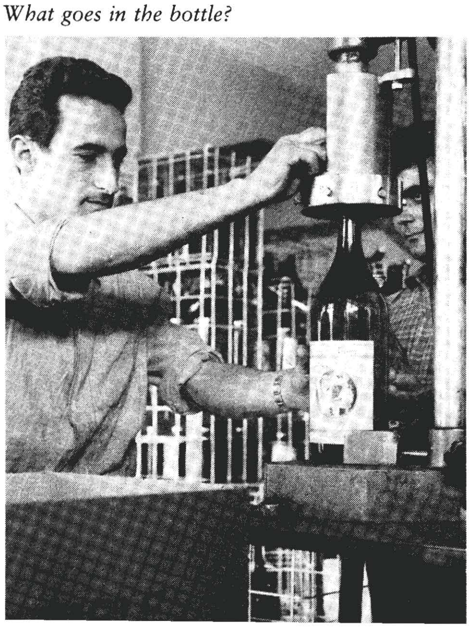
Italy had been seeking release within four weeks and the Government's readiness to compromise was seen as far too meek by critics who were anxious for reprisals. But the Italian handling of the crisis was admirably sensible and constructive. There was no real evidence, as RAI, the Italian state television network said in August, that Italy was a victim of the French political classes' feelings of superiority over their Italian neighbors.

First let's look at the facts. Languedoc-Roussillon and Provence-Cote D'Azur are areas of France which have long produced the basic *vin de table*, usually of relatively low alcoholic content. But it has the virtue of being very cheap even if it does send you rushing to a mirror to make sure the enamel is still on your teeth. Some of this wine has no more alcoholic strength than 9 degrees and in order to satisfy the demands for more muscularity from the northern French wine drinker, manufacturers have for years been blending it with a more full bodied product from across the border in Italy.

This wine, for both blending and drinking, has for some time been entering France at such low prices that a furious reaction has been steadily fermenting among the producers of the Midi. The French elections in May and June arrested this for a time, for the angry producers believed they were pocketing some bankable assurances from politicians at the hustings.

But by June and July the smoky bistros of the Midi came more and more to resemble campaign headquarters as the stream of Italian imports became a torrent and Paris made no move to close the flood gates. Finally, Italian wine lorries were overturned and burned, a ship's wine cargo was contaminated in the French port of Sète and in a desperate response, the French Government "discovered" that Italian import documents were inadequate. Some of them stated, for example, that the origin of a cargo was "Sicily" which everyone knows is not a sovereign state and was not a strong enough clue for the French customs that the wine hailed from Italy.

*What goes in the bottle?*



The problem for the Community is that too much low quality wine comes from Italy. Its wine production is the highest in the world, close to 80 million hectoliters, but domestic consumption is falling and is now around 55-57 million hectoliters. Now, the Community has long grown used to its wine lake at the bottom of its butter mountain (which for the moment has happily subsided). It has a special system to encourage producers of the low quality wines to sell their product to the Community for distillation into industrial alcohol.

The trouble is that the Italian Government is rather slow at sending the check to the producer who this year has been driven as never before to sell his wine into France at 30 per cent below French prices so he can have cash in hand and avoid paying interest charges at the bank.

Clearly the problem needed drastic action, but the Commission's threat in September of prosecution at the European Court of Justice was not strong enough to open the tap for the Italian wine at French customs, nor did its plans to step up distillation to around 20 million hectoliters prove convincing to Paris. Everyone knows that in the longer term less low quality wine must be produced and, in the meantime, the surplus must be more effectively disposed of so that it does not overhang the market and so seriously depress prices.

The need for a solution is even more urgent in view of the prospective Spanish membership which will bring with it a tidal wave of equally cheap but rather better quality wine. Thus, the Commission is working on a new wine strategy which it will put to member Governments in October. It will try to rationalize the current range of measures, some of them rather contradictory, for managing the wine market and will also suggest various ways of reducing output. But the problem will not be easily dealt with because consumption of *plonk* is falling steadily, while output remains fairly static in France and is still rising in Italy.

The cost of maintaining peace after the present hostilities have lapsed into cease fire could be substantial and prolonged. The wine producing areas of both Italy and France are solidly agricultural, the occupation of *viticulteur* is both agreeable and rarely arduous, and in the current recession there are few alternative jobs to go to. €

*John Wyles is Brussels correspondent for the* Financial Times.

# The Nordic Way

AXEL KRAUSE

Meeting with foreign journalists in Oslo on the eve of his election victory in September, Norway's Conservative Prime Minister, Kaare Willoch, was asked if his new Government intended to try and join the European Community. His reply was dismissive. Unless some fresh—and, he thought, unlikely—surge in public opinion in favor of membership emerged—his country would stick with something called "Nordic cooperation."

That "something" dates back to the end of World War II when the five Nordic nations—Denmark, Finland, Iceland, Norway and Sweden—tried first to form a defense alliance and then, two decades later, an economic union, moves which were supported actively by conservatives throughout the region, including Willoch. The entry into the North Atlantic Treaty Organization (NATO) of Norway and Denmark and Denmark's subsequent membership of the EC dashed those hopes. But, intriguingly, they also triggered new forms of cooperation and integration in the economic, social, and cultural spheres which are now in the process of being expanded.

"It is sometimes difficult to tell if we are competing or cooperating," observed Helga Seipe, a former Norwegian parliamentarian and secretary-general of the Nordic Council, "but our expanding Nordic cooperation does exist and should never be underestimated . . . not in the rest of Western Europe, nor in Washington."

Throughout the Nordic nations there is wide support for what has been accomplished since the establishment in 1953 of the aforementioned Nordic Council, which serves as advisor to national Governments and parliaments and which is a key driving force in the region's integration. "Our council and other institutions resemble the Common Market setup in many ways. . . . In fact Nordic cooperaton is our answer to EC integration and it is highly popular," said a senior Swedish Government official in Stockholm. His opinion was broadly echoed in other capitals.

But questions about the future of cooperation are regularly heard in conversations among Nordic Government officials, businessmen, bankers, and economists. "We have a long way to go before we can compare ourselves with the EC and Brussels and there is much talk, talk, and more talk and quite a bit of Nordic romanticism connected with the movement," observed Gosta Bohman of Sweden, a former economics minister and major force in the Swedish parliament. "A lot more could, and should, be done by our Governments, particularly in the industrial sphere," he added.

Indeed many economic planners interviewed during a recent tour of the area urged that new forms of integration must be developed and should be centered round Norway's abundant energy reserves and the industrial potential of Sweden and Finland.

"The potential for integrating the Nordic area, with its enormous resources, human and technological, are there waiting to be exploited and there is much to be learned from the Common Market experience," a Swedish industrialist commented, adding quickly that "we have already accomplished quite a lot on our own, which provides the uniqueness of our integration."

The core of that uniqueness is, of course, cultural and historical. Even the occasional visitor is struck by the similarities every day. The Nordic nations, according to a handy brochure issued in Sweden, "have always been close." What the document does not state, however, is that much of the cultural, political, and economic impetus has come from Sweden and that its historical role is still viewed with inherent suspicion in the other Nordic capitals.

As every Nordic schoolchild knows by heart, Finland was a province of Sweden from the 11th to the 19th centuries; from the Napolenic wars until 1905, Sweden and Norway had a dual monarchy, dominated by Sweden. "It was a peaceful form of imperialism we practiced for all those years but it was definitely imperialism and we are always being reminded of it," said a senior Swedish diplomat who is based in an EC capital, noting that "unlike Europe, here, in our part of the world, Swedish is the second language for almost everyone, even before English."

By the same token, the common language—or at least the capacity of most Nordics to understand Swedish—has greatly facilitated integration, notably in the labor field. Over 1 million migrations have been recorded since a free movement of labor agreement was signed between the Nordic nations in 1954. A later, similar law guaranteed extension of sickness, pension, and other social benefits to migrating, or even visiting, Nordic citizens. The participating nations also are treaty bound to keep each other informed regarding employment, which extends to regular exchanges of information regarding vacant jobs and vocational guidance.

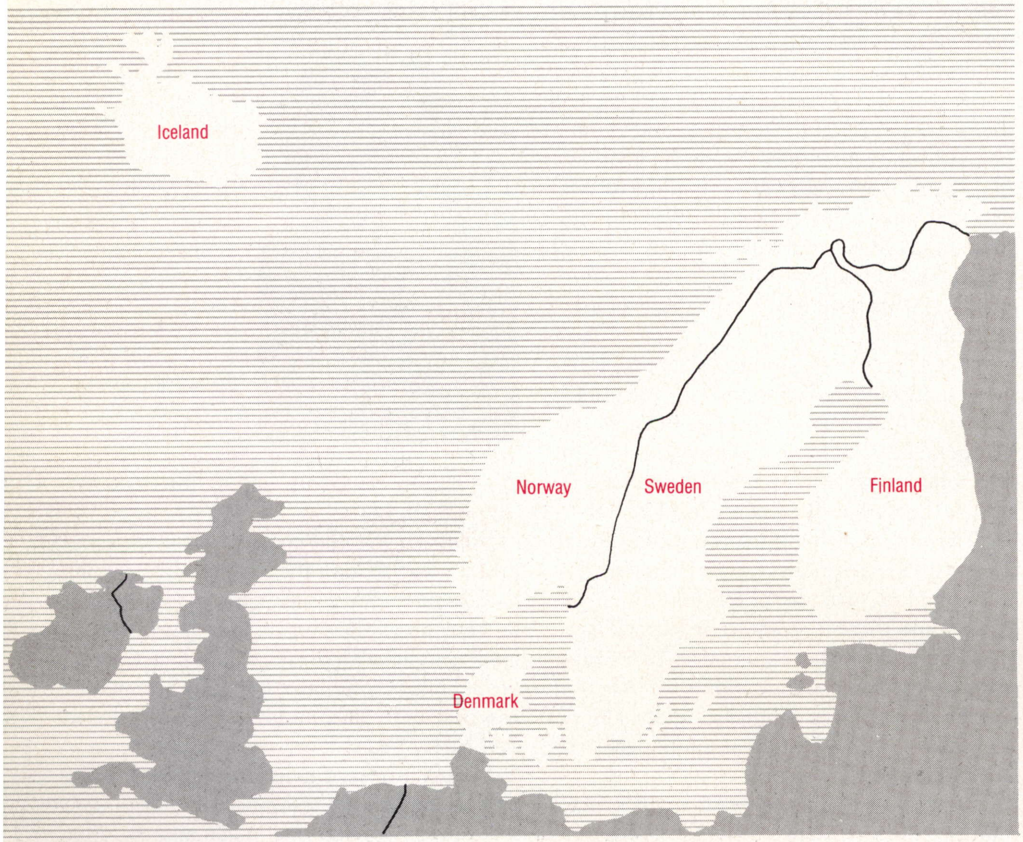
*Swedish Premier Thorbjörn Fälldin*
courtesy Swedish Embassy.

Nowhere has the cooperation been more pronounced than in the legal field, according to European and US experts, who note that in some areas the Nordic laws have been almost completely harmonized. In fact, the goal of making Nordic laws mutually compatible was first set in 1872 and it has been developed ever since. Today there are virtually common laws covering civil aviation, copyrights and patents, marriage, insurance, and, although they are less developed, criminal matters. Thus a person sentenced for an offense committed in one Nordic country may serve his or her sentence in another Nordic country, and extraditions are relatively simple compared to most other areas of the Western world.

Much of the legislative coordination is carried out by the plenary assembly of the Nordic Council, which is composed of 78 parliamentary members elected by their respective parliaments and of some 40 government representatives nominated by their capitals, but who are not entitled to vote. The council's elected members are assigned to five permanent committees in the fields of law, culture, environment, communications and economy. The council meets once a year at a joint session for about a week, but this should not be compared to the work of the European Parliament or EC institutions, according to the experts.

"The difference between us and the EC is that much of our work is behind the scenes, quiet, steady coordinating . . . making our cooperation work where we can," a Council member from Sweden said, adding that "the work is rarely controversial and like so many things in Scandinavia, our progress depends on consensus."

The signs of successful consensus are vividly seen in the bodies or agencies which have been established in recent years, many bearing similar sounding names—Nordvision in the field of joint television production and programming, Nordel linking electricity distribution networks, Nordfisk which is coordinating technical research and new projects being studies such as Nordsat, a satellite to cover the entire Nordic area. There are literally dozens of similar, less known examples, including joint diplomatic representation to such international bodies as the World Bank and the United Nations, where few if any differences between Nordic nations ever surface. Sweden's Centrist Premier Thorbjörn Fälldin attended the October summit meeting of rich and poor nations in Cancun, Mexico, for example as the sole representative of the Nordic nations.




Comparisons with the Common Market have considerable limitations, of course, if for no other reason than sheer size. The entire Nordic bureacracy in Stockholm and Copenhagen consists of 150 persons and the Council's budget totals $40 million annually. Even for an area whose combined population is just over 22 million, that backing is modest compared to the EC, whose combined population now totals around 270 million, and whose institutions will spend roughly 19.3 billion units of account this year, with by far the largest share going to the EC Commission. Moreover the EC employs a total of around 15,000 persons, including the Commission, the Parliament, and the Court of Justice—of whom an estimated one third, incidentally, are translators or interpreters.

"There simply is another dimension at the EC and much power in such areas as its common agricultural and monetary policies which we simply do not have," the Swedish diplomat said, echoing the views of other officials. A senior Norwegian banker in Oslo said that the banking community there, including the Bank of Norway was not only notified at the last minute of Sweden's 10 per cent devaluation in September, a move that hit Norway unfavorably. "Since the largest share of our trade is with Sweden, our business community was very upset by the fact that our exports will cost more there and that there was no coordination, as in the case of the European Monetary System's recent currency realignment," the banker grumbled.

This is not to say that the Nordic business and banking community shuns cooperation; to the contrary, it is the focal point of new talk and gradually emerging action on a wide front which could have repercussions for other European industries and those of the United States against which Nordic business competes internationally. The effort is getting the backing of non-Socialist Governments in Norway and Sweden, which view a surge in exports as a way of reviving their sluggish economies during the next year. Among the most important projects is a scheme approved in September by the Nordic Council of Ministers from the five member nations. The basic purpose is to stimulate cooperation between companies in the area competing on turnkey industrial projects, particularly in Latin America, Africa, and Southeast Asia.

The Helsinki-based Nordic Investment Bank, formed in 1954 and capitalized at around $500 million, will be given new lending powers under the plan, particularly for helping finance industrial plants, including machinery and equipment, plus training and production startup operations. The bank has already successfully financed such projects as a ferro-silicon plant in Iceland, a power transmission line between Finland and Sweden, and a nuclear plant in Finland. But there is another controversial dimension to the new scheme.

Although Nordic officials do not publicize it, the plant reflects growing disappointment with the fact that the Nordic business and banking establishment is not getting its share of industrial projects in developing countries, despite their Governments' generous contributions to the World Bank, the regional development banks, and to UN agencies, officials said.

Still another, recent example of the emerging cooperation in banking is the growing efforts of the privately-owned Nordic American Banking Corporation which is providing financial services to companies investing in or trading in the US and Nordic areas. Its shareholders are Denmark's Copenhagen Handelsbank, Norway's Den Norske Creditenbank, Finland's Kansallis-Osake-Pankki and Sweden's Svenska Handesbanken, and its top management is American. Although the bank is expanding its business, few Nordic or US bankers are seriously worried about what one of its New York-based executives described as the "second Viking invasion," an enthusiastic reference to the bank's acquisition efforts on the behalf of industrial customers.

"The Nordics are pushing harder in a lot of areas and it is commendable and may even provide some new industrial and banking clout," a senior US diplomat said adding, "that it is still modest by comparison to what it might be, such as all the Nordic nations joining the EC. That really would change the European balance of power." €

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*Axel Krause is economics correspondent for the* International Herald Tribune

# off the books but in the money

GEOFFREY CARROLL

The name of the game is dodging the Government. People of all walks of life on both sides of the Atlantic are now organizing their economic selves to circumvent the record-keeping network that allows national authorities to monitor income and economic activity. From Belgium to the United States, untaxed income has become a way of life for literally millions of people, and national Governments are coming under increasing attack for what many contend are incompetent or insufficient attempts to deal with the problem.

This hard-to-track activity is most commonly referred to as the underground economy. It has many other names, *e.g.* informal economy, hidden, parallel, irregular, black, dual, cash, moonlight, submerged, twilight economies, or *le travail noir* in France, or *schattenwirtschaft* in Germany or *lavoro sommerso* in Italy. It also appears to have as many definitions as names, but the best is that of the International Monetary Fund (IMF): that part of the "gross national product (GNP) which, because of unreporting or underreporting, is not measured by official statistics."

Cash transactions and barter are the grist of this subterranean economy. Where cash and barter are concerned, an honor code prevails. Parties to such deals either report the transactions to their respective national authorities or don't, pretty much at their own discretion. Moreover, the variety of this activity is infinite and it is something that almost inperceptibly permeates the day-to-day commerce within the United States and the European Community. People who do not partake tend not to notice it.

But it is there, in the neighborhood laundry without a cash register, in the doctor who requests that checks be made out to cash, in the moonlighting carpenter or plumber, in the waiter or taxi driver pocketing tips, in the small bar owner skimming cash from the till. Then there are the huge sums of money from criminal activity that go unrecorded, from the drug trade in Miami, Florida, to the black market for stolen art in Western Europe.

Since, by definition, it tends to go unreported and unseen, the underground economy has drawn only occasional attention over the years. Nevertheless, it has finally come out of the closet and within the past two years it has managed to work its way toward the center stage of public and official attention on both sides of the Atlantic. The major US media, congressional committees, the Internal Revenue Service and the Federal Reserve have launched various investigations. In Europe, official attention has been less visible, though there is hardly a tax authority on the Continent which has not expressed concern over the implications for economic policy management or, more simply, the loss of treasury revenues. International institutions such as the IMF and the Organization for Economic Cooperation and Development have been moved by similar fears that such economic and monetary policy advice as they dispense is rendered less valid by the very existence of unrecorded activity.

Formal study of the underground economy is still in its infancy. Even the pioneers in this area—Professors Peter Gutman of the City University of New York and Edgar Feige of the University of Wisconsin, Vito Tanzi of the IMF, and Adrian Smith of the EC—would concede that their work is at best imprecise. Various approaches can be used to attempt to assess the size of the informal economy. These include the framework of national accounts, an employment framework, a fiscal framework principally concerned with tax avoidance and evasion, and lastly a monetary framework. Within each of these, there are additional alternative methods that may be used to tackle the measurement problem. But none are precise, and the only common denominator of all of them is that the estimates they produce are constantly being revised upward.

In the United States, an IRS report in 1979, examining unreported income in 1976, concluded that the underground economy amounted to about 7 per cent of total GNP or approximately $130 billion. Most outside estimates of this off-the-books commerce tend to be higher, and it is now conservatively estimated that in 1980 (fiscal tax year 1979) some $300 billion earned in business transactions, most of it in cash, probably went unreported; individuals failed to pay an estimated $70-80 billion in taxes and over-declared some $25 billion in reductions. From barely 7 per cent of the total US output of goods and services, some of the more zealous students of the subject now believe that in 1981 the underground economy could possibly account for as much as 25 per cent of GNP, or some $700 billion per year.

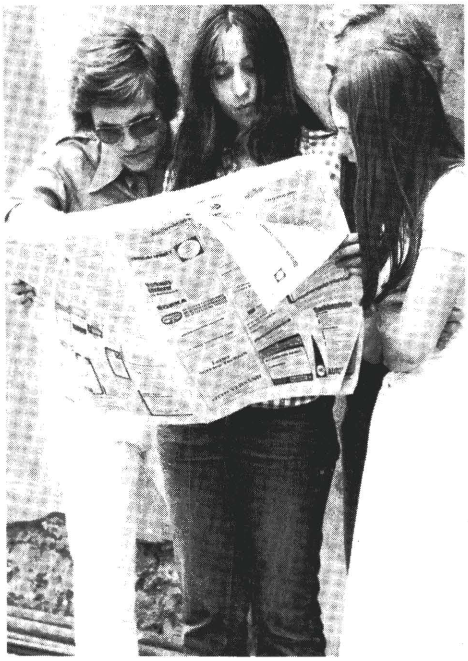
More significantly, many economists have reached the conclusion, unsubstantiated of course, that the unrecorded sector of the economy has grown at perhaps twice the rate

*This job is above board, but much labor is now performed for straight cash and never shows up in official statistics.* © Keystone Press Agency

of the regular economy during the decade. Other studies generally support the view of remarkably swift expansion. The Federal Reserve Bank of Atlanta, for instance, recently concluded that such activity rose from 9 per cent of GNP in 1970 to 15 per cent in 1978. If this trend is indeed true, this reverses a longtime trend toward a cashless society, a reversal that is especially surprising given the increased use of credit cards.

Within the EC member countries, according to Adrian Smith's research, the estimates of the size of the underground economy are, with the exception of Italy, generally less than those for the United States. From a national accounts standpoint the informal economy in Great Britain was estimated at between 3.5 per cent and 7.5 per cent of GNP. On a different basis the French underground economy was put at roughly 10 per cent, and a comparable Italian study provides an estimate of 15 per cent to 25 per cent. A Danish source conservatively estimates that around 10 per cent of the labor force might well be engaged in informal activities. In Belgium it is estimated that fiscal fraud has at least doubled in the last five years and on a fiscal measurement basis Belgian treasury losses were put at $3 billion in 1979. In Ireland it has been estimated that 5 per cent of the labor force has a second job and half of these are unrecorded, which would total around 30,000. These various attempts at quantification only demonstrate a very wide range of indicators no matter which basis is taken.

Theoretically, the two major reasons that create an underground economy are excessive taxes and the restrictions imposed by Government which make its visible counterpart unattractive to participants. In the last decade, however, it is clear that a practical imperative, not unrelated to the theoretical, has emerged. The ravages of inflation, and the very difficulty of making ends meet, not to mention the shortage of jobs in the formal sector, have all combined to make the unrecorded side that much more attractive. Given the economic realities of minimal growth in the Western world in the immediate past and future, it may be counter-productive for national Governments to try and crack down on the underground sector, if for no other reason than that in the current economic climate it will simply find other ways in which to prosper.



*Both the young (above) and immigrants are naturally drawn to the black market in jobs during difficult economic times.* © Keystone Press Agency

As Adrian Smith persuasively maintains, it may be that the underground economy should be seen as one of the principal economic trends in the evolution of national economies in the modern age, much as, over the last two centuries, the industrialized world experienced a shift away from the household-based economy to the formal economy. Perhaps in the future, when great economic growth is improbable, it should be accepted that there will be a further shift from the formal to the informal economy, difficult to measure though it may be.

To a degree, this is already happening, even if Governments, for good reasons of their own, find it hard to recognize. This so-called taxpayers revolt, from Mogens Gilstrup in Denmark to Howard Jarvis in California, has had a clear impact, ephemeral though the protagonists may have been. The election of such an ardent tax-cutter as Ronald Reagan may have owed something, though far from all, to the policies he advocated on the fiscal front. By the same token, an argument can be sustained that the weight of social-security contributions in Europe and America by employer and employee alike has induced both to try and find cheaper sources of jobs and labor. For the latter, the temptation of inexpensive, and often illegal, immigrant labor has been hard to resist, to cite a prime example.

There is also ample evidence that society's attitudes towards the informal economy are changing and that it is now considered much more acceptable. This clearly has some disturbing implications, for it may speed the process of public disregard for authority and the law. The risk is that tax evasion, far from being perceived as criminal, will assume the aura of respectability; already it carries much less of a social stigma than it once did. Given the opportunity to underreport their incomes, many Americans and Europeans freely admit that they would do so. Whether such a change in social attitudes or further increases in indifference towards civic responsibility would extend to include acceptance of outright criminal activity is another matter. Were it to do so, then organized crime, a multi-billion dollar industry if ever there were one, would only be too happy to accommodate the extra business.

Finally, the existence of a significant underground economy has important implications for the measurement of the economic variables, the pursuit of national economic policy, and the efficient functioning of the overall economy. Employment statistics cover workers engaged in legal and formal economic activities. When individuals are counted in the labor force but, being in underground activities, are not counted among the employed, the unemployment rate becomes overstated. It is also true that the inflation rate is overstated as prices in the underground economy are likely to be growing at a lower rate than those in the legal sector. In fact, part of the alleged shift from legal to underground activities, where the two are in competition, is attributed to the difference in price changes. Other macroeconomic variables also become distorted. The rate of growth of the economy is actually higher than the measured growth, if the informal economy is indeed growing faster than measured GNP. The size of the public sector is therefore artificially magnified, and statistics on income distribution are distorted as well.

As economic policies respond to the signals from these formal macroeconomic variables, they become distorted and could possibly do more harm than good. For example, if the unemployment rate is biased upward, policymakers pursue policies that are too expansionary and thus promote inflation. If the consumer price index is overstated and if inflationary expectations and actual indexing clauses for wages and salaries, pensions and the like are based on this, the inflationary effects are further compounded. These effects could be magnified still further if the monetary authorities base the expansion of the money supply on the rate of change of the consumer price index.

Therefore, inflation roars on; or does it? Unemployment persists at intolerable levels; or does it? Productivity sags, or does it? The obvious answer to all these questions must be yes, if the judgment is conventional. However, the expanding dimensions of the unrecorded activity of the underground economy are prompting continuing reappraisals of today's economy and are likely to do so for the foreseeable future. €

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*Geoffrey Carroll is an economist with the European Community's Delegation to Washington.*

# around THE capitals

## Athens

Four years ago, a Greek amateur naturalist who took a vacation on the Ionian island of Zakynthos found a puzzling series of tracks dug into the sand on a sheltered and little-frequented beach. At first Dimitris Margaritoulis, an engineer by profession, thought a tractor had been at work. But conversations with local fishermen and a night watch on the beach revealed the existence of Europe's only known community of marine turtles, which nest on Zakynthos every summer.

To the islanders, the turtles' nocturnal visits ashore to lay their eggs are a normal part of life. Biologists, however, had never suspected that marine turtles, mostly found in tropical waters, nested as far north as the Ionian islands.

A Greek presidential decree declaring the loggerhead turtles a protected species went into effect earlier this year. Nevertheless, there are growing fears that burgeoning tourism on Zakynthos will drive the turtles away from their Greek nesting grounds for good.

Once known to its Venetian rulers as the "flower of the Levant", Zakynthos boasts some of the finest stretches of sand in the Greek archipelago. Campsites and guest-houses have mushroomed along its shores in the past two years and its airport will soon start receiving jet-loads of charter tourists flying in directly from abroad.

Unfortunately for the turtles, the tourists descend on Zakynthos during the nesting and hatching period between June and September. Females gather in shallow water in late afternoon and wade ashore after sunset. But they are easily frightened off by the noise of powerboats, or lights and movement on shore.

Undisturbed, a loggerhead turtle will dig a nest in the sand with her flippers and lay a clutch of up to 100 spherical white eggs that could easily pass for ping-pong balls. She covers it up with sand before returning to the sea. Six weeks later a host of miniature turtles, each about two inches long, hatches and dashes into the sea.

As Margaritoulis points out, much scientific work needs to be done, for little is known about loggerhead turtles in Greece. They appear off Zakynthos at the start of summer to mate and leave in September, presumably to spend the winter in warmer waters—perhaps off the Libyan coast.

Once grown to adult size, three feet and more long, the loggerhead turtle has few natural enemies in the Mediterranean, and is not hunted for food in Greece. Yet superstition still clings: Turtle eggs have a reputation as an aphrodsiac and a draught of turtle blood is thought by some to be a certain cure for asthma.

There is little doubt that fewer turtles are nesting on the Zakynthos beaches every year. Margaritoulis thinks there may be under 1,000 females left. A generation ago they were common in Sicily and Corsica, but disappeared with the advent of mass tourism.

Greek Government environmentalists have launched a public awareness program on Zakynthos, believing that with careful management the island's marine turtles could become an added tourist attraction. Zakynthos' beaches, a poster campaign points out, have never been plagued by jellyfish because the turtles eat them by the thousand.

In addition, the World Wildlife Fund has granted $18,000 for a two-year project to study and tag the turtles in order to track their movements. And elsewhere in the Mediterranean, loggerhead turtles are being studied in southern Cyprus and a few coves on Turkey's Anatolian Coast.

What worries the environmentalists most, perhaps, is that the Greek presidential decree may not be specific enough. Zakynthos is an island with few resources and the temptation to open up the last few inaccessible beaches for tourism may be overwhelming.

KERIN HOPE

### NEW GOVERNMENT

Substantial changes in Greece's foreign and domestic policies are in store as a result of the sweeping victory of the Panhellenic Socialist Movement (PASOK), led by Andreas Papandreou, in parliamentary elections on October 18.

"We will not lead the country into any adventure," Papandreou promised on election night, hinting that he would give priority to domestic reform and a fresh approach to the country's economic problems.

In the campaign, Papandreou backed away from earlier assertions that he would close down US military bases in Greece, pull out of the North Atlantic Treaty Organization, and, at the very least, seek renegotiations of the terms of membership in European Community, which Greece joined only last January. But he may try and persuade President Constantine Karamanlis to call a national referendum on whether or not Greece should remain inside the EC.

His victory was not a surprise, but its margin, and therefore his political mandate, exceeded most expectations. PASOK's 48 per cent of the popular vote gave it 174 seats in the 300-member parliament, up from 94 in the outgoing assembly. The New Democracy Party's representation dropped from 174 to 113, while the Communist Party, with 11 per cent of the vote and 13 seats, is the only other party represented in parliament.

## Bonn

Despite discouraging noises from some other capitals, Chancellor Helmut Schmidt's Government of Social Democrats and Liberals is pressing ahead with its proposal to give fresh impetus to the movement toward European political union.

Few took Foreign Minister Hans-Dietrich Genscher seriously when he said, back in January, that he would be pushing such a scheme. But nine months of gestation later, Schmidt's Cabinet did approve what has become known as "the Genscher initiative." It is, however, a shade less ambitious than Genscher's original thought.

In January, the Liberal leader was talking of codifying all of the *ad hoc* progress already made toward political union plus some specific further reaching goals in a new treaty. But treaties require parliamentary ratification, and it soon became clear that might pose an impossible barrier.

Genscher's advisors thereupon convinced themselves and then him that a politically-binding "European act" ceremoniously signed by the EC chiefs of Government would, for all practical purposes, be as good as a treaty, with the additional advantage that parliamentary wrangling and delay would be avoided.

Although the Germans deny the suggestion the "Genscher initiative" had the effect of a shot across French bows, it put political union on the agenda before French President François Mitterrand could outline his own proposals for placing even more emphasis on Community cooperation in the economic and social areas.

The Germans say the "European act," while making clear that the Community core remains economic, should cement the political structures not foreseen in the Treaty of Rome but which have nevertheless been established *ad hoc* to deal with external relations and coordinate common action and reaction. At the same time, it should outline new areas of political cooperation and new spheres of activity for and "participation" by the European Parliament.

*German Foreign Minister Hans-Dietrich Genscher*

A suggestion concerning the latter point is that each EC Government chief, while his country is taking its six-month turn in the presidency of the EC Council, should appear before the Parliament to report to it and be questioned by the elected deputies. The Germans believe this would have the effect both of strengthening Parliament's role and of binding member governments more firmly into the movement toward political union.

By having abandoned the idea of a treaty, the Germans believe that their "European act" stands a good chance of being signed this winter. WELLINGTON LONG

# Copenhagen

With the notable exception of France, the socialist parties of Europe are in trouble: In Norway, the September election toppled a socialist Government, and gave the socialist parties the weakest representation in parliament in sixty years. Party discipline is collapsing in West Germany, in Britain the party has split into two, and in Denmark intra-party strife is now fought out in public.

*Mogens Glistrup*

The reaction of the Danish Social Democratic Party to the defeat of the Norwegian Labor Party at the polls was fundamentally incomprehension: How could the electorate be so ungrateful as to reject a Government which had presided over, if not caused, an economy with full employment and a healthy balance of payments? Well, gratitude is seldom a tangible asset in politics, the Government was not credited for the oil riches and the campaign was dominated by two issues, taxes and defense policy.

The Labor Party of Norway seems to have been caught unaware by, or ignored, a marked shift to the right of the electorate. The Danish Social Democratic Party is fully aware of the political cost of a high tax level.

The anti-tax party of Mogens Glistrup has been around since 1973 and is still going strong, attracting many highly-paid, blue-collar workers. But rising public expenditure, an automatic result of rising unemployment, may force the Government either to raise new taxes or cut expenditure. If not, the budget deficit will mushroom, forcing interest rates through the ceiling.

The Social Democratic Party has decided to cut expenditure, or rather, reduce the rate of growth of expenditure. But with unemployment at 250,000 and still growing—the worst figure in Europe save Belgium—it is virtually impossible to even trim growth rates without reducing the direct or indirect economic support of the unemployed. The leader of the socialist parliamentary group, Mogens Camre, suggested that in families with a high total family income, direct unemployment benefits should be reduced. As this would typically reduce the benefits of the wife, this proposal triggered an immediate and violent response: The Government publicly condemned the suggestion, and the career of Mogens Camre may be at a dead end.

But debate continues. Five or six years ago the dividing line between all-out supporters and opponents of a large and growing public sector was more or less identical with the line between the socialist and non-socialist parties. This is no longer so. The welfare state is now so costly that the problems of financing are acute, and the socialist party in Denmark, like its sister parties, is deeply divided on what to do.

LEIF BECK FALLESEN

# London

Striking the deal was the easy part. Implementing the Liberal-Social Democratic alliance for Britain's next general election won't be so simple.

The two middle-of-the road parties have agreed to band together against the dominant Tories and Laborites in a bid to give the British electorate a viable third alternative of Government. The pundits are in no doubt this will change the map of British politics—but for good or ill? They say the alliance could result in a new pragmatic party of reform competing seriously for power, or it might only begin an era of weak and shifting coalitions.

The timing seems right. With Prime Minister Margaret Thatcher's Conservative Party becoming more reactionary and Labor swinging to the radical left, the gap in the middle is ever widening. British voters would apparently jump at a new choice. A poll just before the alliance was formed showed it might win 41 per cent of the national vote in a general election against 31 per cent for Labor and 25 per cent for the Conservatives. Even more telling was its corollary that the Liberals and Social Democrats standing separately would both be thrashed. In that scenario Labor would get 39 per cent, the Tories 30, the Social Democrats 16, and the Liberals 13.

*David Steel* courtesy British Information Services

Analysts think the polls may be overly optimistic about an outright election triumph for the alliance. More feasible, they believe, is an outcome wherein the Tories or Labor remain the largest party but lack an overall majority. Much will depend on how the Liberals and Social Democrats perform in tandem in the runup to a national ballot that must be held no later than May 1984.

At the outset all is mutual admiration. Social Democratic Party (SPD) co-founder Roy Jenkins, a former Labor minister and ex-President of the EC Commission, insists there is no question of either party swallowing the other. Liberal leader David Steel says both sides must have a high degree of vision, trust, and forebearance.

The Liberals were once Britain's largest party but have not been a major political force since just after World War I. They have been out of Government since 1945. The SDP was formed in March by dissident former Laborites. Of the 635 seats in the House of Commons, the Liberals hold 11, and the Social Democrats 16.

Traditions are different, persuasions are similar. They agree, as David Steel put it, on the need to break the class system, decentralize the Government, and change the electoral system. Both support a mixed economy, continued British membership in the EC, industrial reconstruction, and a proportional representation system of voting. They differ on defense and education.

The biggest hurdle is deciding which party will contest which seats. Talks have begun on dividing up the constituencies. "We must have a proper mix of seats, both in their geography and in their politics," Steel said. "Each party has got to take on both the good and the bad seats." That will require some liberal sacrifices. Up to 20 Liberal parliamentary seat candidates would have to step aside for the SDP if, by current reckoning, both parties are to fight roughly half the Commons seats.

The Liberals would like to resolve matters locally as far as possible. The Social Democrats would prefer discussions on the basis of larger regions with a stronger representation from the center. This, they believe, would ensure equality of opportunity between the parties over the whole country.

One starting point could be the Liberals contesting the 50 parliamentary seats that past results show they have the most prospects of winning. If the Social Democrats agree to this, they in turn could take the next 50 seats considered the best chances for the alliance. Both parties have academics, analysts, and computers trying to identify the optimum alliance prospects and to buttress their individual claims.

What gives the alliance a credible chance is its moderation in a field of growing political extremes. It professes no dogma, it owes no allegiance to industrial factions or to any class. It must still outline clearly its policies, particularly on Britain's sick economy. It has to decide who will be first among its leaders—who would become Prime Minister if power is achieved. The SDP has yet to sort out its own hierarchy, let alone worry about alliance pecking orders.

The partnership at the moment is just for the next general election. Afterward, it could be formal merger or separation. One possibility: The Liberals stay in the center, the SDP moves moderately left.

Caution is being observed. "This is not the new Jerusalem", said the Liberal official who brought the alliance motion to the annual convention's vote. "It is only the first glimpse of the promised land." Warning flags are out against disenchanted Conservative and Labor Members of Parliament who might join the bandwagon only to save their seats.

One wonders what Asquith and Lloyd George would have thought. PETER J. SHAW

# The Hague

Holland's new center-left coalition Government in September got its first taste on coping with the nation's mood on nuclear energy—both for military and peaceful purposes.

Some 10,000 people of all ages demonstrated near the Soesterberg US airbase against Holland's possibly accepting new medium-range nuclear missiles, while a similar number of young people blockaded one of Holland's two nuclear power centers, at Dodewaard.

While the Soesterberg protest meeting—inspired mainly by the Inter-church Peace Movement—came off peacefully, the Dodewaard resulted in 15 injured protesters, a few injured policemen, and 15 arrests.

It began on a Friday when a vanguard of the anti-nuclear movement took over a farmer's field about one kilometer from the Dodewaard plant and set up a squatters tent camp as their headquarters. It was to serve as a base for a weeklong blockade of the plant.

On the following Saturday, thousands of the protesters started arriving. Police claimed only 5,000 came, but the demonstrators said 15,000. Crowds of them started setting up blockades, built from old doors, tables, chairs, signboards, mattresses, and other rubble on the access roads leading to the plant.

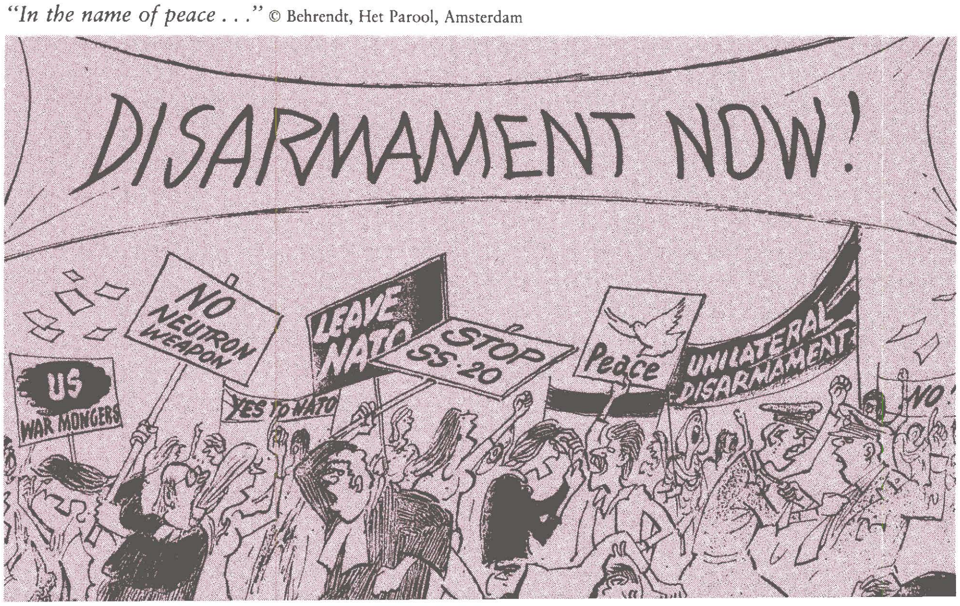
Meanwhile newly appointed Interior Minister Ed Van Thijn had said: "Demonstrations are permitted, but blockades cannot be tolerated." The riot police moved against the blockades soon after they were put up. It was the first of repeated tear-gas filled clashes which continued for three days. As local farmers grew angry over damage done to fences and fields, they threatened to take matters in their own hands and clear the fields themselves.

By Monday night the riot police ended the cat-and-mouse game of building blockades and knocking them down. They dispersed the crowd and drove the demonstrators back to the tent camp. Caught between a tougher police and angered farmers in the area, the protesters decided on Tuesday to call off the attempted blockade that was to have lasted a full week. Instead they decided on nationwide, smaller demonstrations and promised a mass demonstration against nuclear energy for the following weekend in Arnhem.

Shift changes of the Dodewaard plant's staff, over the three turbulent days, continued with only minor delays. But at one point staff members had to be ferried across the nearby Waal river. Meanwhile experts calculated that dismantling Holland's only two nuclear energy power plants would cost an estimated $2 billion.

NEL SLIS

*"In the name of peace . . ."* © Behrendt, Het Parool, Amsterdam



# Paris

The beheading machine that has been France's official instrument of execution for nearly two centuries has been handed its own death sentence.

The French Senate's decision in September to abolish capital punishment and the guillotine marked a legislative victory for the young Socialist administration of President François Mitterrand, whose campaign for control of the Elysée Palace last spring included a pledge to end France's distinction of being the only EC country that still imposed the death penalty.

Although Belgium and Ireland still have capital punishment laws on the books, no one has been condemned to die in those countries in years. In France, there were six convicted murderers waiting on death row at the time of the Senate's historic vote. All six prisoners had been condemned to death within the last year.

Mitterrand's commitment to killing the death penalty was so strong that the issue was one of the first items on the fall agenda in the French Parliament, where legislative elections in June gave the Socialists a majority and ended 23 years of conservative rule.

It was only the second Parliament debate on capital punishment in 71 years and the Senate's decision came despite a public opinion poll published earlier this year that showed 63 percent of French people were in favor of keeping the guillotine.

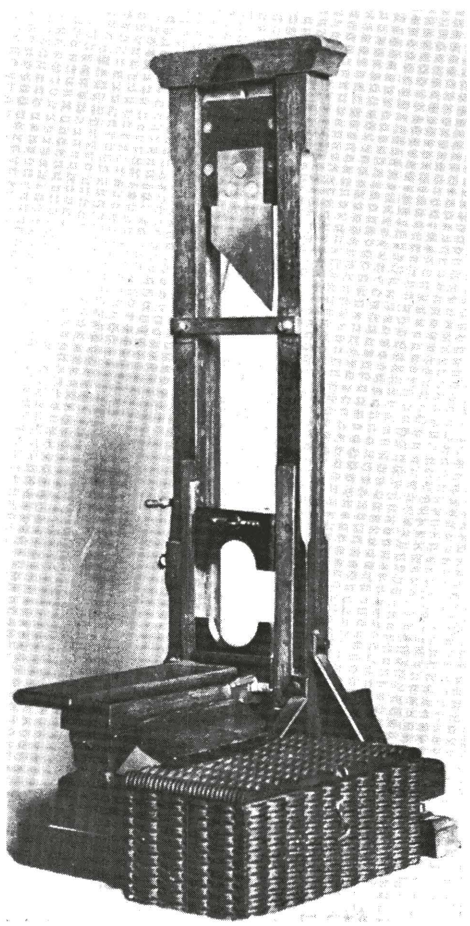
The vote to abolish capital punishment ended a 189-year career for the guillotine that has lopped off an estimated 4,600 heads, including those of the ill-fated King Louis XVI and Marie-Antoinette.

Although the guillotine is sometimes thought to be as thoroughly French as *croissants,* the death machine already was in use in Italy and Scotland when it made its first appearance in Paris in 1792. The French, however, coined the name.

Joseph Ignace Guillotin, a Paris anatomy professor and a member of the post-revolutionary National Assembly, had promoted the beheading machine as an inexpensive, efficient, and "painless" means of execution before fellow lawmakers in 1789.

Three years later, the first such execution devise was built in France by piano maker Tobias Schmidt and was given a trial run on three cadavers as Guillotin and his colleagues watched. As they left the demonstration, they dubbed the machine "la guillotine." The name stuck despite the doctor's protests.

The guillotine got its biggest workout in the days of the French Revolution when public beheadings drew large, enthusiastic crowds to the Place de la Revolution, now known as the Place de la Concorde. There in the spacious square, the masses would cheer loudly when the executioners dunked the severed heads in pails of water and held them high above their own heads. Fans referred to the machine as "the national razor." Women supporters, some wearing little guillotine-shaped earrings, knitted tricolored French flags at the guillotine's base while the heads rolled.



© Bettmann Archive

Beheadings were still popular public events in France as late as 1939 when a botched execution caused a national outrage and a press campaign to end them. French newspapers at the time published gruesome photographs of the execution of Eugène Weidemann, convicted of killing rich lonely women. Because of a mechanical fault, the executioner had to drop the blade three times before Weidemann's head was severed.

In recent years, France's one remaining working guillotine has been stored in a locked closet at Paris' Santé Prison. In times of need, the oxblood-colored guillotine could be disassembled and transported by van to other prisons throughout France. It would take the machine's 132-pound weighted blade three-quarters of a second to drop nine feet between grooved beams and slice off a head.

The French Supreme Court upheld a death sentence as recently as March. But no one has been executed in France since September 1977 when Hamidi Djandoubi, a Tunisian immigrant worker, was beheaded for torturing and murdering his 20-year-old girlfriend.

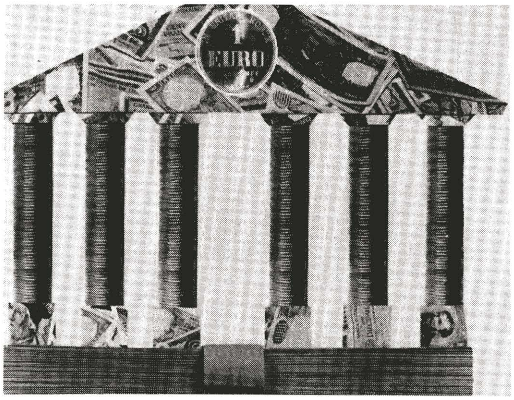
The guillotine's demise, however, takes with it one final victim. The man known simply as Monsieur de Paris, the state's official executioner, has lost his $650 monthly retainer. CAROLYN LESH

# Luxembourg

If someone invented a city for bankers you have a feeling it would look a lot like Luxembourg. Its very stones seem to breathe financial integrity. Many of its older buildings look as if they were put up principally to repel bank robbers. Walk around the more modern Boulevard Royal and it is as though the pages of an international financial directory had come to life. Banks from just about every major industrialized country—and many others—jostle for space. You quickly understand why they call this "Europe's Wall Street."

It often comes as a surprise to discover how recent the growth of banking in Luxembourg is. You feel the place was looking after the world's money a century ago. Perhaps it was, but the city's present strength in banking is a much more recent creation. The Americans began it in the 1960s, largely as a consequence of the interest equalization tax. Their presence, in strength, proved short-lived however, and within 10 years many had moved to London. By this time though the big German move into Luxembourg had begun. There are now 30 German banks in Luxembourg, lured by the language, the proximity, the lack of minimum reserve requirements, and what one official calls "the generally more tolerant and understanding atmosphere here." More recently Scandinavian and Italian banks have moved in in some numbers. There are now 113 foreign banks in all in Luxembourg.

Of course these banks don't come just for the pleasure of cashing Luxembourgers' checks. They are drawn chiefly by the merits of operating in the international money markets in a country where there is no central bank constantly raising its eyebrows over large-scale currency transactions. More specifically the banks here engage in the esoteric Eurodollar business, the borrowing and lending of US Dollars outside the United States. Throughout the 1970s this was an explosive growth field because of




the huge increase in revenues by the oil-producing countries and the need to recycle it through the world money markets.

In 1980 things turned sour. The volume of money for recycling fell, high interest rates in the bond markets created new pressures and profit margins weakened dramatically. Red ink replaced black in the accounts of many banks operating in Luxembourg, and while it is a mystery to most people exactly how and where banks make their profits there seemed to be a general feeling that Eurolending in Luxembourg was no longer the guarantee of prosperity it had been.

All this occurred at much the same time that the German banking authorities were reported to want to tighten up the controls over the foreign operations of German banks. The moves seemed largely of a bookkeeping nature but the threat was enough to raise speculation among some Luxembourg commentators about the need for the Grand Duchy to diversify its attractions for the bankers. In particular, some felt, Luxembourg could do more to attract private client business in competition with Switzerland.

Officials make two main points in response to such suggestions. First, Luxembourg is already highly competent and relatively cheap in the matter of retail banking business. Second, there are limits on the further steps the country can take to offer "perks" to depositors. "As members of the European Community we accept the need for common banking regulations and it is clear these are going to be increasingly applied," a banking official says. There is indeed general acceptance that developments in EC banking regulations over the next few years could work to Luxembourg's disadvantage.

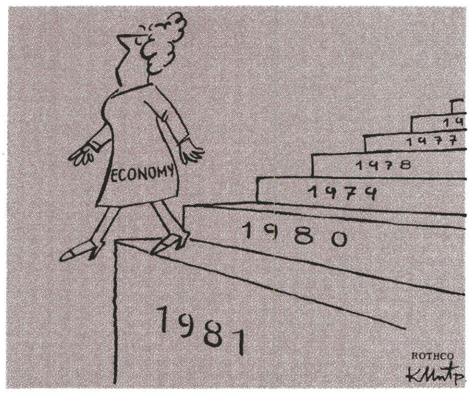
All this must seem unsettling for a country which last year drew no less than 80 per cent of its profits tax and 15 per cent of its total tax revenues from the banking sector. The main comfort is that the banks aren't moving out—indeed there is still a trickle of newcomers awaiting entry. "Perhaps the fluke conditions have ceased and now we can attract new entrants on the strength of our basic advantages," says a finance ministry official. ALAN OSBORN

# Dublin

Some years ago the Irish Embassy in Stockholm reportedly complained to the Swedish broadcasting services about repeated mentions in weather forecasts of "depressions now over Ireland" moving east to bring rain and gloom to Sweden. Did they have always to mention Ireland in such a context?

The Swedes now should be thankful that the enormous depression that has settled over Ireland in the second half of this year is economic, not climatic. Not for several decades has the economic outlook seemed so black. Before the June election then Prime Minister Charles Haughey's Fianna Fail Government had admitted there were difficulties, but insisted that Ireland was surviving the depression better than most other European countries.

Since then the new Government has accused Haughey of gambling with the economy and bringing the country to the brink of ruin. Without new harsh measures, the Government has said, Ireland would rapidly have run into the sort of bankruptcy that faced New York City some years ago—no money to pay the police, to run vital services, and so on.




© Mitro, Ta Nea, Greece

Some of the harsh measures were administered in a July budget, which put up indirect taxes, and that, together with inflation at 20 per cent, unemployment, and poor prospects for wage increases, means most people in Ireland are going to be worse off than they were. Even Dublin's pubs are reporting dwindling business.

Various factors are at work; Irish manufacturing industry depends on foreign trade, and in a world recession that does badly; Irish agriculture had boomed in the years after EC entry, but since 1979 that boom has faded and farmers have been among the hardest hit; the Irish pound, stable within the European Monetary System, has nevertheless fallen steeply against the dollar, which has caused oil prices in Ireland to soar. At the same time the depression in Britain has meant that Irish exporters have not reaped the rich harvest they might have, with the Irish pound low against sterling.

In addition, Irish workers, particularly the large numbers employed by Government and by semi-state corporations, have become accustomed to compensating themselves in times of inflation by healthy annual wage rises. Now the Government is talking of no increase at all, and the hard times have caught up with the semi-state companies with a vengeance.

This state-sponsored sector has been central to Ireland's economic development. Undertakings like the Electricity Supply Board, Aer Lingus, and the Irish Sugar Company have all in their time been great success stories, boosting national pride and self-respect, as well as building industry and jobs.

Now many of them are in difficulties; Aer Lingus is losing heavily and is having to lay off employees; RTE, the national television service, is in trouble and may be forced to trim its staff. The Irish Sugar Company, one of the oldest and, with its agricultural base, one very closely related to rural and regional development in Ireland, has just announced the closure of one of its factories, in Tuam in County Galway, with the loss of 500 jobs by Christmas.

Then, in September, the National Economic and Social Council brought out a report that said Ireland was the poorest and least developed country in the European Community.

Normally this would not have been big news, but several factors combined to make it different this time. Some commentators mistakenly assumed the report meant that Ireland was now poorer than Greece (though in fact the survey was based on data from 1979, before Greece joined the EC); others took the opportunity of the prevailing atmosphere of gloom to pile on the agony with further pessimistic headlines.

More serious, however, was the report's doubts that Ireland could catch up, economically, with the rest of Europe. For instance, it pointed out that if the German economy grew in real terms by only 3 per cent a year, Ireland's gross domestic product would have to expand by a whopping 11 per cent a year for the next decade if Irish income per head were eventually to match that of the Germans.

Cooler heads suggested the report was not quite all bad news; they suggested it could form a useful argument for those Irish ministers now engaged in the arduous process of trying to persuade their EC colleagues that the Community must pay more attention to internal economic disparities and to tailor future EC policies to meet these needs.

It will fall to the Taoiseach, Garret FitzGerald, to do most of the persuasion. As Foreign Minister from 1973 to 1977, he made an enormous impact on the Community. At the very least, he will have to repeat the performance as Prime Minister. At home, by the same token, he will need to display the authority over economics he exhibited, at times brilliantly, as a young politician in opposition, if he is to steer the country through the present foul weather storms.

At least, the weather gods are on his side. August in Ireland was the driest and sunniest on record, which must have cheered up the Swedes. DENNIS KENNEDY

# Brussels

It was with a sense of something approaching relief that many Belgians greeted the news in late September that new elections would be held in early November. This summer was particularly wearing on the nerves where politics are concerned. Every day seemed to produce some new parliamentary evidence to suggest that this or that coalition permutation might endure. Then would come a fresh twist in the long-running saga of Belgium's social, economic, and linguistic problems and the pundits would have to start again.

You often get the impression in Brussels that the newspapers would die of copy-starvation if there weren't a Government crisis—there was certainly no danger of that in the past few months. When parliament was finally dissolved in early October you could almost hear the whole of Belgium whispering "amen."

Dig deep enough and you'll find that all Belgium's political crises have the same roots—the clash between right and left political philosophies and the clash between French- and Flemish-speaking communities. The latest is no different even if the specific impulses are different.

The Government fell ostensibly because the French-speaking Socialists removed their support from the coalition on the issue of state aid for the Belgian steel industry. But when Belgians vote they are likely to do so with far broader perceptions about the future of their country in mind. A newspaper here quotes a reader in Ostend as saying: "I don't understand the issues involved in giving loans to the steel industry, but I think this election could really decide the future of Belgium." She was eighteen and voting for the first time in an election, like many thousands of others.

Commentators like calling every political crisis the worst, every election the most significant, and so on. So they do here now, just as they have done for as long as I can remember. Of course now they may be right. Yet all the inputs to this latest round of national soul-searching seem painfully familiar and one frankly wonders if the final resolution will be that much different from those in the past.

The last Belgian elections were in 1978 and they produced a parliamentary grouping only microscopically different from that which preceded it. A coalition of Christian Democrats and Socialists, both divided into French- and Flemish-speaking halves, continued to rule the country as it had before, though with different leadership. Since the elections there have been five major political crises, that is to say situations where defections threatened the continuation of the

*Belgian Prime Minister Mark Eyskens.* Courtesy of Belgian Embassy

Government, and all were resolved without new elections, except of course the last. Four of the past five Governments were headed by Wilfried Martens—like the outgoing Prime Minister Mark Eyskens a Flemish Social Christian.

There has been talk in recent months of a regrouping toward the right, namely of the Social Christians with the Liberals. This would certainly yield a parliamentary majority on present showing for such a coalition, but observers feel the social costs of discarding the Socialists at a time of such economic upheaval in Belgium might be too great for it to endure. Nevertheless, a big advance by the Liberals in the elections, which was forecast by the polls at the time of writing, might make this more plausible a solution. Such an outcome, though, would almost certainly underscore one of the rising fears of many Belgian politicians—that of an effective secession by French-speaking Wallonia from the rest of Belgium.

What this summer's disputes have abundantly demonstrated is the growing sense of isolation felt by politicians, cultural leaders, and the general population in Wallonia from what they regard as an increasingly Flemish-dominated central Government. Doubly unfortunate for Belgium is that its industries most susceptible to decline—coal, steel, textiles—are all basically located in the French-speaking part of the country. And that is of course where recession, unemployment, and the accumulation of political tension have been most concentrated.

In the 37 years since liberation, Belgium has had 30 Governments but the basic centrist character of the country's leadership has scarcely changed at all. It is reported that international bankers have become impatient with the performance of recent Governments and that renewal of the present type of coalition might no longer merit the full backing of the country's creditors. But one's own view is that things will go along much as before—a little-changed Government, a continued high success rate for the economy internationally, and, less happily, more internal dissentions.

ALAN OSBORN

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David Wood's column on the European Parliament resumes regular publication in the next issue of *Europe.*

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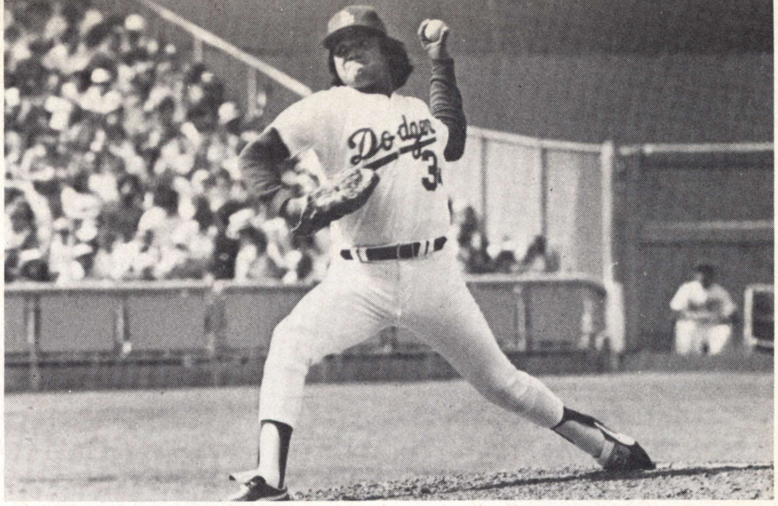
## CORRECTION

In our September issue an obituary of Fernand and Anne Spaak mentioned the takeover by Black September of a mosque neighboring the Spaaks' residence. The mosque was in fact occupied by Hanafi Muslims.

# sporting times



*The American press has possibly given more coverage to Fernando Valenzuela, the Los Angeles Dodgers' rookie pitcher, than to any other public figure.*
Courtesy of the Los Angeles Dodgers

PETER RIDDELL

Imagine yourself sitting in front of a blazing fire on a chilly winter Sunday afternoon after a good lunch. What do you do? Apart from sleeping, it is more than likely that you will look at the sports pages.

If you are in London it will not take you long. *The Sunday Times* has roughly three and a half pages every week devoted to sports and physical fitness and *The Observer* three pages. If you are in the United States you should be prepared for a short novel—a thriller with the usual quota of sex and violence. *The Washington Post* often has as many as 11 pages on sports and *The New York Times* almost the same amount.

The content will be entirely different on either side of the Atlantic. Unlike much of the rest of the "quality" press in the United States and Britain covering the same troubles in the Middle East, the same films, and the same worries about interest rates, the sports pages have their own individual characteristics.

Whatever else may link the United Kingdom and the United States culturally, sports is the great divider. The professional sports which attract the biggest attendances and television viewing figures in the United States—football, baseball, basketball, and ice hockey—are almost entirely limited to North America. The latter two are played on a limited scale elsewhere, but without the same degree of popular interest. And the most popular sports in the United Kingdom—soccer, cricket, and rugby—are either virtually unknown in the United States or only have a slender foothold, as shown by the closure of many soccer teams.

The contrasts do not end there. The existence of a dominant national press in the United Kingdom means that all the main teams in the leading sports are reported—with slightly differing emphasis between northern and southeastern England (Scotland is a nation apart). One result is that at least in the "quality" press there is an attempt at balanced reporting with no obvious favoritism.

The fortunes of Spurs or the Arsenal (two London soccer teams) would never be reported with the kind of partisan fervor that the triumphs (or more frequently disasters) of the Redskins are covered even in *The Washington Post*.

Indeed, sports reporting in the United Kingdom is on an altogether more modest scale than in the United States. The wall-to-wall coverage of a football game with several stories in a single edition of one day's paper is almost entirely unknown in Britain—except for the annual soccer cup final (like the Super Bowl). The almost obsessive interest in college sports in the United States is not matched in Britain where it is hard to find even the scores of college games.

Yet if any single British paper lacks the quantity of the US coverage there is a greater freedom of choice. While in most US cities you will be lucky to get two papers on a Sunday there is a choice of seven national papers each Sunday in Britain.

And any newspaper business in which Rupert Murdoch is represented is certainly not going to lack variety. Even if the "quality" papers in Britain generally adopt a restrained style, there is plenty of "vulgar sensationalism." Although there is nothing in Britain to rival the daily reports on the pronouncements of George Steinbrenner and his Yankee managers there is plenty of tittle-tattle about the hirings and firings of soccer managers and of player transfers.

There is no shortage of color in the popular reporting of sport. The snag, in both the United Kingdom and the United States, is that the writing lacks any freshness and is completely stylized. This particular approach has been parodied in the British fortnightly satirical magazine *Private Eye* with its imaginary soccer correspondent E. I. Addio who writes of "tight-lipped managers" and "sick-as-a-parrot players." In the United States there are pale imitations of Ring Lardner or Damon Runyon.

Even in the quality press much of the reporting of sports is pedestrian. There is little attempt to describe a mood or the style of a player, as opposed to the mere record of the details of play.

There are exceptions, notably in the coverage of cricket, that most subtle of games which has been transported to almost all the rest of the English speaking world apart from North America. Cricket has inspired more fine writing than almost any other sport and this tradition has spilled over into daily and Sunday journalism.

The sport also has a number of current or former players who can write well. For instance, Michael Brearley, who combines a top honors degree in philosophy with one of the best-ever records as England cricket captain, has written with penetrating insight into the psychology of his team, their motivations and behavior.

Cricket also inspires eccentrics. The reports of Alan Gibson in *The Times* frequently concentrate more on what has happened off the field than on, or on the memories of an old player. One particularly memorable story was almost entirely concerned with how he went to the wrong ground for a game and arrived at the right place more than two-thirds of the way through the day's play (six hours a day for three days in the main cricket championship).

Baseball has appropriately inspired some of the best sports writing in the United States. While much is often made of the differences between baseball and cricket there are many similarities in the subtle arts rather than brute force which are needed for success in both games. An afternoon watching a good spin bowler at work can be as satisfying as a few innings from a top-quality pitcher on his best form.

This is where the large space devoted to sport in the United States is an advantage. Besides all the box scores and everyday reporting, there is room for a writer as skilled as Thomas Boswell on *The Washington Post*. He takes sports writing out of the mundane.

Similarly, *The New Yorker* magazine has allowed Roger Angell to write as evocatively of baseball—and especially of the crowd atmosphere—as any cricket writer. Quantity can sometimes permit quality to flourish. €

*Peter Riddell, political editor of the* Financial Times, *has watched baseball from Seattle to Houston.*

# Dutch Treats

The Netherlands has a utilitarian outlook on food: As a Dutch friend remarked to me a few weeks ago, "We've always been a little embarrassed by the amount of attention the French and the Belgians pay to what they eat." As if to prove her point, the concierge at the thoroughly admirable Amstel Hotel had never heard of a restaurant less than an hour's drive from Amsterdam which French and Belgian colleagues had assured me was the best the country had to offer.

But things are changing, and no wandering *feinschmecker* need fear an unrelieved diet of smoked eel and pea soup in the Dutch capital—or, for that matter, out in the country. Much of the best food in the Netherlands these days is not Dutch, it must be admitted, but that need bother no one. I happen to be writing these lines in Yorkshire, where the two best restaurants are both French, and it never particularly perturbed me that the best restaurant I knew in Nigeria was run by a woman who had learned her trade in Shanghai.

That is not to say that there is no good Dutch food to be found in Amsterdam. Indeed, one of my three favorite places there is as Dutch as wooden shoes. Called the **Oesterbar** (oyster bar), it has that slightly tacky, matter-of-fact quality that often marks the serious seafood house (like **Sam's** in San Francisco or **Crisfield** outside Washington, DC). There are two floors, and the lower one includes a counter where you can watch them cook your meal—and where, if you happen to be eating alone, you will feel less of a waif than at a table. Splendid Zeeland oysters, delicious small soles cooked with tiny Dutch shrimp, lobsters and, yes, smoked eel, all prepared quickly and simply, as fish should be. No library paste in the sauces here: **Wheeler's** of London and Brighton, please copy.

The **Oesterbar** is located on the Leidseplein, the meeting place of the world's young in the summer months, and both of my other Amsterdam haunts are only a few steps away. The second of them might be described as Dutch Colonial, in that its stock in trade is the Asiatic feast known as *rijsttafel* (rice table), which comes from the former Dutch colony of Indonesia. The Dutch gourmand likes quantity, and in a *rijsttafel,* he gets it—perhaps 25 small dishes surround the bowl of rice that gives the meal its name. There is *sate*—small cubes of meat on a wooden skewer, served with a fiery pepper and peanut sauce; *gado gado,* a vinegary vegetable salad with the same sauce; *nasi goreng* or fried rice and . . . and . . . the place to try it is called (reasonably enough) the **Bali**, at Leidsestraat 95. Go with a group, order the works, and drink plenty of Amstel or Heineken.

For a *grande bouffe,* I can think of no place better than the **De Boerderij** at Korte Leidsewarstraat 69. A warm and welcoming place, with low ceilings and adept waiters, the **Farm**—to give it its English name—is Amsterdam's best French restaurant at the moment. Birds cooked on a spit are a speciality, but everything else is good too, and the cellar is first-rate. After you have eaten, ask for a copy of the magazine put out by the Dutch gastronomic alliance, of which this restaurant is a member; it will guide you to places of similar stature in the provinces. No point in going hungry in Eindhoven if you don't have to.

Before leaving Amsterdam, a few other random notes: I would strenuously urge you to avoid two gardens of zoological nomenclature, the **Five Flies** and the **Black Sheep.** Both are as cutesy as their names would suggest, and both pay more attention to decor than food. Strictly for tourists. For a cup of coffee or a snack, you should go to the **American Hotel,** whose art nouveau café is (rightly) classed as a national monument. And finally, the aforementioned **Amstel Hotel,** whose dining room used to specialize in the grand international yawn school of cooking, is said by knowledgable Dutch friends to have blossomed since the chef from the much lamented **Auberge** took charge.

Now, what about the place the Amstel's concierge didn't know of? It is called **Hoefslag,** and it is to be found about seven miles north of Utrecht in a forest. I won't pretend that it's easy to get there: The best thing is to call for a reservation, telephone (30) 784-395, and ask for directions. You'll need a car, but it is well worth the trouble to taste the cuisine of Gerard Fagel, the most talented of seven brothers who have dotted the Dutch landscape with little sanctuaries of *nouvelle cuisine.* His specialities include wild mushrooms in several guises, cold oysters with sorrel, and fresh foie gras with tiny vegetables, but if your appetite is in form you should take the menu *dégustation,* which will afford you the opportunity to taste five or six of his offerings. The place looks like a hunting lodge, but there is nothing rustic about the table settings, the service, or the highly skilled cooking.

Elsewhere in the Netherlands, the following places commend themselves: In Delft (a short cab ride from Rotterdam), the **Chevalier,** a delicious nook along a picturesque canal, installed in an old house and devoted to things French. In Valkenburg near Maastricht, in that southeastern hook of Holland near the Belgian and West German borders, the **Princess Juliana,** a 40-year-old hotel with a tradition of *haute cuisine* that has been lightened recently by the installation of a young chef of style and imagination. In the Hague, **Bajazzo,** whose excellent French kitchen is more than matched by its exuberant fin-de-siecle decor, which gives it the look of a mini-Maxim's. €

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*R.W. Apple Jr. is London bureau chief of* The New York Times.

## CHRISTMAS SHOPPING


DIANA SCIMONE

The recurring question this time of year is where to find Christmas presents that will leave a smile, not a grimace, on the face of the recipient. With the dollar strengthened against most European currencies, it's an excellent year to fill St. Nick's sleigh with jolly presents from Europe. Here are a few suggestions on where to find them.

**A Partridge in a Pear Tree** You're liable to find a partridge and other feathered friends perched on the stamps in philatelic shops along Berlin's Kurfurstendamm. Helmut Kirchning (Hotel Roxy, Ku'damm 34), for example, might be able to show you a rare 1929 French 20-franc Pont du Gard. Also try August Kruger further up Ku'damm at number 69 for more colorful philately.

**Two Turtle Doves** If your little turtle dove is cooing for some perfume, you'd best head for southern France, the source of all such heady essences. A very respectable shop is Rimay (52 rue d'Antibes, Cannes). A caveat for those tempted by "sounds-like" fragrances: "Joie" is not "Joy," nor is "Chaleur" anything like "Shalimar," no matter what a smiling saleswoman might tell you. Stay with the reliable shops and you won't be disappointed. Perhaps you'd like to buy your perfumes where Britain's Queen Elizabeth does. Stop in the 250-year-old House of Floris (89 Jermyn St., London) where sachets, talcum powders, and toilet waters all carry the delicate scent of English flowers.

**Three French Hens** Is your hound hounding you for a French original to wear on long walks in the rain? You'll find such extravagances specially made for pets at Aux Etas-Unis (229 rue St. Honoré, Paris) and at E. Goyard Ainé (further up at number 233). You will be able to indulge your little darling in his or her fondest whims: perhaps a vinyl raincoat . . . or maybe a dish with little Robespierre's photo handpainted on the side . . . or why not specially blended poochie toilet water?

**Four Calling Birds** Call upon friends this Christmas with cards purchased at museum gift shops. Rotterdam's Boymans-Van Beuningen Museum (Mathenesserlaan 18020) has a good assortment of Christmas and New Year cards bearing likenesses of the Van Eycks and Rembrandts hanging on its stately walls.

**Five Golden Rings** Where else to buy golden trinkets but Bulgari (Via Condotti 10, Rome, as well as branches in Geneva, Monte Carlo, and Paris)? Each glittery jewel is a masterpiece in its own right. Also recommended is Ilias Lalaounis (6 Panepistimiou Avenue, Athens) who handcrafts 18- and 22-karat gold replicas of jewelry worn during the Golden Age of Greece. If you are searching for something to mark a very special occasion, try the diamond houses of Amsterdam. The cautious shopper will purchase only from reputable dealers—such as Bonebakker (Rokin 88), the oldest and most respected gem merchant in town.

**Six Geese a' Laying** For goose liver paté and other tempting items, visit Alois Dallmayer (Diernerstrasse 14-15, Munich). For 300 years this historic and cozy food hall has been stocked to the rafters with scrumptious Bavarian delicacies. (Be sure to check customs regulations before bringing food home; in the US, for example, fresh fruit and vegetables and uncanned meat such as salami or liverkäse will end up in the clutches of watchful customs agents.) Another spot to purchase edible trinkets for thin friends is Confiserie Namur, (32 Grand'Rue, Luxembourg) where exquisite chocolates will be happily mailed home for you.

**Seven Swans a' Swimming** D'Alençon (234 rue de Rivoli, Paris) is simply swimming in scarves and handkerchiefs soft as swan's down. The charming saleswomen will handpaint the name of your special someone on the tip of a scarf or handkerchief, and deliver your purchases to your hotel or mail them home.

**Eight Maids a' Milking** For crystal to hold milk and other potables, try Pauly & Co. (Ponte dei Consorzi, Piazza San Marco, Venice) or Salviatti & Co. (San Gregorio 195) for exquisite Venetian glass. You will join a host of previous patrons who include emperors, kings, queens, and heads of state the world over. Both firms will mail your purchases home and guarantee their safe arrival. To fill your newly acquired glasses, stop along the Moselle River in Luxembourg for champagne from the Caves Bernard-Massard (8 rue du Pont, Grevenmacher).

**Nine Ladies Dancing** What lady would not like to go dancing in something made of lovely Belgian lace? One of the best places to purchase delicate handworked blouses, veils, and mantillas (as well as tablecloths, napkins and placemats) is Maria Loix (rue d'Arenberg, 52-54, Brussels). For lovelies made from linen, try Biot-Belièvre (rue de Naples, 8, Brussels).

**10 Lords a' Leaping** If your lord insists on leaping, at least outfit his feet in handmade boots and shoes. Just outside Dublin (Poplar Square, Nass), Tom Tutty still practices this ancient craft. If you can't make it to Nass, each Thursday Tutty takes orders at the Royal Dublin Hotel. After leaping, what better to land on than a soft white flokati rug? A. Karamichos & Co. (upstairs at 3 Mitropoleos Street, Athens) has been handcrafting these fluffy creations for the past 400 years, and will gladly mail your purchases home for you.

**11 Pipers Piping** For smokers on your list, W. O. Larsen (Amagertorv 9, Copenhagen) blends and packages its own large selection of fine tobacco and handmakes hundreds of pipes. If the "pipers" on your list prefer bagpipes, however, they will be happily supplied from Waltons (2-5 Frederick Street, Dublin), which also makes lovely Irish harps.

**12 Drummers Drumming** Little tin drummers and a vast army of toy soldiers may be found in London at Under Two Flags (4 St. Christopher's Place). If a special little someone on your list has been hinting for a doll, why not buy it at Pollock's (44 Monmouth Street, London), toymaker for Queen Elizabeth. You will find a Victorian fairyland to choose from.

The shops listed here are just a sampling of the many that offer delightful Christmas gifts (for more, see *Fielding's Selective Shopping Guide to Europe*). If you are not planning a trip to Europe before the holiday, many shops will even take orders by mail. Either way, this year's strong dollar makes it an excellent time to Christmas shop in Europe. €

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*Diana Scimone is a free-lance writer based in Washington D.C.*

# NEWS OF THE COMMUNITY

## EXTERNAL

### EC-Canada Trade Up

External Affairs Commissioner Wilhelm Haferkamp was in Toronto in early July on the occasion of the fifth anniversary of the bilateral EC-Canada framework agreement. He said that trade under the agreement had progressed since 1976 from (U.S.) $8 billion to $15.2 billion in 1980, when Canada was fifth among the Community's non-European trading partners (following the United States, Saudi Arabia, the Soviet Union, and Japan).

Haferkamp also said that Canadian exports to the Community had increased by 75 percent over the five-year period, while EC exports to Canada increased by 50 percent, leading to an increase in the EC trade deficit with Canada, which stood at $3.8 billion in 1980. Among difficulties cited by the Commissioner was Canada's national energy program which maintains Canadian energy prices at a low level and benefits its exports to a point where the Community could be prompted to consider safeguard measures.

### Foreign Officials Visit EC

President Juvenal Habyarimana of Rwanda met with EC Commission leaders in early September for talks that focused on the problems of the least developed African countries and prospects for a substantive North-South dialogue. The meetings with EC Commission President Gaston Thorn and Development Commissioner Edgard Pisani came as the President of Rwanda was returning from the Paris United Nations conference on the least developed countries.

Bilateral relations and problems of a newly industrializing country were the subjects of conversation between Commission officials and South Korean Prime Minister Duck-Woo Nam who also visited Brussels recently. The contacts concerned both South Korea's increasing economic role internationally as well as discussion on specific trade problems with the Community, involving products such as textiles, televisions, canned mushrooms, and shoes. South Korea, a country of 38 million people, has increased its role as an industrial producer of steel, ships, electronics, and cars in recent years. Its per capita output has reached $1,500.

### EMS Currencies Realigned

EC finance ministers realigned currency values within the European Monetary System (EMS) in early October, raising the value of the German mark and the Dutch guilder by 5.5 per cent against the other currencies in EMS and devaluing the French franc and the Italian lira by 3 per cent.

Of the 10 EC member states, only Britain and Greece do not manage their currencies within the EMS. The finance ministers' action followed intense pressures on the foreign exchange markets as money flowed out of dollars and into marks reflecting international concern with the US economy. Widely differing inflation rates in France and Germany contributed to the need for readjustment.

The realignments, designed in part to help redress France and Italy's trade deficits and thus restore confidence in their currencies, were the largest since EMS was implemented in 1979.

### 1982 GSP Proposals Finalized

Proposals for the 1982 generalized system of preferences (GSP) were finalized by the EC Commission in July. A list of 123 countries and 24 dependent countries or territories are eligible, within certain ceilings or quota limits, to duty-free access to the Community for all their industrial exports and to reduced rates of duty for exports of about 315 agricultural products. This system has been applied since 1971.

For industrial products the Commission has proposed that the value of the ceilings and quotas be increased by 10 percent across the board, except in problem areas such as the steel and footwear industries and certain chemical and electronics products. It also proposes adding certain products for which China and Romania have GSP access, to include certain chemicals, hides and skins, wood products, certain electrical goods, and toys. For textiles the Commission proposes that present arrangements continue pending renegotiation of the Multifiber Agreement due for renewal at the end of the year.

In agricultural products the Commission calls for improvements in preferential margins on 45 products already included, six of which would become duty-free; the inclusion of nine new products, such as trees, shrubs, and pineapple juice; the inclusion of five new products on the duty-free list for least-developed countries only. For these countries the Commission also proposed to abolish the preferential limits on duty-free access for certain types of tobacco and for preserved pineapples. The Commission also wishes to extend to China the GSP offer open to other beneficiaries of the agricultural provisions.

## AID

### Development Funds Awarded

Recent decisions by the European Development Fund (EDF) committee were adopted by the EC Commission bringing EDF commitments to nearly ECU 3 billion in late July. Nigeria was granted ECU 725,000 to help teaching and research activities in Nigerian universities carried out in collaboration with European universities. Aid of ECU 1 million for training Namibian refugees and students was granted to Zambia, Botswana, and Zimbabwe.

Ethiopia is to receive a grant of over ECU 48 million and a special loan for ECU 5 million to improve the water supply in the capital, Addis Ababa. Grants totaling more than ECU 4 million were awarded to Mauritania for road construction, and Ghana also was granted ECU 10 million for a road-building project.

For maintenance and improvement of the Mpulungu Harbor, Zambia's only international harbor, the Commission granted well over ECU 2 million. Botswana will benefit from a grant of ECU 6.5 million for road building, and Mauritius receives ECU 1.7 million for drugs and medical supplies to enable the health service to resume normal activities following a series of natural disasters in 1979 and 1980.

All African, Caribbean, and Pacific states will benefit from a grant of over ECU 5 million to be used to continue with the provision of experts and consultants for their General Secretariat. Members of the West African Economic Community receive a grant of ECU 2.5 million to finance a program for regional trade cooperation.

Other decisions made earlier in the summer included: ECU 2 million to continue work on a hospital and for sanitary services in St. Vincent and the Grenadines; over ECU 2 million for the telecommunications school in Gabon; ECU 350,000 for development of fishing in São Tomé and Principe; and over ECU 1 million for road construction in Sainte Lucie; and more than ECU 1 million for a technical study concerning a bridge-dam on the Gambia River.

### Pisani on Development

EC Commissioner Edgard Pisani, in charge of aid and development matters, told a United Nations conference on the world's poorest nations in Paris in early September that the world can feed itself and the failure to do so is the result of power struggles and bad organization. The Commissioner, in his first public speech since joining the Commission, also said that world leadership must bear the blame for increasing poverty in the world.

The urgent problem of the world's 31 poorest nations is not just one of development or economic stagnation anymore, said Pisani, it is one of decline and survival. He added, "The idea of profitability should take second place to that of need." The Commissioner pointed to the Community's Stabex system as an idea that might be extended, yet he cautioned that this system of ensured revenues for commodity exports of developing countries could create too much dependence on cash crops and export earnings to the detriment of food supplies and world market prices.

### Poland Requests More Aid

The Polish Government approached the EC Commission in early September for the third time this year asking for food aid to help its country weather current economic problems. As in the past, it was requested that the food be furnished at a discount of about 15 percent below world market prices.

There were indications that the request might not be filled immediately because some products were no longer available in such large surplus quantities as in the past. There was also some concern about Poland's large foreign debt. Community officials indicated a positive reaction. Other sources reported that Poland is asking for large quantities of wheat, beef, and butter.

### Developing Nations Get Help

Aid to non-associated developing countries was granted to four states in July. Pakistan was granted ECU 12 million for a project to develop small-scale sea-fishing by modernizing the port of Karachi, Pakistan's only fishing port. Nicaragua was granted ECU 850,000 for an 18-month program of assistance with training for an organization responsible for marketing basic food-stuffs.

ECU 5.2 million was granted to Haiti for rural development in the department of Jacmel. For community development, Honduras was granted ECU 1.4 million. Projects will include road construction, agricultural restructuring, and development of social infrastructures.

### Emergency Aid Approved

The EC Commission recently approved emergency aid for several countries. China is to receive ECU 250,000 to supply essential supplies to victims of recent flooding in the province of Sichuan.

Angolan refugees in Zambia were granted ECU 450,000 in addition to the 100 tons (metric) of skimmed milk powder already allocated. Saint Vincent was granted ECU 200,000 to help repair damage caused by torrential rains. ECU 100,000 was granted to the League of Red Cross Societies which is helping the victims of the recent earthquake in Iran. The funding will go toward the purchase of essential supplies and food. Uganda was provided ECU 3 million in emergency aid to be used for the purchasing of salt.

Food aid in the form of cereals was granted by the Council of Ministers at their late July meeting to: Kampuchea

(10,000 metric tons); Madagascar (6,000 tons); Mauritius (2,000 tons); Morocco (7,500 tons); and Niger (5,000 tons). The Council also decided to supply 3,000 tons of skimmed milk powder and 500 tons of butter oil to the Afghan refugees in Pakistan. And finally ECU 5 million worth of food aid to Nicaragua was approved in the form of vegetable oil and red beans.

### Stabex Transfers Adopted

The EC Commission adopted 33 Stabex decisions transferring nearly ECU 138 million to 27 African, Caribbean, and Pacific (ACP) states in mid-July. Three additional decisions for over ECU 5 million to two states new to the Lomé Convention were also made.

For the first time since Stabex was set up, the total of transfers exceeds the funds available, which had led to the decision in mid-June reducing transfer entitlements by over 40 per cent for the least-developed ACP states and by nearly 54 per cent for the others. Loss of export earnings on coffee, groundnuts, and groundnut products alone accounted for 80 per cent of the transfers. Export earnings on bananas and copra also fell sharply.

### EIB Financing Granted

The European Investment Bank recently made a number of financial decisions to assist developing countries in certain projects. A loan of over ECU 2 million was awarded to Madagascar to help finance a study on the development of bituminous sandstone deposits at Bemolanga. These deposits cover an area of more than 400 square kilometers and are considered to rank among the three largest in the world.

The Government of Jordan was lent ECU 3 million to help finance construction of an industrial estate near Amman. The funds will be lent to the Jordan Industrial Estates Corporation, a new public corporation set up for the specific purpose of constructing and operating industrial parks.

For financing small and medium-scale industrial ventures, Zaire was lent ECU 6 million. Part of the funding may be used for feasibility studies or equity participations, and the balance will go to help ventures in agricultural processing, mining, and tourism, as well as industry. By enabling businesses to import capital goods and equipment, a much needed boost will result for Zaire's industrial sector. New Caledonia will also benefit from a loan of ECU 1 million for its small and medium-scale ventures in industry and tourism.

## ENERGY

### Fusion Energy Push Advised

A panel of 12 experts appointed a year earlier by the EC Commission to report on prospects of thermonuclear fusion energy recommended in early July that the Community should push ahead as fast as possible to develop this technology. At about the same time the EC Commission recommended a new budget for the Joint European Torus (JET) program.

The experts noted that the Community's expenditures on thermonuclear fusion research represent a little over one-half of one percent of Europe's total research and development expenditure and about one-third of one percent of annual spending on energy imports. This was a modest effort, said the panel, for so promising an energy source. Annual spending should be about ECU 300 million rather than the current ECU 230 million, it said.

The panel also pointed out that thermonuclear fusion, although not completely clean and safe, represents major improvements over conventional nuclear energy and is virtually inexhaustible. The technology will probably not be operational until the next century. Despite the long-range prospects of the process, the experts proposed an increase in funds and an acceleration of the work in research and development.

### Euratom Agreement Signed

A 30-year agreement concerning transfers of nuclear material from Australia to the Community was signed between the European Atomic Energy Community (Euratom) and Australia in late September. The pact sets out conditions for such transfers and subsequent retransfers.

The conditions include prohibition of explosive and military use, application of a system of safeguard applied by Euratom and the International Atomic Energy Agency fall-back safeguards, adequate physical protection, and conditions in which nuclear materials could be reprocessed and retransferred to third countries, as well as procedures for consultations on conditions for high enrichment to be agreed upon when that question arises.

### EC Oil Bulletin

The average increase in CIF prices of crude oil between the end of 1978 and early September this year was 165 percent, as a result of decisions taken by the oil-exporting countries. The pretax prices of the principal oil products (crude oil and imported finished products) increased by an average of 94 percent over the same period.

The Commission publishes weekly bulletins in order to make Community oil markets more transparent, particularly regarding price information.

### Electricity Use Drops

For the first time, the consumption of electrical energy in the Community has dropped. A net decline of 1.7 per cent was registered during the first quarter of 1981 for a total of 331 billion kilowatt hours compared to 337 billion used during the same period last year. France was the only EC member state to increase its consumption of electricity, by 2.1 per cent, while the sharpest drop, of 6.1 per cent, went to Luxembourg.

## INSTITUTIONS

### Ministers Meet Informally

EC Foreign Ministers gathered at a castle near London in early September for informal discussions on international issues. French Foreign Minister Claude Cheysson briefed the group on the bilateral French-Mexican statement regarding El Salvador and talked about his tour of the Middle East and his meeting with Palestinian leader Yasser Arafat.

The ministers examined a request by Italian Foreign Minister Emilio Colombo that closer examination be given to Mediterranean problems, partly as a result of threats by Libyan leader Muammar Qaddafi against North Atlantic Treaty Organization bases in the area.

On the subject of the Community's political and international policy cooperation, EC Commission President Gaston Thorn urged that a future substantive role be accorded the Commission. There was further discussion on the suggestion that a small secretariat to coordinate such cooperation be established. The drafting of a treaty on policy cooperation among the member states has also been recommended.

### Presidents Discuss EC

European Parliament President Simone Veil and EC Commission President Gaston Thorn met in early September to discuss the difficult relations among the EC institutions and the problem of the Community budget reform currently underway. Veil had indicated earlier that she supported closer political cooperation among member states, but that this should not serve as an excuse for failure to tackle the major economic problems confronting the Community. In the past few years the main Community institutions have also become embroiled in repeated debates over adoption of the Community budget, which implies a major policy choice for the Community.

### Strasbourg Gets Parliament

A majority of the European Parliament voted in early July to continue meeting regularly in Strasbourg rather than moving to Brussels or Luxembourg. Luxembourg authorities, however indicated they might contest the vote in the European Court of Justice on the grounds that the right of decision belongs to the member Governments rather than the institution. Currently, the Parliament staff is based in Luxembourg, most committee meetings are held in Brussels, and the plenary sessions are in Strasbourg.

### Woman Is Director-General

The first woman to be named a director-general in the EC Commission is Inger Nielsen, appointed in late July as co-Director-General for External Relations.

A career Danish diplomat, Nielsen has been with the Commission since her country's entry into the Community in 1973. She is currently head of the section dealing with the enlargement of the Community to include Spain and Portugal.

### Parliaments Want Contact

Closer cooperation and more regular contacts among member state parliaments and their committees was foreseen as the result of meetings in early July between leaders of EC national parliaments and European Parliament President Simone Veil. Discussion was also held on the possibility of Community citizens voting in the next European election even if they reside in another country at the time.

### Consumers Committee Meets

Two opinions were adopted by the Consumers Consultative Committee in its early July meeting. On the use of hormones in veal, the committee reiterated its support of the Commission's call for a total ban on all artificial and natural hormones. In its opinion on approximation of national legislation in the field of medicines, the committee went against the Commission's proposal in November 1980 which called for the adoption of the principle of mutual recognition of national decisions in authorizations to market proprietary medicinal products. The most flexible or least strict national registration procedure could be taken as a yardstick for the entire Community, the committee said.

### Tourism Task Force Created

A new task force on tourism was announced by the EC Commission in late July. The aim of the new service will be to help coordinate the tourism-related activities of several Directorates-General, such as for competition, information, industrial affairs, and transportation, as well as others. Issues to be examined include border formalities, health, package tours, infrastructure, prices, employment, regional development, tax problems, and leisure-time planning.

## AGRICULTURE

### New Farm Plan Outlined

Long-term agricultural supply agreements could help solve some of the Community's problems in its Common Agricultural Policy system. Not meant to replace but to enhance the function of present instruments, such framework agreements would help give the predictability and continuity required for a consistent export policy, which is now lacking. In July the EC Commission sent the Council of Ministers a communication concerning the negotiation of such agreements.

Refunds cannot fulfill the functions performed by instruments—such as buffer stocks, credit policies, long-term framework agreements, and export promotion funds—available to Government-backed exporters in other countries. The Commission's view is that framework agreements should be kept as simple and flexible as possible. They should set out the type of products covered; the total quantitative undertakings on either side, and duration; and would specify the measures to be taken by the contracting parties to ensure performance of their undertakings, the pricing conditions, and necessary safeguard clauses.

The aim in pricing would be to see that commodities are supplied on terms as close as possible to normal commercial transactions. Regarding payment on credit, the Commission proposes a coordinated approach with the member states responsible for operations. For quantitative undertakings the plan would be to set upper and lower limits, valid for three to five years, with the actual quantity to be supplied over a 12-month period to be determined each year. Products suitable for inclusion in the long-term agreements would be decided on a case-by-case basis in the light of the community's exportable surplus and the requirements and requests of countries wishing to purchase agricultural commodities.

The Commission makes it clear that such agreements are not meant to provide incentive to boost farm output, but rather to improve the ordering of certain exports to better meet the needs of various customers and to narrow the gap between Community prices and prices applied by its main competitors.

### Lamb War Finally Ended

The so-called lamb war between the United Kingdom and other EC countries was ended in early July when the British Government agreed to drop its demands for additional benefits for British lamb exports to the rest of the Community.

The fight over British lamb shipments erupted several months ago, when French producers protested what they felt was unfair competition from British and New Zealand lamb meat producers. Britain dropped its demands when the Commission decided to present the issue to an EC meat management committee. In recent weeks Britain had blocked agreement on other issues pending agreement on the lamb debate. It resumed action on them following the Commission's decision.

## HARMONIZATION

### Customs Simplification

A proposal designed to simplify customs formalities for easier movement of goods and services, within the Community was sent to the Council of Ministers and the European Parliament by the Commission in mid-July. These new arrangements would also streamline administrative work for small businessmen, journalists, artists, performers, and musicians who are burdened with equipment for their work.

The Commission's aim is to waive the requirement to lodge a guarantee, while retaining some controls because of the differences in national tax rules affecting goods and services. For exhibition, press, radio, television, sports, and other equipment used for gainful purposes of a value not exceeding ECU 10,000, there would be further simplifications. A certificate valid for one year would allow them to cross frontiers under the same rules applied to travelers.

### Foreign Children Get Help

A directive permitting immigrant children to go to school in their host country, while preserving their cultural identity, went into force in July. The new rule requires member states to facilitate immigrant children's initial reception. It includes teaching the language of the host state; providing training for teachers in charge of immigrant children; and promoting teaching of the mother tongue and culture of the children's native country, in cooperation with that country.

The directive was adopted in connection with freedom of movement for Community nationals and therefore does not cover, as a binding legal instrument immigrants from non-member countries. In adopting the directive, however, the Council of Ministers publicly announced that it was not the policy of the member states to set up discriminatory educational facilities. According to official figures, there are about 2 million children of migrant workers in the education systems of the member states.

### Banking Measure Proposed

A measure requiring coordinated supervision among credit institutions to provide a fuller picture of their activities was proposed by the EC Commission in early September. The directive would require credit institutions having a majority participation in another credit or financial institution to be supervised on a consolidated basis, as well as in certain cases of minority participation.

The regulations would apply only to credit institutions in EC member states, but it is hoped that coordination can be worked out in other countries through bilateral agreements with the parent institutions in the Community. The proposal resulted from a 1977 directive calling for increasing coordination of laws, regulations, and administrative provisions in the banking and credit sectors.

### "Butter Ships" Could End

"Butter ship" cruises in the North and Baltic seas operating out of Hamburg and other German and Dutch ports could end their services taking passengers outside territorial limits for a few hours to return to port with duty-free goods. These ferries and cruise ships were known as butter ships because large quantities of butter and other agricultural products were sold on them at world prices.

The European Court of Justice issued an advisory opinion in early July allowing a local Hamburg court to make judgment on a case brought by Hamburg merchants regarding the butter ships. The move was interpreted as a green light for the Hamburg court to put an end to the practice.

It was estimated that every year about 14,000 tons (metric) of butter, 4,000 tons of cheese, and 2,500 tons of beef were sold on board these ships and reimported without payment of import levies. Since 1978 the amounts have dropped slightly. The EC Commission had sought to obtain prohibition of such practices but failed to gain the Council of Ministers' approval.

## ECONOMY

### France to Freeze Prices

French President François Mitterrand's Socialist Government announced plans in early October to freeze prices on certain key commodities and services. In addition profit margins for importers will be fixed at October 3 levels for three months and the Government will meet with unions to moderate wage increases, which are automatically tied for many French workers to cost-of-living rises.

"Sensitive" products covered by the freeze include bread, milk, butter, margarine, coffee, sugar, and other staples. The announcement came at the same time as the currency realignments within the European Monetary System that devalued the French franc by 8.5 per cent against the German mark and the Dutch guilder and by 3 per cent against other currencies in EMS.

### Economic Plan Proposed

The draft fifth medium-term economic policy program for the period 1981 to 1985 was adopted by the EC Commission in late July. The most controversial issue was the recommendation that member states examine closely the nature of their wage indexation schemes to minimize their influence on inflation. Another recommendation was that member Governments reduce their public indebtedness.

Concerning the European Monetary System (EMS), the plan proposed that the United Kingdom and Greece should consider joining and that other attempts be made to develop further coordination, such as in the areas of interest rates and relationships among the EMS currencies and others. Efforts to relieve unemployment with attention to reduction in working time should be a high priority, it was noted.

Commissioner Francois-Xavier Ortoli, in charge of economic and monetary affairs, said attempts should be made to improve the disappointing investment climate in the Community. He pointed out that the amount of gross national product devoted to investment in the Community had been only about 21 percent in recent years, while in Japan the amount was about 32 percent.

### Handicrafts Industry Booms

Exotic baskets, bamboo chairs, multicolored pottery, china, weavings, and clothes made in developing countries throughout the world can be found today in every major US and European shopping area. Handicrafts, like tourism, have become a boom industry for some developing countries.

Experts say, however, that the importance of the craft sector is not reflected in the development plans of most developing countries and that more effort is needed in promoting handicrafts trade. There are many advantages and benefits to the handicrafts industry. Handicrafts create jobs: Available figures show that handicrafts can represent up to 70 per cent or as high as 96 per cent of the developing world's labor force.

Handicrafts also require a minimum of production machinery, craftsmen can even work at home. And value is added to the raw material in the developing country itself, not in industrialized nations. Handicrafts represent more than a third of the added value in the manufacturing industry of developing nations. In addition, crafts trade does not usually lead to a disruption of local cultural traditions, and the small-scale organization required in setting up a village workshop is also often suited for promoting grassroots development.

The biggest job providers are the textile trade, leather trade, pottery, and production of agricultural implements. For years the Community has helped its Lomé Convention partners promote their crafts exports. EC aid also finances participation in European trade fairs and provides loans to local small and medium-size industries.

### Jobless Near 9 Million

Following a staggering rise in unemployment figures in July, which pushed the Community's unemployment figures to over 8.9 million, or 8.1 percent, EC Employment Commissioner Ivor Richard spoke to the European Parliament in mid-September—about the Community's employment policy.

Unemployment has soared from some 6 million in 1978 and has hit worst the young, women, and workers over 50 years of age, the Commissioner reported. For most workers over 50 who are presently unemployed, "there is the real risk of their never finding work again," he said. For the young who become unemployed upon leaving school, chances of getting job experience and training are remote.

Richard said the emphasis now must be on creating new jobs. Some reflationary action by Governments is needed, though individual member states cannot act alone, he said. There must be a collective Community effort, and structural problems must be dealt with at the same time. Specifically, the Commissioner urged development of new areas of employment in the energy and technology sectors and that special attention be given to small-scale employment creation. He said the Community also needed to examine present methods of financing and organizing social protection and that the adaptation of working time should be promoted.

## SCHOLARSHIPS, GRANTS, CONFERENCES

### Europeanists Conference Set

The Council for European Studies (CES) announced its Third International CES Conference of Europeanists to be held in Washington, April 29-May 1, 1982. The conference will consist of a series of panels discussing the central theme "Periods and Cycles in Europe—Past and Present," as well as other panels on topics of general interest.

Conference groups and other cooperating associations are invited to propose additional panels related to the central theme. For further information, contact: Council for European Studies, 1429 International Affairs Building, Columbia University, New York, NY 10027.

### Fellowship Program Set

The German Marshall Fund Fellowship Program for 1982 is accepting applications for research projects on comparative political, economic, and social aspects of domestic and international problems. Each project must include the United States and at least one European country.

The fellowships are available to established scholars and professionals; the program does not support preparation for academic degrees. For application materials, contact: The German Marshal Fund of the United States, 11 Dupont Circle NW, Washington, DC 20036; telephone: (202) 797-6430. The deadline is November 30.

### Congress on Regions Planned

The International Congress of French Language Economists will treat the topic of Europe and its regions during a two-day session in Florence, May 18-19, 1982. Major themes will include the Community and regional policy, an unbalanced Europe, and examples of regional policies in certain countries.

For further information, contact: Prof. Henri Aujac, Secrétaire Général du Congrès, Bureau d'Information and de Prévisions économiques, Avenue du Général de Gaulle 122, 92522 Neuilly-sur-Seine, France.

### Seminar on Portuguese Entry

A seminar on Portuguese accession will be sponsored by the Center for European Studies of the Catholic University of Louvain, May 14-15, 1982. For information, contact: Prof. Cerexhe, Centre d'Etudes Européennes, Université Catholique de Louvain, Place de l'Université 1, 1348 Louvain-la-Neuve, France.

### Cooperation Colloquium

A colloquium organized by the School of Specialization in International Cooperation of the Faculty of Economy and Business of the University of Catane will be held November 26-28, 1981. For information, contact: Prof. Giulio Querini, Facoltà di Economia e Commercio, Corso Italia 55, Catania, Italy.

# Recent Books

*Europe periodically lists books dealing with Community and Atlantic topics. Prices are also given when known. This presentation does not indicate approval or recommendation of these publications, which can be purchased or ordered from most booksellers.*

**European Elections & British Politics**
By David Butler and David Marquand, Longman, London and New York.

As is pointed out by this book, the 1979 direct elections to the European Parliament involved the largest number of electors—with the exception of India—ever to vote at one time. Moreover, it constituted the first multinational election—at that time, nine nations simultaneously voting representatives into a unique institution.

It is a matter of record that enthusiasm for this strange yet inspiring exercise differed greatly from one country to another. The Italians were colossally favorable and so were the Irish. However the results elsewhere in the Community were not exactly a resounding shout for "Europe," but rather an echo of idealism which the far-sighted preached in the immediate post-war years.

It was no surprise that the British, who have always had a potent mix of ignorance, insularity, and arrogance in their dealings with the EC (this goes for both left and right), were sparse at the polling booths.

Only in Ulster did the turnout reach 50 per cent; in the Scotland-Exchange division of Liverpool a mere 16 per cent voted. And in the nation as a whole the figure was 32.1 per cent. Not a famous Euro-victory!

The purpose of this excellent book is to show that what happened on that overcast June day three years ago had huge implications for British politics which few in that country even now acknowledge and which are not at all understood by the majority of the population.

In view of the lip-smacking malice with which the left in Britain is trying to exploit the "Common Market issue," this book is a most timely primer about the interaction between domestic politics and the broader vistas of the Community.

David Butler and David Marquand, respectively a Nuffield College, Oxford, fellow and a professor of politics at Salford University, note that the Euro-election was like a stone thrown into the pool of British politics; that although the ripples may have seemed small they reached the furthest corners.

Indeed, like the referendum on EC membership, direct elections to the European Parliament showed in the sharpest relief the differences between the two main political parties in Britain. The Conservatives took the view—and still do—that British interests could best be safeguarded by vigilance within EC institutions. The Labor Party, on the other hand, alleged—and still does—that British sovereignty was fundamentally violated by EC membership. In this respect it was a curious reversal of party roles: Traditionally the Labor Party has always had the most fulsome regard for internationalism while the Conservatives had been happiest with the idea of Empire or a "special relationship" with the United States.

One Labor candidate in the direct elections wrote to his party headquarters *after* the election was completed to demand: "What national campaign? Please send details." Conservative candidates blamed their Labor opponents for the low turnout because the socialists did not really leave their corner to fight. For the most part Conservative would-be members of the European Parliament were left flailing in the middle of the canvas, their opposition petulantly out of reach.

The authors quote approvingly the comments of one victorious member of the European Parliament who bitterly commented on the shortcomings of the media during the direct election campaign saying, "The election should have been fought largely through the media as elections are in constituencies of this size in the United States. I believe our media were tried and found miserably wanting. Not a single one of the country's newspapers tried to get a real election controversy going."

This volume will be invaluable for students and teachers of politics—most especially as the British Labor Party seems currently hell-bent on neutralism, unilateralism, and withdrawal from the European Community. No one yet knows what the consequences of such policies might be except giving immense gratification to the Kremlin.

This work does, I think, underscore what has been evident for some time now—namely, that there can no longer be any safe assumptions about the inexorable progress of the European Community, that what has been done so far can certainly (and perhaps tragically) be undone, that within the Community indifference is infinitely stronger that idealism.

Obviously the European Parliament has a function much bigger than a walk-on part in the European drama, but still it has to be doubted whether this institution will have the long-term capacity to revive the European idea in front of an audience which in Britain at any rate is only clapping with one hand.

DAVID HAWORTH

**The Group of 77—Evolution, Structure, Organization.** By Karl P. Sauvant, Oceana Publications, Inc., Dobbs Ferry, NY, 1981. 232 pp. $22.50.

An examination and analysis of the development of the Group of 77; discusses its origin, purposes and objectives, membership, and decision-making procedures; explains its structure, organization, and present functions.

**Hungary: A Decade of Economic Reform.** Edited by Paul Hare, Hugo Radice, and Nigel Swain. Allen & Unwin, Inc., Winchester, MA, 1981. 257 pp. $29.95.

A collection of studies by Western economists addressing Hungary's economic reform; covers topics such as labor and wages, investment, transfer of technology, agriculture and international issues.

**The European Community and its Mediterranean Enlargement.** By Loukas Tsoukalis, Allen & Unwin, Winchester, MA, 1981. 273 pp. Cloth $37.50, paper $16.95.

A comprehensive study of the Community's Mediterranean enlargement; analyzes the three applicant countries, explains the process of enlargement, and addresses the industrial, agricultural, and social implications of the enlargement.

**Western Security: What has changed? What should be done?** By Karl Kaiser, Winston Lord, Thierry de Montbrial, David Watt. Council on Foreign Relations, NY, 1981. 49 pp.

A report on the Atlantic alliance, reflecting a wide spectrum of views on the future of Western security, the current transatlantic crisis, Western approaches to the Soviet Union, security and the Third World, and improvement of policy coordination.

**Le Transport Maritime—Etudes et Statistiques,**1980. Comité Central des Armateurs de France, Paris, 1980. 88 pp.

A detailed analysis of world maritime transport; provides information on national and international fleets, traffic, prices, and general activity for the year 1979.

**European Community Law—A Selective Bibliography of Publications in English, French and German with Annotations.** By Claire M. Germain, *International Journal of Law Libraries, December 1980, Vol. 8, No. 6.* International Association of Law Libraries.

A bibliography on the European Community, with special focus on the materials and sources of European Community Law.

**The Case of the International Cocoa Negotiations: A Study on Asymmetrical Bargaining.** By Bente Angell-Hansen. Norwegian Institute of International Affairs, Oslo, Norway, 1979. 151 pp.

A study on asymmetrical bargaining, using the International Cocoa Negotiations as an example; examines the influence of a country's economic dependence on cocoa on its negotiating strategy and its attitude to the negotiation.

**The French Radical Party and European Integration.** By Francis O'Neill. St. Martin's Press, NY, 1981. 124 pp. $19.95.

Examines the attitudes of members of the French Radical Party toward European integration, focusing on the period 1949 to 1957; follows the development of European integration from the Council of Europe to the European Defense Community project to the establishment of the European Economic Community.

**Alternative Proposals for the Common Agricultural Policy.** Edited by Louis P.F. Smith. Irish Section, European League for Economic Cooperation, Dublin, Ireland, 1980. 105 pp.

A symposium of views on the Common Agricultural Policy by six authors from different EC countries.

**The Regulation of Insurance Companies in the United States and the European Communities: A Comparative Study.** By Spencer L. Kimball and Werner Pfennigstorf. US Chamber of Commerce, Washington, DC, 1981. 270 pp. $50.00.

A comparative study of insurance regulations in the US and the EC; summarizes and analyzes the existing rules and practices in the US and the EC; discusses the impact of EC insurance directives on third country insurers operating in the Community.

**International Business Finance.** By Douglas Wood and James Byrne. Holmes & Meier Publishers, Inc., New York, 1981. 297 pages. $47.50.

A comprehensive study of the techniques of international finance with particular emphasis on political risk appraisal, trade finance, foreign exchange, working capital management, international accounting, exchange control, and project finance.

**International Litigation.** Edited by Steven J. Stein. Practising Law Institute, New York, 1980. 560 pages. $25.00.

A course handbook on aspects of international litigation relating to federal subject matter jurisdiction; provides the practical basics and a basis to obtain further needed information.

**The Institutions of COMECON.** By Giuseppe Schiavone. Holmes & Meier Publishers, Inc., New York, 1981. 260 pages. $39.50.

An examination of the evolution, principles, purposes, functions, and institutional structure of COMECON; describes intra-COMECON monetary and financial cooperation, payments, and capital flows; illustrates the activities of the IBEC and IIB, the COMECON banks.

**Multinational Union Organizations in the Manufacturing Industries.** By Richard L. Rowan, Herbert R. Northrup and Rae Ann O'Brien. The Wharton School, University of Pennsylvania, Philadelphia, 1980. 213 pages including index. $15.00.

A comprehensive profile of the international trade union secretariats active in the manufacturing and processing industries, concentrating on the history, organizational structure, membership, finances, and regional activities.

**The Political Economy of EEC Relations with African, Caribbean and Pacific States.** Edited by Frank Long. Pergamon Press, New York, 1980. 193 pages. $26.00.

A collection of essays addressing the political economy of EEC-ACP relations; focuses on the central issues of renegotiation, Lomé I, trade, indexation and Stabex, technology transfer, and market access.

## Published for the Commission:

**Energy Models for the European Community.** By A. Strub. IPC Science and Technology Press, Ltd., Surrey, England, 1979. Available from Butterworths, Woburn, MA. 154 pages. $39.00.

The results of a program to develop medium and long term energy models; aimed at obtaining a better understanding of the role of energy and its influence on economic, industrial, and social development.

**Programme Radiation Protection: Progress Report.** Harwood Academic Publishers, New York, 1979. 854 pages. $70.50.

A progress report on the Community's five-year radiation protection program for 1976-80.

**Radioactive Waste Management and Disposal.** Edited by R. Simon and S. Orlowski. EUR 6871, Harwood Academic Publishers, New York, 1980. 693 pages.

Proceedings of the first EC Conference on the Management and Storage of Radioactive Waste, May 20-23, 1980; presents the results achieved during the past five years in treatment and conditioning technology, waste product evaluation, engineering storage, and geological disposal in salt, granite, and clay formations.

**Videotex in Europe.** Edited by Carlo Vernimb and William Skyvington. Learned Information, New York, 1980. 247 pages. $90.00.

The proceedings of the Luxembourg conference held on July 19-20, 1979, on telematics, in particular videotex.

**World Patent Information.** K.G. Saur, New York. Quarterly. Annual subscription: $36.00.

International journal for patent information and documentation published under the auspices of the EC Commission and the World Intellectual Property Organization.

# The Community's Bookshelf

'o order the publications listed below, please check the desired :ems and fill out the order blank. Mail to the European Com- ıunity Information Service, 2100 M Street, NW, Suite 707, Vashington, DC 20037, (202) 862-9540. In the New York rea copies can be ordered from the European Community nformation Service, 245 East 47th Street, New York, NY 10017, 212) 371-3804. Telephone orders are also welcome.

] **The Social Policy of the European ommunity.** *European Documenta- on No. 3/1981,* Commission, Brus- els, 1981, 51 pages ....................free

] **The Management and Reduction f Working Time in the Community.** *uropean File No. 11/81,* Commis- on, Brussels, July 1981, pages ........................................free

] **Report on Trade Relations Be- ween the EEC and Japan.** *Working Document I-240/81,* European Par- ament, Luxembourg, June 3, 1981, 2 pages.......................................free *eport by Sir John Stewart-Clark for he Committee on External Eco- omic Relations.*

] **European Community Member tates, Regions, Administrative Units.** Commission, Brussels, 1981.........free *Map of the member states. 21" x 6".*

] **The European Community's Tex- les Trade.** *Europe Information No. 4/81,* Commission, Brussels, April 981, 13 Pages............................free

] **The European Community and angladesh.** *Europe Information No. 5/81, Commission, Brussels, April 981,* 6 pages.............................free

] **The European Community and Sri anka.** *Europe Information No. 46/ 1,* Commission, Brussels, April 981, 6 pages..............................free

] **New Forms of Energies: Facts and ictions.** *Europe Information Devel- pment,* Commission, Brussels, June 981, 17 pages............................free *'aper on solar energy techniques and C policies to promote alternative nergy use in developing countries.*

] **Euratom Supply Agency Annual eport for 1980.** Commission, Brus- els, 1981, 59 pages. ...................free *Covers the development of nuclear nergy in the member states and the upply of nuclear fuel.*

] **Publications of the European Communities: Catalogue 1980.** Of- ce for Official Publications, Luxem- ourg, 1981, 66 pages.................free

] **Publications of the Statistical Of- ce of the European Communities 981.** Statistical office, Luxembourg, 981, 14 pages...........................free

☐ **Community Law.** Commission, Brussels, 1981, 37 pages. ..........$2.50 *Offprint from the 14th General Re- port on the Activities of the Euro- pean Communities in 1980.*

☐ **Youth Unemployment and Alter- nance Training in the EEC.** European Centre for the Development of Voca- tional Training, Berlin, 1981, 224 pages. ......................................$6.25 *Proceedings of a conference in Ber- lin, June 25-27, 1980.*

☐ **Natural Gas Supplies and Pros- pects in the Community.** Commis- sion, Brussels, 1981, 110 pages. ......................................$5.20 *Describes the evolution of the Com- munity's natural gas supply from 1965 and gives forecasts for 1985 and 1990 based on national energy programs.*

☐ **Investment in the Community Coal mining and Iron and Steel In- dustries: Summary Report on the 1974-80 Surveys in the Nine Coun- tries of the Community.** Commission, Brussels, 1981, 54 pages. ..........$4.30

☐ **Study of the Regional Impact of the Common Agricultural Policy.** *Re- gional Policy Series No. 21,* Commis- sion, Brussels, 1981, 174 pages. ......................................$6.85 *Study of the effects of the CAP on regional agricultural and economic development and regional imbalances in agricultural incomes.*

☐ **National Accounts ESA 1970- 1978: Detailed Financial Tables.** Sta- tistical Office, Luxembourg, 1981, 147 pages. ..............................$24.30 *1981 Yearbook.*

☐ **Economic Accounts: Agriculture, Forestry.** Statistical Office, Luxem- bourg, 1981, 107 pages...........$14.20 *1981 yearbook with data for 1974 to 1979 inclusive.*

☐ **Geonomenclature 1981.** Statistical Office, Luxembourg, 1981, 186 pages. ....................................$11.50 *Country nomenclature for the exter- nal trade statistics of the Commu- nity.*

☐ **Agricultural Markets: Prices 1973- 1980.** Commission, Brussels, June 1981, 216 pages.....................$10.50 *Data on the prices set for the various market organizations under the Common Agricultural Policy and, when possible, domestic and world market prices.*

☐ **Overall Accounts on the Commu- nity Supply Situation Based on Grain-Equivalents.** *Agricultural Sta- tistical Studies No. 22,* Statistical Of- fice, Luxembourg, 1980, 89 pages. .......................................$8.60 *By Gunther Thiede. Study and tables on the degree of self-sufficiency in agricultural products calculated by supply balance sheets.*

☐ **External Trade 1958-1980.** *Monthly External Trade Bulletin, Special Issue.* Statistical Office, Lux- embourg, 1981, 88 pages..........$7.00 *Summary tables on intra and extra Community trade for 1958-1980. In- cludes a special table on Greek im- ports and exports by country for 1958-1980.*

☐ **Pensioners in the Community 1977.** Statistical Office, Luxembourg, 1981, 61 pages.......................$12.80 *Main demographic data on the el- derly and pensioners in the member states in 1977.*

☐ **Comparative Study of the Contin- gents Entering and Leaving the Popu- lation of Working Age 1973-1977.** Statistical Office, Luxembourg, 1981, 149 pages. ................................$6.40 *Analysis of the populations in the 15-24 and 55-64 age groups in rela- tion to demography, activity, em- ployment, working conditions, and job-seeking.*

☐ **Energy Statistics Yearbook.** Statis- tical Office, Luxembourg, 1981, 162 pages. ....................................$28.50 *1981 Yearbook with data for 1979.*

☐ **Yearbook of Agricultural Statistics 1976-1979.** Statistical Office, Lux- embourg, 1981, 297 pages......$16.00 *1981 yearbook.*

☐ **Solar Energy Programme of the Commission of the European Com- munities.** *EUR 6959,* Commission, Luxembourg, 1980, 167 pages $6.60 *Summaries of the final reports on re- search conducted during the first phase of the indirect program of re- search on solar energy.*

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