

EUROPE

A close-up, front-facing view of an Airbus A320 aircraft. The aircraft is white with a prominent yellow stripe running horizontally across the fuselage, and a red stripe below it. The cockpit windows are visible in the center. The aircraft is parked on a tarmac, with a building and other aircraft visible in the background under a clear sky.

MAGAZINE OF THE EUROPEAN COMMUNITY NOVEMBER/DECEMBER 1984 NO. 246 \$2.00

**AIRBUS:
HIGH-TECH
COUP FOR
EUROPE**

**EUROPE, LATIN
AMERICA AND
THE CARIBBEAN**

**REFUGEES GET
EUROPEAN AID**

**THIS YEAR AND NEXT
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**NEW TRADE ROUND:
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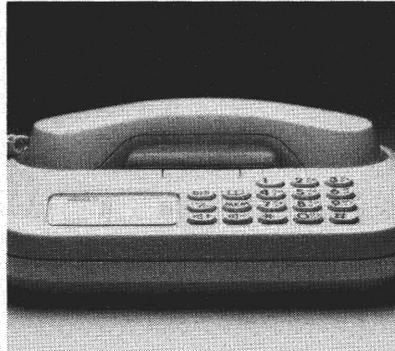
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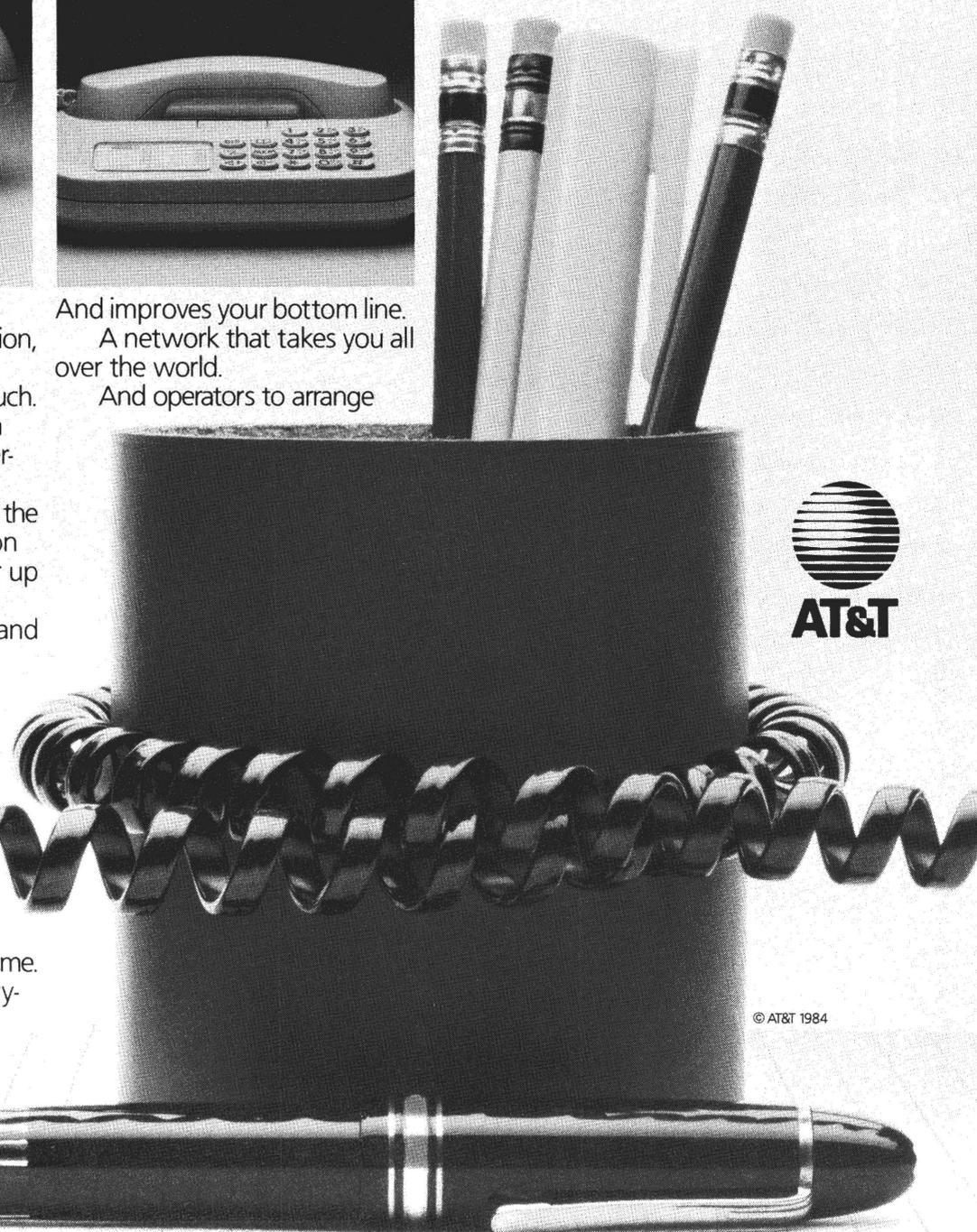
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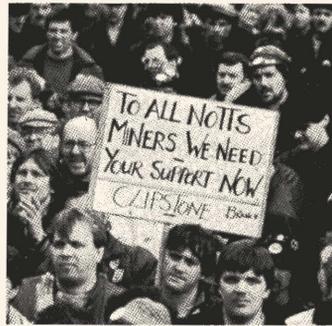
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EUROPE, Magazine of the European Community, (ISSN 0191-4545), is published by the Delegation of the Commission of the European Communities, 2100 M Street, NW, Suite 707, Washington, DC 20037. © The Commission of the European Communities, 1984. The magazine encourages reproduction of its contents, but any such reproduction without permission is prohibited. **EUROPE**, published bimonthly, is available by subscription for \$9.95 per year; \$17.95 per 2 years; \$23.95 per three years. **Editorial, per-**

missions, and circulation offices: 2100 M Street, NW, Suite 707, Washington, DC 20037; telephone (202) 862-9500; telex 64215 EURCOM UW. **Advertising:** Command Media Sales, Inc., 325 Riverside Drive, Suite 51, New York, NY 10025; telephone (212) 316-0383; William J. McVey, Jr., President; David Michaels, Vice President.

Second class postage paid at Washington, DC.

Postmaster: Please send change of address forms to EUROPE, PO Box 995, Farmingdale, NY 11737-0001

The magazine is a forum for discussion, and therefore its contents do not necessarily reflect the views of European Community institutions or of the member states.

PUBLISHER'S LETTER

Look. . . Up in the sky! . . . It's a bird. . . No, it's a plane. . . Yes, in fact, it's an Airbus! What's an Airbus? It's one of the passenger jets built by Airbus Industrie, the four-nation European aerospace consortium. The consortium came into being 13 years ago to offer a European challenge to Boeing and McDonnell Douglas, the American aircraft industry giants. And in those 13 years Airbus has done just that.

In our cover story, Paul Lewis, Paris-based economics correspondent for the New York Times gives a profile of Airbus and explains the significance of its recent coup in attracting an order from Pan Am airlines for 28 new Airbus jets. Lewis cites the super-strong dollar and the weakness of European currencies as factors which helped the consortium beat out Boeing for the Pan Am contract, thus establishing an important beach head in the U.S. market. He reports that the Airbus sale has helped dispel some lingering doubts about Europe's technological prowess and has provided a ray of hope in Europe's otherwise generally gloomy economic year.

There is some other good news on Europe's economic front. Although the E.C.'s unemployment rate averaged 11.3 percent in September, Western Europe's economies, which have stagnated in recent years, are expected to grow this year and next. In addition, consumer prices in the 12 months ending in August 1984 rose by only 6.9 percent, the lowest year-to-year price gain since 1972. However, none of these statistics belies the fact that Europe's fledgling economic recovery has been painfully slow to take wing, especially by contrast to the speedy and spectacular recovery in the United States. Why is this so? Michael Emerson, a senior economist for the E.C. Commission in Brussels, suggests in this issue that those who would make comparisons between economic performance in the United States and the E.C. might want to take note of Aesop's fable about the tortoise and the hare.

Despite their significant economic differences, both the E.C. and the United States share a huge stake in the future of international trade. What does that future portend? Richard Lawrence, trade reporter for the New York-based *Journal of Commerce*, says the main trade questions that will face the U.S. Administration next year will be whether or not to try again for export control legislation, to grant protection to the U.S. machine-tools industry and to ask Japan to restrain its car sales in the United States. The Administration is also expected to step up its efforts to lay the groundwork for another round of trade negotiations to include talks on liberalizing trade in services and capital. In a related article, freelance writer John Starrels looks at some of the pros and cons of launching another trade round in the near future.

In place of our guest column we are pleased to publish an article by retiring Representative Larry Winn, Jr., the ranking Republican member of the House Foreign Affairs Subcommittee on Europe and the Middle East and for many years co-chairman of the delegation of the U.S. Congress to the European Parliament. He reflects on his experience and puts forward some thoughtful and timely suggestions on improving the working relations between the two bodies.

Our member state report in this issue spotlights the Federal Republic of Germany and its rich political and cultural life. McGraw-Hill correspondent Peter Hoffmann reports that "Berlin Is In," a city coming into its own as one of Europe's cultural capitals.



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European Perspective is produced in cooperation with the Delegation of the European Community, Washington.



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Parkway Communications Corporation,
 The Broadcast Service of
 U.S. News & World Report
 7979 Old Georgetown Road
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AROUND THE CAPITALS



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AMSTERDAM

A Princely Salary

The 17-year-old Dutch crown Prince, Willem Alexander, has been in the news a great deal this fall and his allowance has been the subject of many debates in parliament. The Prince will turn 18 next April and that makes him eligible for the throne under the present constitution.

In fact, however, the Prince is unlikely to succeed his mother, Queen Beatrix, before quite some time. Beatrix is 47 and both her mother, Juliana, and grandmother, Wilhelmina, reigned until nearly 70 or over. Willem Alexander will be the first Dutch King since 1888, when King Willem the Third died.

Under the latest budgetary legislation, the young Prince will receive an annual allowance of 910,000 guilders (about \$300,000), beginning next April. This has caused somewhat of an outcry, mostly from the small left-wing parties in parliament, who do not believe that a teenager—royal or otherwise—should be given an allowance so large. They find it exorbitant in a period when the nation is tightening its belt, and almost 1 million unemployed people are living on small allowances.

Prime Minister Ruud Lubbers has explained to parliament that out of the \$300,000, less than \$60,000 is really salary since the rest goes to pay for a palace, a chauffeur, a leased automobile and general representation expenses. While Lubbers admitted that

18 years of age was young—even for a Prince—to dispose of such a large sum of money, he told members of parliament that changing the age would require a constitutional amendment.

Willem Alexander is now completing a two-year course at the Atlantic College at Llantwit Major in Wales, England, where he rooms with three other young men, including two from developing countries. The rector of the college, former British Ambassador to Finland Andrew Stewart, sees to it that the Dutch Prince is treated like all other pupils.

Lubbers has told parliament that Willem Alexander will join the Dutch armed forces next year for 18 months and then complete his studies at one of the Dutch universities before taking up representative duties at home and abroad. The Prince probably will serve with the Royal Marines. A good horseman, the Prince's favorite sport is jumping. His entourage calls him a "friendly, extroverted and considerate young man."—NEL SLIS

LUXEMBOURG

A Center for Conferences

To the list of cities—London, Washington, Paris, Geneva, Vienna and Brussels

—that can claim to be true international meeting places, you may soon be able to add the name of Luxembourg. That, anyway, is the ambition of the Government and the city authorities here and it is credible enough to encourage a remarkable surge of investment in new top-class hotels. The Hotel Royal—Luxembourg's first five-star hotel—has just opened in the heart of "Europe's Wall Street." It will be followed by a 346-room Intercontinental early next year, and there are reports of a new Hilton and others going ahead later in 1985.

A glance at the map of Europe establishes Luxembourg's first claim as an international conference center. You could hardly get much closer to the

geographical heart of the European Community if you figured it out with a calculator. Politically, Luxembourg has the virtue of smallness—its entire population is no greater than that of hundreds of European and American cities. And it is already the effective financial seat of the E.C. with a greater concentration of banks than any other country in Europe.

None of this would amount to much were it not for Luxembourg's most compelling single asset where conference-planners are concerned, namely the existence of a huge, ultra-modern and painfully underutilized assembly chamber. Never mind that the complex with all its sophisticated translation, communications and conference facilities, was built with other ideas in mind. It stands today, handsome but largely untenanted, as the beacon for a potential flood of planners, thinkers and speakers, be they concerned with footwear distribution or nuclear disarmament. In the past 12 months, the chamber has been rented



Designed to house the European Parliament, planners now hope to make the Kirschberg center an attraction for international conferences.

by, among others, the World Anti-Communist League, the NATO Parliamentary Assembly and the European Community as a venue for negotiations with developing countries.

You will embarrass your Luxembourg hosts if you ask precisely why such an excellent building should stand there without a permanent tenant. The blunt truth is that it was put up to house the European Parliament after the first direct elections to that institution in 1979. But the planners got their timing wrong. The building was not ready in time and the Parliament perforce had to sit in Strasbourg whose tireless wooing of members of the European Parliament since then has enshrined it as the *de facto* permanent seat.

Luxembourg has abandoned neither its legal nor its moral claim to be host to the Parliament, but the realities are such that a search for new customers for the assembly building is imperative. And certainly the 25 years in which Luxembourg has served as home for many E.C. institutions have bequeathed genuine assets. "We have a very fine set-up here," says Colette Flesch, leader of the Liberal Party and former Foreign Secretary. "Language and communications are not a problem. The problem in the past was hotels, but now that's solved."

The non-Luxembourger may be forgiven for suspecting an awkward ambivalence in the country's ambitions. It wants to retain its grip on the E.C. institutions, while at the same time proclaiming itself as an international convention city. The two could be at odds with each other. For three months of the year—April, June and October—Luxembourg becomes the official seat of the E.C.'s Council of Ministers. This is an activity which quite obviously gets Luxembourg's name in the newspapers, but may be of doubtful economic benefit. More to the point, perhaps, it effectively shuts off the Kirschberg conference center to outside customers during those months.

Similarly the 2,600-strong secretariat of the European Parliament maintains its presence in Luxembourg, now legally entrenched there by a ruling of the European Court of Justice. The economic value of this for the Grand Duchy is not in dispute. But its future is hardly assured, the court ruling notwithstanding. The trickle of parliamentary and political group staff toward Brussels and Strasbourg seems relentless. Some of Luxembourg's friends think the country would do best to drop its claims on the European Parliament and E.C. Council and re-group its energies for a sustained drive to put the city firmly on the international conference map.—ALAN OSBORN

LONDON

A Conflict Of Mines

If ever a personal conflict was destined for the history books, that between Arthur Scargill and Ian MacGregor is the one. It is not just that they intensely dislike each other, which they do. Nor that as president of the National Union of Mineworkers and chairman of the National Coal Board they have been on opposing sides of one of the most bitter industrial battles in 20th-century British history, which they have. Above all, it is the attitudes and ideologies which they embody which has made their struggle so titanic and absorbing.

In a quite perfect way, this former miner from the small Yorkshire town of Barnsley and this Scottish émigré turned successful American businessman represent the two sharply opposed beliefs on how to provide economic prosperity and political freedom which have been tugging at British society since the end of the last war.

This is why the outcome of the interminable miners' strike in Britain could be so important for the future. A victory for Scargill and his belief that profit and loss should have no

bearing on the future of the coal industry would be a tremendous fillip for left-wing Socialists in Britain, whose influence on British industry and politics has been drastically eclipsed by unemployment and two electoral victories for Prime Minister Margaret Thatcher's Conservative Party.

A triumph for MacGregor, on the other hand, would be a vindication for the view that no group of workers can escape the basic laws of the market economy. Thatcher has dedicated her entire period in government to trying to educate the British people that the route to national prosperity lies in accepting the rules of the marketplace and that self-help and entrepreneurial effort can achieve far more for a nation than any government.

All the polls suggest that while the British people may not have fully digested yet the pure doctrine of Thatcherism, they are far from sympathetic to the methods and aims of Scargill. Most have been re-



Miners' union chief Arthur Scargill: orator and uncompromising leader.

pelled by his encouragement of mass picketing whose purpose is to deter any possible drift back to work. Daily television news has carried scenes of bloody conflict between pickets and police who have been forced to respond to violence with a degree of force quite alien to the traditional image of the British bobby.

To Scargill—son of a Com-

munist and trained in leadership and oratorical skills by the Communist Party—police are merely giving a public exhibition of the brutality of a capitalist state which is usually hidden by the velvet glove. He believes that the miners are doing the entire working class a service by exposing the reality of capitalism and that, as a result of their struggle, more workers will rally to the cause of overthrowing it and replacing it with Socialism.

Although one third of his union has resolutely remained at work, he has managed to get formal support for the miners' cause from the trade-union movement and the Labor Party. Though increasingly respected, he is widely disliked by union leaders and Labor politicians who fear the damage that his totally uncompromising leadership is doing to public opinion.

And yet, MacGregor is far from having captured the hearts and minds of the British people. While many of his public statements would be totally unexceptional in the United States (where his business career carried him to the presidency of Amex, the metals corporation), his wooden delivery and apparent reluctance to accept that the strike is about anything other than Scargill's determination to overthrow Thatcher have not won the Coal Board as much understanding and public support as he would have wished.

For whatever Scargill's deeper political purpose, and those who know him know that he has one, the strike has been fermented in miners' fears for the future of their jobs. With unemployment over 11 percent, men who otherwise would have fought against having their sons follow them into their tough and dangerous underground labor, have instead subjected themselves and their families to enormous financial and personal hardship in an attempt to resist pit closures.

If the market economy had been delivering its promised rewards somewhat more swiftly, the strike may never

have happened. Until it does so, Scargill and the hard left in Britain will continue to mine a seam of worker discontent, while the wider British public will remain skeptical about putting all their faith in MacGregor and his philosophy of business.—JOHN WYLES

ROME

Traffic Jams Are Legendary

Enormous traffic jams have paralyzed almost every part of Rome this fall. Rather than there being a few serious blockages, cars virtually everywhere have been unable to cover more than a mile or two an hour. People on buses trapped in the jams have found bus drivers rigidly obeying rulebooks that say they may not open the doors between stops, even though they may be half an hour for a few hundred yards between each other.

Those who have reached their offices and have decided to do their communications by telephone have run into problems too. A somewhat haphazard check by the telephone company SIP of who had and had not paid their June-July bills (irrespective of whether they had since paid their bills for August-September) led to hundreds of thousands of subscribers being cut off.

The resulting chaos has led to protests in the newspapers, but so far no official action, either by the Campidoglio, the City Hall, or the telephone company, has been taken. Each evening infuriated groups of Romans trudge through the rain to bus stops, then spend an hour or more in crowded buses as they inch through the traffic.

Rome's traffic problems are particularly bad in the early autumn, when business is at full steam while there are still many tourists and the immense buses that transport them. But the underlying fact is that city administrations for years have done virtually nothing to deal

with the fact that each year there are more and more cars on the roads of Rome. There are no plans for inner-city ring roads—which admittedly would have a devastating impact on such a densely populated and beautiful city as Rome—or, more important, for closing off further areas of the city to cars, with the exception of one or two projects which most people think would make the difficulties worse.

The basic problem is political. The administrators of the city dare not challenge the wish of every Roman to take his car into or near the center of the city, even though Rome, while having only a rudimentary subway system, has masses of buses driven with enormous determination and general patience by tough bus drivers. The result is that the main arteries, not to mention the side streets, are crammed with parked cars, often two or three abreast, virtually blocking the road. Police rarely issue parking tickets and illegally parked cars usually aren't towed away.

Why don't the city fathers ban the entry of private cars to the entire center of the city and force people to use the potentially excellent bus service? Because the city government, which is a coalition led by the Communist Party, is afraid that the shopkeepers—who believe they benefit from the right of everybody to drive their car into the center—will vote in larger numbers for the neo-Fascist Italian Social Movement. So do the opposition (and centrist) Christian Democrats. So neither government nor opposition dares change anything.

—JAMES BUXTON

ATHENS

New Relations With Israel

Greece's relations with Israel, which slumped dramatically after the Socialist Government came to power three years ago, are gradually

improving, although there are no clear signs yet that Prime Minister Andreas Papandreou intends to formally recognize Israel. A recent trip to Athens by officials from the Israeli tourist authority was given discreet publicity—in contrast to last year, when a visit by a senior Israeli Foreign Ministry official on the eve of Greece's first European Community presidency was kept a closely guarded secret.

Greece, the only member of the Community which does not have full relations with Israel, resisted pressure from its E.C. partners to upgrade diplomatic ties during its presidency. Instead, the ruling Panhellenic Socialist Movement (PASOK) signed an accord with Syria's Ba'ath socialists which included a harshly worded condemnation of Zionism.

Even under past conservative Governments, Greek-Israeli relations had always been edgy. Greece prides itself on its friendships with the Arab world, rooted in ancient mercantile relationships and tolerance of the Greek Orthodox communities in Arab cities. Papandreou developed close ties with the hardline Arab states during PASOK's years in opposition and Israeli tourists arrivals in Greece plummeted in 1982 when Papandreou denounced the invasion of Lebanon.

Now, however, the atmosphere is noticeably different.

Papandreou sent a congratulatory telegram to Prime Minister Shimon Peres and the Greek and Israeli Foreign Ministers held a private meeting in New York during the U.N. General Assembly. Earlier this year, the Socialists gave their blessing to a project organized by the Jewish community in Salonica, Greece's northern capital, in memory of more than 60,000 Greek Jews who perished in the Holocaust. A senior Culture Ministry official joined a Greek delegation to the opening of a center for Greek studies at Jerusalem's Hebrew University, funded by the Salonica community.

But apart from the diplomatic noises, it now looks as though Greece and Israel may soon start exploiting the New Testament heritage they share in order to attract more tourists to both countries. The energetic Greek Tourist Organization Secretary, Nikos Skoulas, is anxious to boost the quality of tourism here as Greece currently attracts too many low spending package vacationers, he says.

He wants to broaden the appeal of tours "in the steps of St. Paul" which regularly draw high-income specialist groups into a joint Greek-Israeli venture that will bring more upper-income bracket visitors. St. Paul traveled through much of mainland Greece, as the Book of Acts tells, and deliv-



The Acropolis.

ered a sermon on the Acropolis in the shadow of the Parthenon in 51 A.D.

At the same time, Greece would like to cater to more Israeli tourists, who also have a reputation as high spenders, by organizing specialized tours. Apart from Salonica, which was once called the "Mother of Israel" for its flourishing Jewish community, there are important Jewish monuments in half a dozen still-picturesque Greek provincial towns. The outlook is promising—Israeli visitors to Greece this year will probably total more than 50,000—a 40 percent increase over 1982.—KERIN HOPE

BRUSSELS

Belgians and Their Food

This is the time of the year when one's mail box gets jammed with invitations to the opening of new restaurants—or the reopening of existing ones. What Belgians call "the eating season" begins in the late fall and lasts . . . well, a lot of people would say into next year's late fall, but in fact there is a brief interval while the cordons bleus prepare the annual feasts based on game from the Ardennes.

An obviously impressed American tourist once remarked that "the Belgians eat in November as if to prepare themselves for a winter of hibernation—and go on doing so every day until spring. A casual visitor, strolling through Brussels' many french-fries shops, fruit stands and chocolate counters might conclude this is a city of large and indiscriminating stomachs. It is at best half true. Belgian cuisine has been described as a cross between German appetites and French cooking, but that deems it. The best restaurants are a match for any in the world.

Incredibly, there are over 3,000 restaurants in Brussels and some streets in the city center are literally composed



Displayed above are just some of the delicacies offered to the gourmet by the countless restaurants in Brussels.

of nothing else. "Eating out" is not an occasional treat for Belgian families—it is established routine. The tradition has evolved some remarkable establishments so that Brussels today is second only to Paris in the number of stars awarded its restaurants by the Michelin Guide.

Rightly or wrongly, the Belgians have been called the world's greatest eaters of french fries which they claim to have originated. "We were making them when the French were using potatoes as pig feed," says a Belgian food historian. They also must rank as the world's most enthusiastic mussel eaters, not to mention chocolate connoisseurs. Few tourists leave Belgium without a box of hand-made, fresh-cream chocolates. A recent guide for English tourists claimed that Belgian "black sausage and 'frites,' washed down with Trappist beer and followed by cream-filled choco-

lates is as good a feast as you will buy on any street in the world."

More ambitious eaters claim that you can find better tempura, goulash and paella in Brussels than in any of the countries which originated those dishes. But for real gourmets, the joy of Belgian cuisine lies in the Flemish-influenced preparation of local caught meat and game. Often cooked in beer, the best-known dishes include *boeuf belgica*, *carbonnades flamandes*, *civet de lièvre à la flamande* (hare with onion and prunes), *waterzooi de volaille* (chicken in cream sauce), Stuffed pigeon and pheasant and the various treatments of fish—most notably *anguille au vert* (eels) and the ubiquitous mussels.

Belgian wine is not, frankly, world famous, but the reverence that might have been accorded it is lavished on the traditional beers, most notably the scrupulously fermented

products of Trappist and other monks. It is said that you could drink a different beer every day of the year in Brussels, though serious drinkers stay loyal to their favorite labels, sipping it like cognac.

There can't be many cities in the world where newspapers regularly "review" new chefs and dishes and where a new restaurant can rise as quickly as a hit record. Nor can there be very many customers elsewhere for chocolate easter eggs at \$100 each. The large international community in Brussels may be responsible for the amazing variety of the restaurants in the city, but it is the Belgians themselves who have elevated the business of eating and drinking to such impressive levels.—ALAN OSBORN

COPENHAGEN

Struggle for The Airwaves

The Danes still have only one nationwide television channel and one radio network, albeit with three channels. And the advertising industry claims that Denmark is the only country in Europe outside the Eastern bloc where there is absolutely no access to commercial television in any form—with the hardly flattering exception of Albania, a country few Danes feel any kinship for.

The situation is all the more surprising because it was one of the key elements in the election platform of the present conservative-liberal Government two years ago—and this year—to break the state monopoly on broadcasting. But the Government is paying the price of not having a clear majority in parliament.

The Radical-Liberal Party, a middle-of-the-road party which supports the Government on all vital economic issues, refuses to accept commercial radio and television. So do the Socialist parties, and, though the ideological points of departure are different, the reasoning is similar. Advertising will exert influence on the selection

of programs and perhaps even the editing of the news, they claim.

To Americans used to sponsoring and fiercely independent reporters and editors, this may seem odd. To many Danes it seems ridiculous, because the most popular U.S. soap operas are on the air anyway—without sponsors or advertising. The Socialists want a second television channel and new radio network, but insist that they be financed by the present subscription system. The Government refuses to dismantle the monopoly of the state network without allowing commercials. There is thus a political stalemate.

But it may not last for long. By special permission, experimental radio and television stations now abound on the local level—many run by newspapers. Some have managed to work with sponsors, and, though the Socialists have reacted strongly, opposition seems to be crumbling.

As so often is the case in Danish politics, the decisive influence may come from outside

the country. In 1986, direct-broadcast satellites will be in orbit, and a Danish law prohibiting reception of their programs is now in the process of repeal. The satellites will broadcast German, British and French programs. English and German, at least, are so widely spoken in Denmark that the Danish audience and market may be of interest to advertisers. In that case, the veto on advertising in the electronic media will be technologically outdated.

The Danish advertising industry is even considering assisting the establishment of a special channel in Danish on the planned Radio Luxembourg satellite, which is also expected to be operational in 1986. Major Danish corporations claim that they will lose business on the Danish market if viewers defect to foreign networks with advertising prices out of reach of the relatively small Danish corporations. Some kind of compromise seems certain no later than the middle of next year. Danish politics tends to accept the inevitable.—LEIF BECK FALLESEN

LETTER TO THE EDITOR

I could not let pass one particular statement by Dale Sherwin, a representative of the corn wet-milling firm of A.E. Staley, in your "Point-Counterpoint" treatment of the corn gluten feed issue (*Europe*, July-August, 1984).

His assertion that "the U.S. sugar-support program does not subsidize production of high-fructose corn syrup" is absolute nonsense. That is like saying that the jump in oil prices after the OPEC embargo has not helped the price of coal, hydro-electric power and other energy sources.

The corn wet-milling industry benefits directly from two protectionist policies of the United States. First, the sugar program provides an extraordinarily generous price umbrella for high-fruc-

tose corn syrup and the industry's other sweetener products. Second, the federal fuel-tax exemption for alcohol fuels and the large tariff on imported fuel alcohol protect the wet millers' alcohol market.

The result is that the corn wet-milling companies are receiving higher prices for sweeteners and alcohol than they would in the absence of protectionist government policy.

To me that looks like a subsidy—one that the government makes consumers pay to the corn sweetener industry every time they go to the grocery store or the gas station.

Nicholas Kominus
President
U.S. Cane Sugar Refiners
Association



Robert Hersant's holdings include the *Figaro* and *France Soir* newspapers.

PARIS

The Power Of the Press

The power of the press has scored a major victory in the latest round of the French Government's battle to ban newspaper monopolies. The Socialist Government drafted a law last December designed to open up newspaper ownership, prevent newspaper empires and guarantee journalists the right to objectivity.

The law took a record-breaking 10 months to debate in Parliament and sparked a storm of public opposition. The Government of President François Mitterrand claimed the press law was simply an effort to improve France's record 40 years after the last attempt to control press ownership and practices.

The Communications Minister Georges Fillioud said that France was the only democratic country in the world that had failed to pass legislation to protect the independent press. But the Government was quickly accused of using the law to cripple one of its most vocal critics, press tycoon Robert Hersant.

Hersant owns three major Paris dailies controlling 39 percent of the nation's readership. He controls 14 percent of the regional press. As a conservative and open critic of the So-

cialist Government, Hersant became a *cause célèbre* of the parliamentary right-wing opposition which claimed Hersant was the real target of the new press law.

The law made it illegal for a single person or group to own more than three national dailies representing more than 15 percent of nationwide readership. It limited ownership of regional circulation to 15 percent of the total. It said a single person or group was banned from simultaneously owning both provincial and national dailies.

Hersant, with 10,000 employees in his array of newspapers, was affected by all three clauses of the press law. He faced having to dismantle the press empire that he built up from one automobile magazine he owned in 1950. Today his holdings include the workingman's *France-Soir* and the anti-government *Le Figaro* and *L'Aurore* newspapers in Paris.

When the right-wing opposition in Parliament proposed 2,598 time-consuming amendments to the law, the Socialist majority retaliated with a motion that cut off debate. In September, the Socialists finally pushed the legislation through after 10 months and a record-breaking 73 straight days of argument.

The final twist, however, came after the parliamentary procedure was over and the

routine legal review by the Constitutional Council (France's equivalent of a Supreme Court) determined the law was partly illegal. The legal authorities ruled the law could not affect existing press ownership. Hersant's empire could be frozen, but he could not be forced to dismantle it, the

The council also ruled that a watchdog committee empowered to penalize violators of the law was unconstitutional as well. The watchdogs, however, can go ahead with other functions, including public disclosure of press ownership and ensuring journalists a say in editorial policy.

France is left with some guarantees for the future of independent press ownership that may help to stem the dwindling number of newspapers. Meanwhile, the current domination of "Citizen Kane Hersant" is maintained and French newspapers—including the financially beleaguered *Le Monde*—will get back to the pressing issues of how to survive economic hard times. —BRIGID JANSSEN

DUBLIN

Clashing Over Fish

Readers of *The Irish Times* were shocked one morning to read the headline: "Naval Service Sinks Spanish Trawler." The Irish navy, a modest fleet of fishery patrol vessels, has a proud record of never having sunk a ship in anger. Hence the general amazement.

As the story unfolded, however, it looked as though the record might still be intact. The Spanish trawler, *Sonia*, had sunk all right, about 50 miles off Lands End, but seven hours after the engagement with the Irish navy's ship *Aisling* which had intercepted it about 30 miles inside the Irish fishing limits.

When the *Sonia* failed to stop, the *Aisling* gave chase and fired 586 rifle and machine-gun rounds. The chase

went on for five hours until the *Sonia* escaped into British waters. The *Aisling* turned back, but seven hours later, soon after midnight, she picked up a distress call from the *Sonia* saying it was sinking in heavy seas. R.A.F. helicopters rescued 13 of the crewmen and a German freighter picked up the remaining three, who were later landed at an Irish port.

Then the recriminations started. The navy said the *Sonia* had tried 10 times to ram the patrol ship, whose captain had "decided not to escalate the incident" by using his main armament, a Bofors cannon. The rescued Spanish crewman said the bridge of the trawler had been shot to pieces and the hull was like a sieve. This was why the trawler had sunk.

Then the row moved into the diplomatic sphere. The Foreign Ministry in Madrid said the incident was "grave, highly inopportune and regrettable." The Basque regional government said it was "intolerable." The Irish Foreign Minister, Peter Barry, described the trawler actions as "gravely irresponsible."

For the Spanish Government, the incident could hardly have come at a more embarrassing time. Only several weeks earlier, Prime Minister Felipe Gonzalez had been to Dublin to urge his Irish counterpart, Garret FitzGerald, to ensure that Spain's negotiations to join the E.C. finished on time. (Ireland currently holds the presidency of the E.C. Council of Ministers.) One of the main sticking points was the future access of Spanish trawlers to Irish and other E.C. countries' waters.

In fact, the Spanish Ambassador in Dublin had tried to radio the *Sonia* during the battle with the *Aisling* to tell it to stop and allow itself to be boarded. He later was reported in the Spanish press as "apologizing" to the Irish authorities for the *Sonia*'s conduct. This drew a sharp rebuke from the Madrid paper *El Pais*, which went on to call for the Ambassador's resignation. Privately, the Foreign Ministry in Madrid

conceded that the Ambassador's action had been helpful in defusing the situation with Dublin.

Unfortunately for Spain's negotiators, they were in Luxembourg two days after the sinking of the *Sonia* arguing the case for their fishermen with the E.C. Foreign Ministers. The Irish were in an unyielding mood and insisted on keeping Spanish trawlers outside the 50-mile zone for at least 10 years after joining the E.C.

The Irish waters are rich in hake, the favorite fish of many Spaniards. Their catches at present in these waters are estimated at \$200 million annu-

ally and are such a lucrative business that the fishermen have set up a system of pooling the fines of the unlucky ones who get caught. It can work both ways. The Irish navy reckons that the fines levied on Spanish poachers, about \$30,000 a time, just about pay for the service's overhead. The arrests also give the navy its main excitement in an otherwise dull existence.

One of the *Sonia*'s crewmen sees it in bleaker terms. He commented: "The sea of Ireland is a zone where our ancestors and we ourselves have fished for a long time. What are we to do, let our families die of hunger?" —JOE CARROLL

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NEW TRADE ROUND: PROS AND CONS

SHOULD TALKS BE OPENED ON SERVICES, INDUSTRIAL POLICY AND THIRD-WORLD ACCESS TO MARKETS?

JOHN STARRELS

Should the West enter into a new round of trade negotiations? Until recently, views were mixed. At the June 1984 economic summit in London, Western leaders chose not to set a date for such talks. Instead, the final communiqué agreed only to further consultation on the possible objectives, arrangements and timing for a new round.

But should the West hold such a meeting—the first since successful conclusion of the Multilateral Trade Negotiations (MTN) in 1979? Not surprisingly, the experts are divided. Some of them have reservations about the idea. Consider these comments by Robert D. Hormats, former U.S. Trade Representative in the Carter Administration and a key player in the MTNs: "There is little doubt that a balanced reduction in international trade barriers and subsidies—in which the United States and all other major trading countries participate—is needed. Today, however, in the absence of a consensus in this country or internationally on precisely what to negotiate or what sort of reductions can successfully be achieved, it is hard to imagine that a trade-liberalizing negotiation begun in the near future would have a chance of success."

A slightly more optimistic view, though, is expressed by another former negotiator in the MTN talks, Thomas R. Graham: "Such a negotiation promises to be even more drawn out than the last round in view of the issues which must be negotiated," he begins. "But there is an argument to be made in favor of a process which keeps the multilateral momentum toward trade liberalization moving forward." Indeed there is. And that's just what the advocates of a new round argue—with an important twist.

The London *Economist*, which favors a new trade round because, among other

things, it could pull down onerous trade barriers, continues: "one virtue of pulling down . . . barriers is the effect it would have on the Third World's billionaire debtors. They can no longer service their debts by borrowing more foreign exchange from the banks; they must now earn it from exports." New trade agreements, negotiated on a multilateral basis, might help NICS obtain desperately needed access to Western markets.

"There has been a great deal of talk about the possibility of a new round of trade negotiations," says Sir Roy Denman, head of the E.C. Commission's Delegation in Washington, D.C. "The European Community is not opposed to it. But as we found in the four-year long Kennedy Round in the 1960s and the six-year long Tokyo Round in the 1970s, worldwide negotiations on this scale are not quickly or easily organized. There will be a meeting in Geneva in November to assess the results of the two-year working program started by the General Agreement on Tariffs and Trade (GATT) ministerial meeting in November 1982. And we have suggested a meeting of senior officials in Geneva next year to consider the various possibilities for future action including a new round. But having been in the business some time we think it quite essential that before we start a new round, we should be clear on what precisely we are going to discuss and that we have the right players on board. Otherwise we would risk a failure which could set back the cause of trade liberalization by some years.

The agenda for a new MTN has to be broad. Opponents and proponents do not yet agree on the agenda which will be negotiated—if and when those talks convene: trade in services, industrial policy, agricultural exports, newly industrializing countries' (NIC) access to Western markets and Western access to theirs and, most importantly, issues for a potential role in a new negotiations round.

Trade in Services

The United States is pressing for inclusion of trade in services, but the lesser developed countries have doubts. The key battle to be waged in the future will be over how to facilitate trade in services such as banking and insurance. "We are talking about the need for multilateral negotiations on how to conduct trade in fields which run the gamut from construction, banking and engineering to trans-border data flows," explains one expert. Opening up Western markets to manufactured goods and agricultural products has been hard enough. If anything, given the increased importance of trade in services, such agreements may be even harder to negotiate.

Industrial Policy

The post-World War II system of free and open trade has been a resounding success. But there are growing indications that Western countries are backing away from the liberal principles upon which it was founded. Kevin P. Phillips, noted political analyst makes just this point in his new book, "Staying On Top": "During the last 10 years, the role of the government in global trade has increased along three lines: business-government partnerships, countertrade or barter and negotiation of voluntary export restraints."

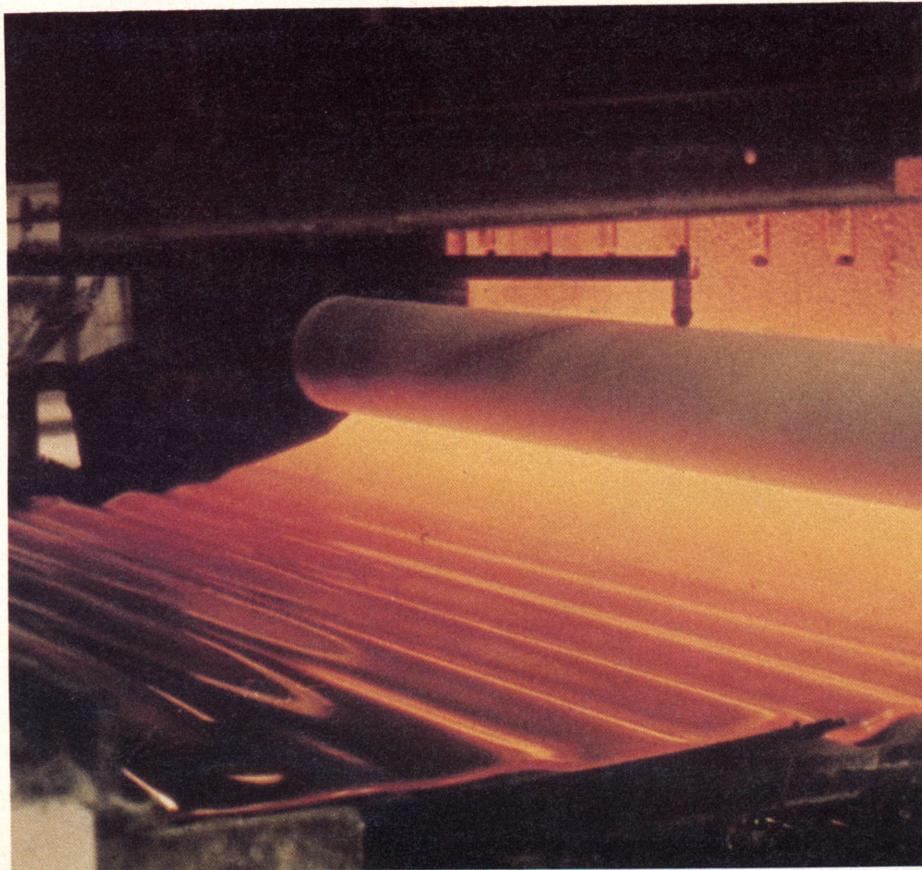
And governmental efforts to organize the economy in a manner which supposedly enhances national trade performance—export subsidies, for one instance, the imposition of "voluntary" import restraints, for another—may be at the heart of the problem. At the June 1984 Summit, the United States indirectly referred to these concerns in calling for future negotiations on "high-technology" sectors which enjoy the support of their governments. If there is to be a new trade round, these sectoral policies, from bailouts of the steel and textile industries to the "dumping" of agricultural surpluses, must be addressed. It won't be easy.

Agricultural Exports

According to international food experts, no more than 24 million people provide close to one-fourth of the globe's food. The result? Three-quarters of the world's food exports are generated from this small number of people—who just happen to engage in agriculture in America, Europe and Japan. There are two fundamental problems posed by this situation:



How successful a new round of trade-liberalizing negotiations would be is hard to assess: the increasing importance of trade in services and the growing role of government in bailing out old industries could provide major stumbling blocks.



the implications of this division of labor on NICs, to be addressed presently, and the more immediate trade implications which confront the West in its effort to address the challenge of agricultural trade. "The crunch will be whether America and the E.C. can establish a set of procedures governing their export competition in agricultural goods in third country markets," explains Thomas Graham. The MTN was bereft of progress in this sensitive arena. Perhaps a more chastened West can effectively address the issue in the next trade round.

The NICs

The global economy of the 1980s and 1990s is no longer the sole province of the West. Increasingly, Europe, Japan and the United States are being forced to respond to the aspirations of the newly industrializing countries, namely Brazil, Mexico, India, Taiwan and South Korea. One indication of the NICs' new role is to be found in trade. Third-World countries, taken as a whole, earned a whopping \$323.6 billion in trade last year, according to the International Monetary Fund (IMF). Alternatively, these nations paid out \$476.9 billion for interest payments on their loans and for imports. And most of that money went into Western coffers.

It would be difficult to underestimate the significance which Third-World trade has for the West. In 1983, the United States alone transacted \$155.4 billion of its international business with those countries or one-third of America's total exports and imports. The message is not lost on the West. Surging manufactured goods exports from the NICs clearly worry Japan, the E.C. and the United States. The challenge posed by the newly emergent economic giants must be met and a solution that moves the NICs and the West toward freer trade must be found.

It is also clearly in the West's interest to promote greater market openness in the NICs. In the currently fashionable language of reciprocity: If the West is well advised to negotiate a more open approach toward dealing with NIC apparel, textile and steel imports, the NICs in turn must demonstrate a readiness to accommodate Japanese, European and American concerns about future prospects for their high technology and service goods in NIC markets. Is the time ripe for such broad-based negotiations? Perhaps. Brazil, Mexico, South Korea, India and the Philippines at the very least have gone on record in favor of a new negotiations round. This is for one persuasive reason. As George Washington University's Henry Nau says: "NICs . . . need to ensure



Trade in services, which includes banking, the fastest-growing export sector in Western countries, would be a focal point in a new round of negotiations.



Multilateral trade negotiations conducted under GATT auspices. Above, a session just before the signing of the Kennedy Round in 1967.

that the industrial countries... do not reach consensus on issues without their involvement. This has been the pattern that prevailed in previous negotiations, and it resulted in their being left out of the major benefits of those rounds."

The Future of Multilateralism

Since the late 1940s, the major breakthroughs in trade negotiations have been carried out under the auspices of GATT. Given the pressures on the present-day trading system and the varying concepts about dispute settlement, some analysts wonder if GATT's value to the trade community is worth the effort to maintain it. Says Hormats: "It is frequently bypassed or ignored as countries unilaterally, bilaterally or in small groups take actions that violate its spirit and substance."

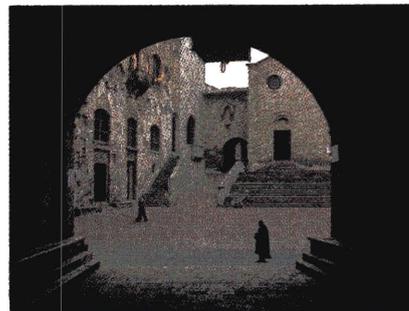
In practical terms, 88 member countries with widely divergent approaches to economic policy, engage in actions which—at the very least—challenge the underlying principle of multilateralism upon which GATT was founded. For instance, while GATT insists that the membership conduct "nondiscriminatory" trade, Western countries routinely enter into special, bilateral and regional arrangements with other countries. In a similar fashion, the proliferation of market-sharing—cartel—arrangements contravene the GATT. Not to mention the MTN itself which, in effect, recognized the existence of official practices which implicitly violate the tenets of free trade—tenets which form the very core of the GATT appeal even today.

For all that, however, it would be dangerous folly for the world's trading nations to abandon the single multilateral institution which continues to enjoy legitimacy in the eyes of a diverse membership. "Oh sure," observes one analyst, "we can all continue to negotiate special arrangements with various countries and regional blocs." "But," he warns, "these exclusionary practices will hardly provide us with the broad-based, universal consensus which is desperately required to help move both the West and the NICs toward a new era of robust economic growth." Thus the GATT, with its limitations and potentials, remains the best bet for all participants in what appears to be an emerging agreement that six years after the MTN, a new trade round may be overdue. €

John Starrels is a free lance writer based in Washington, D.C.

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THIS YEAR AND NEXT FOR PROTECTIONISM

ASSESSING THE REAGAN ADMINISTRATION'S RECORD AND LOOKING AHEAD TO 1985.

RICHARD LAWRENCE

In 1984, the United States appeared to be pursuing two different trade policies simultaneously. The Reagan Administration sanctioned yet another year of Japanese controls on car exports to the United States, although the export quota was increased modestly. It peremptorily announced new rules governing textile and apparel imports and maintained them, despite bitter outcries from foreign governments, U.S. retailers and importers. President Ronald Reagan instructed his aides to press for "voluntary" restraints by important suppliers of foreign steel to the United States, which, if obtained, would put most imported steel under prescribed limits during the next five years.

These were actions that were widely scored as protectionist. Yet, the U.S. Administration urged a new round of inter-

national negotiations to liberalize world trade. At the same time, it began promoting bilateral, "free-trade" agreements, particularly with Israel and Canada. And the Administration embraced legislation passed by Congress which, among other things, authorized the President to negotiate international accords in services and high-technology trade and in trade-related investment.

Calling for freer trade while restricting imports seems, at the least, dichotomous—perhaps even hypocritical. But the Reagan Administration apparently does favor, in principle, freer trade, as has every U.S. Administration during the last 50 years. But like most of these Administrations, the present one also feels it must make exceptions—important ones—when politics demands, especially in a presidential election year.

The protected industries—steel, autos and textile/apparel—account for roughly

15 percent of the nation's gross national product in manufacturing. Moreover, the steel industry bears national security connotations, and the auto industry is a big customer for other sectors—steel, glass, rubber, plastic and electrical.

And each of these industries has been on the verge of being overwhelmed by import competition, partly because of a strong dollar. Recently, imports began taking one-third of the domestic steel market. Textile and apparel imports in 1984 scored nearly 50 percent from 1983 levels. Foreign car makers had over one-fourth of the U.S. auto market, before Japan limited its sales and the market rebounded.

U.S. protectionism has a rationale. "Look at the size of our trade deficit as a percentage of our GNP," says Commerce Secretary Malcolm Baldrige. "I don't know of another country . . . that would not have been papered over with quotas and tariffs by this time."

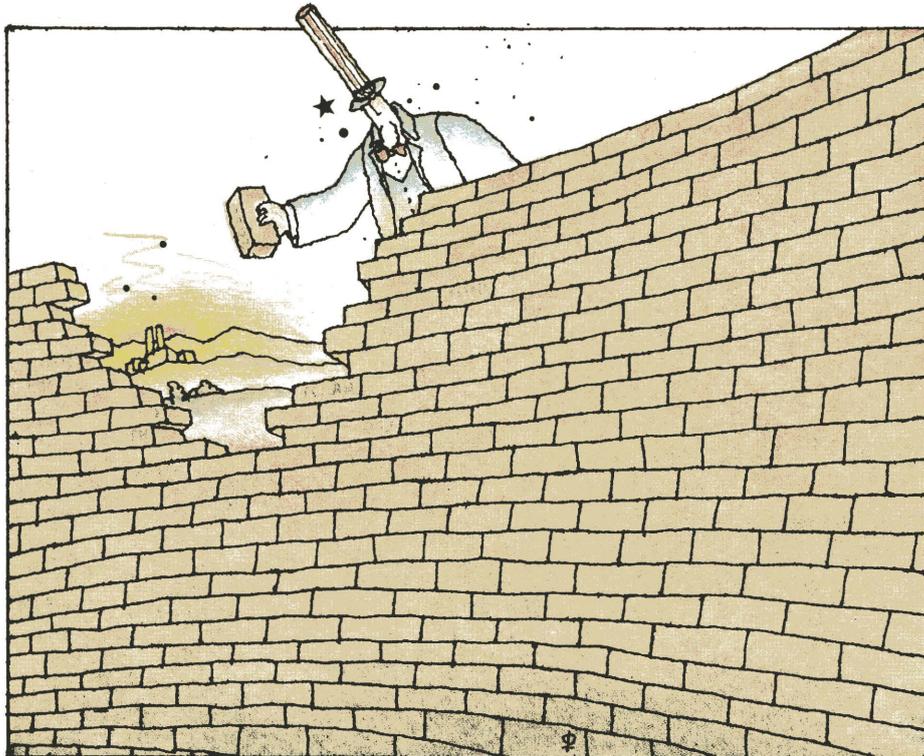
He and other Administration officials point, in their defense, to protectionism they have opposed. The Administration, for instance, helped bottle up a "domestic-content" auto-industry bill in Congress. It resisted statutory import quotas on steel, footwear and textiles, and President Reagan rejected a copper industry request for quotas as well as formal import restrictions on steel.

The Administration also won from Congress a long-term renewal of the duty-free program for imports from developing nations. Still, in a general economic sense, the Administration's protective actions on behalf of the auto, steel and textile industries seem strange. The nation as a whole is enjoying its highest economic growth rate since the early 1950s.

Will there be more protectionism? Perhaps. U.S. industry demands for import curbs appear unlikely to abate next year, if, as is widely suggested, the U.S. trade deficit rises yet further, possibly to the \$150 billion range. As Paula Stern, the International Trade Commission (ITC) chairwoman, points out, the trade deficit will approach the size of the U.S. federal budget deficit.

If the U.S. economy were to slow suddenly, which some economists say could happen next year, protectionist demands might even intensify. Meanwhile, the larger numbers of unfair-trade-practice complaints filed this year with the ITC could lead to increased U.S. government actions against foreign exporters.

Other threats to the free flow of trade persist. Early next year, the Administra-



tion must decide whether to "suggest" to Japan yet another year of restrictions on its car exports. Despite the U.S. auto industry's record profits, the Administration will be under pressure for continued restrictions, though they might be eased somewhat.

The machine tool industry, with the Commerce Department's support, is still pressing the Administration to impose, on national-security grounds, quotas or higher tariffs on imported machine tools. If the Administration fails to negotiate voluntary steel restraints by Japan, Korea, Brazil, Spain and possibly other countries that reduce the import share of the U.S. steel market to 20 percent, the domestic steel industry is likely to resume lobbying for steel-import-quota legislation.

Another protectionist threat hovers over the wine trade. In an omnibus trade bill this year, Congress gave domestic grape growers a chance, earlier denied to them, to petition the government for anti-dumping and anti-subsidy duties on European wine. If the United States applies the duties, a European Community reprisal is likely. The "wine" provision may be the most outright protectionist section in the omnibus trade legislation—part of the price the Administration had to pay for Congress' approval of an Israeli free-trade negotiation and the renewal of duty-free treatment of developing country products.

But Congress also modified U.S. trade law to help the domestic footwear industry convince the ITC to recommend footwear import restrictions, which the commission refused to do this year. The commission probably will review the footwear case in early 1985.

The omnibus trade legislation also gives the President a broader retaliatory power to act against "unjustifiable" or "unreasonable" trade policies of foreign governments. He is authorized to take reprisals against the pirating of U.S. patent or trademark rights, discrimination against U.S. services companies and the imposition of export requirements on U.S. investors abroad.

Other provisions in the legislation authorize the U.S. Customs Service to make sure that foreign nations abide by the steel-export restraints they agree to. Meanwhile, costlier requirements will be applied to imported steel pipe and tube. And the President is asked to negotiate production-limiting agreements with foreign copper producers.

The legislation expands U.S. antidumping and anti-subsidy law in ways that could mean more problems for foreign exporters. Two examples: The law is ex-



The application of protectionist measures in the wine trade could have grave consequences for European wine imports into the U.S.

tended to apply to "likely," as well as actual, import sales and it authorizes subsidy investigations of the components of an imported product as well as the product itself.

Congress this year, despite an almost heroic effort, failed to approve a new export-controls law, leaving the Administration only with "emergency" authority to regulate exports for national security and other purposes. The Administration is expected to try again in 1985 to obtain a new controls law, especially as its "emergency" authority may come under increasing legal challenge. If it does so, another protectionist issue may reappear—proposals in Congress to empower the President to restrict imports from companies violating U.S. or multilateral export controls.

More generally, however, the Administration next year will want to step up efforts to lay the ground for a major and an unprecedented kind of international trade negotiation, which would include services trade and trade-related investment.

As a first step, the Administration seeks to improve and expand the rules of the General Agreement on Tariffs and Trade (GATT). Among the U.S. proposals are greater constraints on the imposition of temporary import restrictions, a stricter prohibition of agricultural export subsidies, and procedures that give the GATT more authority in settling trade disputes. The United States also wants to extend GATT rules to services trade, to the trade-related investment policies of governments and to high-tech trade.

The U.S. goal is to get the new round under way by late 1985 or early 1986. The President may try at next year's Western economic summit to persuade other national leaders to set a fixed date

for the round's beginning. U.S. Trade Representative William Brock reports that he is encouraged by two informal meetings he held this year with his counterparts from a dozen or more countries, including E.C. Commission Vice President Wilhelm Haferkamp, who is responsible for external relations. A "round," Brock says, is already underway. He says he found a growing consensus at a September meeting in Rio de Janeiro on the need to improve the GATT.

Others, however, remain somewhat skeptical of a round's near-term prospects. Much remains to be clarified on such a round's goals and potential benefits, according to Gamani Corea, Secretary-General of the United Nations Conference on Trade and Development. Developing nations in general probably perceive little of gain for themselves in proposals to write international investment, services and high-technology trade rules. They are more eager to win freer access for their exports in such goods as textiles and steel, which the United States and other industrial countries are denying them.

The E.C., meanwhile, is resisting recommendations to bar agricultural export subsidies and it differs with the United States over how GATT procedures should work. Moreover, the economies of many developing nations and even in Western Europe may be too problematical for a significant freer trade initiative. But the United States doubtless will keep pushing for a new trade round, and, perhaps to persuade nations to cooperate, the U.S. Administration may pursue bilateral free-trade negotiations with Canada and other countries, once its free-trade arrangement with Israel is in hand. ☾

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PARLIAMENTARY TIES FOSTER BETTER UNDERSTANDING

MEETINGS BETWEEN U.S. AND EUROPEAN LEGISLATORS AIR DIFFERENCES AND DEFUSE TENSIONS.

LARRY WINN, JR.

Twice a year these past 10 years, I have participated in meetings between members of the U.S. Congress and members of the European Parliament. The meetings, with their agenda focusing on broad political and trade issues, have aired differences, alerted participants to potential problems and sometimes helped defuse tensions.

Many of the same European and American faces turn up at each of these bi-annual meetings. These "faces," as a result, have become friends. Through our interaction, we have been able to build a reservoir of trans-Atlantic understanding which benefits both the United States and Europe. In part, I suppose, it is a self-selecting process in which most of those who decide to participate already favor strong ties among the Western democracies. But I have also seen U.S. Congressmen come to the meetings to criticize the Europeans on trade subsidies, then de-

cide during the discussions that we should and can work out our problems amicably. And many a suspected isolationist has come away rededicated to the Atlantic alliance.

However, even smoothly functioning organizations need periodic re-examination and re-invigoration to promote further benefits. This is especially important now because of the increasing challenge to U.S.-European relations posed by the younger generation.

The ties between the U.S. Congress and the European Parliament are ideal for broadening understanding. The European Parliament includes 10 nations and all political parties. Its purview is across-the-board political, social, economic and trade issues. Moreover, in recent years, it has been increasingly willing to discuss security matters. Though the European Parliament is not a legislative body in the same sense as the U.S. Congress, it reflects, responds to and influences European public opinion.

There are two basic approaches to

strengthening U.S.-European ties by means of this parliamentary exchange: one is to increase the visibility of the exchange; the other is to use the exchange to expand overall U.S.-European contacts.

There are several desirable ways to increase the exchange's visibility. One would be to formalize the exchange by putting its existence into statute. Formalization would put this exchange on an equal footing with the North Atlantic Assembly, the U.S.-Canadian Parliamentary Exchange, the Mexico-U.S. Interparliamentary Group, and the Interparliamentary Union. This would demonstrate the importance the Americans attach to this exchange and enhance its prestige in Europe. It would also help introduce U.S. Senate participation into the U.S. Congress-European Parliament meetings.

Also, the meetings should be held outside of the capital cities—in St. Louis or Hamburg, rather than Washington or Bonn. The meetings would receive far greater coverage in local newspapers than they now do in the national press. This arrangement would also offer the opportunity for the U.S. and European delegates to make themselves available to speak to local foreign affairs councils, to university and high school groups and to civic associations. As an offshoot of the meetings, U.S. members of Congress could invite members of the European Parliament to their districts to participate in a regular schedule of events such as town-hall meetings and county fairs.

Each of these suggestions would greatly expand the exposure of Ameri-



cans and Europeans to each other. While face-to-face contact may not be the only solution to an increasing estrangement between Americans and Europeans, it would help in the future as it has in the past to heal wounds and to stimulate new ties.

Within the exchange itself, I believe that there is opportunity for fuller cooperation between members of the U.S. delegation and members of the European delegation in dealing with specific problems. In the January 1982 meetings, after an animated discussion of martial law in Poland, some members of the U.S. delegation pushed for a joint U.S.-European statement on Poland. It soon became clear, for obvious political reasons, that the Europeans would not be able to unite with each other, much less with the Americans, on such a statement. But ultimately, this left few regrets. It is doubtful that such a statement would be useful rather than a bland and meaningless reflection of the lowest common denominator of agreement. And, at any rate, across-the-board agreement is not the purpose of these meetings.

That is not to say, however, that individual members of the U.S. and European delegations could not work together to propose creative solutions to difficult problems. Notably, Sam Gibbons (D-Fla.) and Erwin Lange (Socialist Group, Federal Republic of Germany) once successfully formed a task force on multinational corporations, writing a code for their operation.

The world is rife with critical issues that should be confronted by renewed U.S.-European cooperation: international terrorism, international narcotics traf-

ficking and human rights are among those where there is a basis for agreement, but specific suggestions for transatlantic policy initiatives and coordination are needed.

On these issues and others, it would be possible to expand cooperation between U.S. legislators and members of the European Parliament through:

- Holding hearings on key issues in committees of the U.S. Congress or of the European Parliament at which members of the other institution would testify; the U.S. delegates to the meetings with the European Parliament are members of key House groups such as the Agriculture, Ways and Means, Banking and Foreign Affairs Committees. Often they must make decisions on legislation which have serious ramifications for U.S.-European relations such as mixed credits for agricultural exports, domestic-content legislation and World Bank and foreign aid funding. There would be no better way to expose members of Congress to European views than through the testimony of members of the European Parliament who are experts on the issues, familiar with U.S. concerns and representative of broad European sentiment.
- Joint travel of U.S. Congress and European Parliament members to examine mutual concerns. Members of both institutions undertake fact-finding missions. A joint U.S.-European effort would open new doors and broaden perspectives for each. It would lead to greater pressure on their respective Governments to cooperate.
- Brief exchanges of the staff of the two institutions to focus on specific problems as well as to expand contacts. This would

greatly reinforce not only mutual understanding, but the desire and ability to forge common solutions to problems.

Furthermore, I would suggest two additional steps. It would be most appropriate for the President of the European Parliament to address a joint session of Congress. Over the past years, many distinguished foreign leaders have spoken to the American people by means of the joint session. Each has addressed the particular bilateral concerns which his own country shares with the United States. But many issues, whether economic or security related, today transcend the national borders within Europe; these can best be addressed by this Europe-wide leader. And the message delivered to Congress by the European Parliament President would be accessible to most Americans through cable television, which transmits House floor proceedings to a large U.S. viewing audience.

In return, the European Parliament might offer a similar opportunity to the U.S. President to address its members. His address could also be carried live to the European public from Strasbourg. Each of these addresses might be a one-time shot, but they could be important for setting the direction and the tone for problem-solvers at the working level.

None of these proposals holds the key to building close U.S.-European ties. But, taken together, they would stimulate the mutual understanding and knowledge which we need to keep transatlantic relations strong and vital. €

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EUROPE'S RECOVERY IS PAINFULLY SLOW

WHY HAS SPECTACULAR U.S. GROWTH NOT BEEN REPEATED IN THE E.C. MEMBER STATES?

MICHAEL EMERSON

The European Community is making painfully slow progress in its recovery from the recession of 1980-82, which was brought on by the second oil shock and the international repercussions of U.S. financial policies—the European economy being weakly protected from both these disturbances to the world economy. Thus, in 1984, the growth of total production in the E.C. is expected to be a useful, but modest, 2.2 percent, which contrasts with a spectacular 6 percent or more in the United States. Next year, the E.C. Commission is expecting a similar moderate growth rate of 2.1 percent for the E.C., while the United States is expected to return to something more like a trend growth rate of 3 percent. Employment continues to stagnate in the E.C., whereas it has been growing very fast in the United States.

Why are these short-run experiences so different? Does the slower and steadier European business cycle cover deeper, underlying changes in economic policy in the E.C.? Is there an element of the parable of the tortoise and the hare in the U.S.-European comparison?

The full reply to these questions will only be revealed with the passage of time. However, three incontrovertible facts must in large measure explain the difference in short-run economic performance between the United States and the European Community. First, the United States has had a definitely expansionary fiscal policy, whereas Europe on the whole has opted for reducing budget deficits now, rather than at some distant and uncertain point in the future. This has boosted output in the short run in the United States and has been contractionary in Europe. The long-run story may well be different, and we return to that later.

Secondly, the United States has let its exchange rate float up to a very high level, under the influence of high interest

rates, which in turn have been largely driven up by the budget deficit. Europe has been a reluctant partner in this, decoupling its interest rates as far as possible, with the European Currency Unit's (ECU) exchange rate depreciating as a result. These exchange-rate movements have had the effect of redistributing world inflation, helping suppress inflationary tensions that the fast U.S. growth might cause and, by the same token, slowing progress in reducing inflation in Europe.

Thirdly, the very striking contrast in employment performance comes from a combination of long- and short-run trends. For two decades now, the United States has been adding on average 2 percent per year to its total number of persons employed whereas the E.C. average hardly has increased at all. These long-run trends also have been manifest in increasing investment in Europe for "capital-deepening" and labor-saving purposes, whereas this has not been evident in the United States. In addition, the short-run propensity of enterprises to take on extra employees when the business cycle improves is much higher in the United States than in Europe. Each extra percentage point of total production in the United States tends to generate 0.75 percent more jobs, compared to 0.4 percent in the E.C.

These three major facts now lead us to consider the deeper, underlying questions at the European end of the comparisons. Why did Europe choose stricter budgetary policies? How has Europe responded to the problems caused by the dollar's appreciation? Why has the employment record in Europe been so disappointing, and what is being done about it? Do the answers to these questions add up to a coherent economic policy?

Budgetary strategy has two major components, the size of the public sector (tax and expenditure levels) and the size of the budget deficit. Public expenditure

and taxation have grown inexorably over the past 25 years in Europe, now averaging 52 percent of gross domestic product for public expenditure in the E.C., way above the comparable figures of 37 percent for the United States and 36 percent for Japan. The conclusion has been widely drawn that this public-sector growth trend was part of the reason for the European economy's progressively stagnating growth performance.

It now seems that 1984 will prove in fact to be a historical turning point: the year in which public expenditure was constrained to grow less fast than gross domestic product. The idea that tax cuts are now required as a long-term supply side measure of economic reform, rather than for short-term demand stimulation, has also become common ground across the political spectrum.

Several Governments now have their strategies targeted on tax cuts. The U.K. Government, in its 1984-85 budget, cut payroll and corporate income taxes (the latter announced in advance for four successive years). The German Government has just announced personal income tax cuts worth over 1 percent of gross domestic product (GDP) to take effect in 1986 to 1988. The French Government has set itself the objective of reducing the tax and public expenditure burden by 1 percent of GDP in 1985.

A key point about all these cases is that the Governments first took steps to master the budget deficit and public-debt trend, and then to embark on tax cuts only in conditions that would not imperil this "consolidation" effort (to use current German phraseology). Great care is being taken in these countries to assure the internal coherence of budgetary and monetary policies. This contrasts with U.S. budgetary policy. While the United States is reaping dramatic output gains at present, the European judgment (for Europe) has been that its steadier and sustainable financial policies will pay dividends over a period of years.

The European Community's response to the dollar's gyrations has been one of persistence in more convergent monetary policies within Europe, pivoted around the commitment to pegged exchange rates in the European Monetary System. In fact, the European Monetary System's fifth birthday in March of this year was passed in an atmosphere of striking tranquility. Exchange markets appear to have been persuaded that monetary convergence has indeed become a deeper objective of participating countries. Evidence for this is seen not only in



The steel industry is a problem sector which under E.C. Commission plans is being modernized. Above, a plant in the Alsace-Lorraine region of France.

domestic money-supply policies but also in complementary measures in the fields of budgetary and incomes policies. Excessive budget deficits, as already mentioned, are being strictly limited and excessive wage rigidity reformed in several countries (for example, de-indexation or index-limitation reforms in Belgium, Denmark, France, the Netherlands and Italy).

In addition, the E.C. has been encouraging the development of the ECU for use in private international contracts and financial markets, to be built up as a partial substitute to the presently dominant role of the dollar in European international money markets. The private sector is taking to the ECU with considerable enthusiasm. Even Swiss banks have started issuing ECU bonds. The secondary market in ECU bonds is now estimated to have reached 1 billion ECU per day.

The employment problem in Europe remains the most intractable. For some time now the rapid growth of employment in the United States (1.4 percent per annum over the last 10 years) compared to an actual decline in the E.C. (-0.3 percent per annum) has been intriguing economists, especially since the average growth rates of the two economies until recently were nearly the same. Initially, the focus was on the apparent collapse of labor productivity growth in the United States. More recently, the phenomenal employment growth in the United States alongside continued job

losses in Europe has turned the spotlight as much on the reasons for the death of job creation in Europe.

Current research done in the E.C. Commission confirms what many economists had been suspecting. There were two further complementary stories behind these employment trends. First, during the decade since the 1973 oil shock, European enterprises have been heavily increasing the amount of capital per person employed (3 percent per annum), whereas in the United States this increase in capital intensity has been far less (0.7 percent per annum). While European labor productivity had been continuing to grow faster than in the United States, this was an illusory indicator of efficiency in resource utilization, since so much more capital was being used at the same time.

Secondly, and no doubt heavily influencing these symmetrical differences in capital and labor use, real labor costs were increasing in Europe much faster than in the United States whereas the rate of return on capital employed was also diverging (falling in Europe, rising in the United States). Overall, the relative cost of labor in relation to the rate of return on capital diverged even more dramatically as between the two economies (rising 2.4 percent per year in Europe as against 0.5 percent in the United States). Over a 10-year period—and in fact it was even longer—these relative

trends have built up cumulatively to a massive difference in the incentives to employ.

The difficult task now is to work out objectively the magnitude of the adjustment required in the relative rewards to labor and capital and the extent of regulatory reform (for example of over-rigid hiring and firing rules) to achieve for the years ahead a much greater employment propensity in Europe. Perceptions of the problem do seem to be changing. Some action is evident—for example the determination in many E.C. countries to break taboos over wage-indexation practices which long inhibited flexibility in real labor costs. But much remains to be done.

Overall, therefore, a picture emerges of a European economy gradually on the mend, following an economic strategy with three principal components: an historical reversal of the growth of public expenditure, an intensification of convergence of monetary policies on stability and a re-examination of labor-market conventions and regulations with a view to increasing the propensity of enterprises to employ. If the short-term results of these policies are not dramatic, one should not be surprised, for the diagnosis that has been made and therapies being administered are of a fundamental and long-term character. ☛

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AIRBUS-PAN AM DEAL IS A BREAKTHROUGH

COUP FOR EUROPEAN TECHNOLOGY REPRESENTS RAY OF HOPE.

PAUL LEWIS

In a year of economic gloom for Europe, with unemployment rising everywhere and doubts growing about the Continent's technological prowess, a ray of hope has suddenly broken through the clouds. For it now looks as if Europe actually might succeed in accomplishing one of its most cherished aims—namely, to prevent the United States and, more specifically, the Boeing Corporation from acquiring a world monopoly in the field of passenger-aircraft construction.

The ray of hope, of course, was Pan Am's decision in September to order the European Airbus, that distinctively plump family of passenger planes into which the governments of the United Kingdom, France, the Federal Republic of Germany and Spain have poured billions of taxpayers' dollars in a last-ditch bid to stay in the aircraft-building game. As a result of the Pan Am sale, Airbus Industrie—the four-nation consortium set up by these countries 13 years ago to build the plane—has at last secured a substantial new foothold in the U.S. market traditionally dominated by its more powerful rival, Boeing.

And it has done so for the whole of its gradually expanding range of aircraft, at a time when Lockheed and McDonnell Douglas, the two other big U.S. passenger aircraft builders, have either pulled out of the business altogether or are cutting back their activities. "It looks like Boeing against Airbus for long-term competition now," was the comment of Frank Borman, chairman of Eastern Airlines and the only other major U.S. carrier to invest in the Airbus so far.

Under the complex deal, financially troubled Pan Am will pay roughly \$1 billion for 28 Airbus jets, consisting of 12 220-seat Airbus-310s and 16 of the new, smaller 150-seat A-320s that Airbus only decided to build this year. Until all these planes are ready, the U.S. flag carrier will lease another 16 of the bigger Airbuses,

returning them as its own new aircraft are delivered. In addition, Pan Am has taken out options to buy another 13 A-310s and 34 of the smaller A-320s. If exercised, these options would raise the number of airbuses Pan Am buys to 91 and double the contract's total value to some \$2 billion.

The Pan Am deal set the champagne corks popping down at the Toulouse headquarters of Airbus Industrie, where the planes are assembled from parts built separately by the four member companies of the consortium—Germany's MBB, France's Aerospatiale, British Aerospace and a Spanish Builder, CASA. "I feel as happy as a mother who has just given birth," exclaimed Bernard Lathière, the ebullient French-born boss of Airbus Industrie, on hearing the news.

It is not difficult to understand Lathière's excitement. So far, Airbus Industrie has landed 355 firm sales of its A-300 and A-310 models, giving it some 66 percent of the world market for wide-bodied, two-engined aircraft, while Boe-

ing, with 185 orders for its competing B-767 aircraft has 34 percent of the pie. But Airbus Industrie was badly in need of a big, new U.S. order to lend credibility to its challenge to Boeing. In 1978, it sold 34 planes to Eastern Airlines, but since then its only American successes have been a sale of four planes to Northeastern Airlines and a single model to Capitol Airlines.

Airbus Industrie also has been looking for orders for the new small 150-seat A-320 which it only decided to build last March after participating governments finally agreed to put up the needed \$1.7 billion in development funds. So far, the only purchasers have been state-owned airlines in the Airbus Industrie countries. Finally, Airbus Industrie had an embarrassing string of 24 completed, but unsold, planes sitting on the tarmac in Toulouse, known in the business as "white tails" because they do not carry any airline's insignia.

Now, in one stroke, all three problems have been solved. Airbus is firmly established as a major element in the fleet of a big U.S. airline, with all the valuable publicity that will bring. Describing the Airbus order as "a keystone" in Pan Am's fleet plans, company president C. Edward Acker said the airline henceforth will depend on just three types of aircraft—Boeing 747 jumbo jets, which it already owns, for long distance flights and the two types of Airbus it is now buying for short and medium routes.

As a government-backed consortium which does not publish any financial accounts, Airbus Industrie is vulnerable to charges that it only won the Pan Am



Pan Am President C. Edward Acker (left) and Bernard Lathière of Airbus Industrie celebrate the arrival of the first A-310 aircraft in Pan Am livery.

order on kamikaze terms and with the aid of public subsidies. Certainly, Boeing fought hard for the Pan Am order, offering its B-767 as an alternative to the A-310, while McDonnell Douglas's 150-seat MD-80 was a rival to the small A-320. In the past, Boeing has publicly accused Airbus Industrie of living off government grants, claiming it has received the equivalent of \$5 billion in state aid since its foundation in 1970.

There can be no doubt that Airbus Industrie was kept alive in its early days by government support. During its first five years of existence, the firm sold a mere 57 planes and by 1978 had still only notched up 122 sales, leading Boeing to argue that its prices were subsidized by nearly 25 percent. The company's production methods also seem clumsy. While final assembly takes place in Toulouse, Germany's MBB builds the fuselage, British Aerospace builds the wings, Aerospaiale produces the cockpit and Spain's CASA the tail fin.

Today, Airbus Industrie claims it is paying back the money governments advanced it to get started in the form of a royalty on each plane sold. It also maintains that there was nothing underhanded about the Pan Am sale. "This is a very standard deal," says Airbus sales director Pierre Pailleret. "We haven't accepted coffee beans, cocoa or bananas in return for the planes and we are not taking back any old Pan Am aircraft."

Clearly, the superstrong dollar and the weakness of European currencies gave Airbus a financial leg up in its negotiations with Pan Am. But Airbus officials insist on the technological excellence of their product as well. They are particularly proud of the advanced Airbus cockpit, with its digital information display screens and electronic monitoring devices, both built by France's Thomson-CSF, and which allows the plane to be flown by two pilots, without a flight engineer. They are proud, too, of the Airbus's efficient new-style wings and the use of graphite fiber instead of metal in bearings and the undercarriage doors.

But despite its claim to be a European aircraft, the Airbus also incorporates a substantial amount of American technology. The Pan Am sale thus means jobs for Americans as well as Europeans. The engines it uses, which alone account for about 30 percent of an aircraft's cost, are made either by Pratt & Whitney or General Electric. Some of the avionics comes from the United States. And purchasers can often choose whether they want such sophisticated instruments as the plane's flight management system or weather aid radar to be U.S. or European-built.



A four-nation undertaking: Assembled in Toulouse, France (above), the parts for the Airbus are built in the Federal Republic of Germany, the United Kingdom, France and Spain.

The wider significance of Pan Am's Airbus order is that it comes at a moment when the world's airliners are gearing up for a spending spree, just as the number of aircraft makers interested in their custom is diminishing. Lockheed has withdrawn from passenger-aircraft building altogether and McDonnell Douglas has shaved back its activities, killing plans for a new airliner late last year and concentrating on its small 150-seat MD-80.

Nevertheless, Boeing and Airbus Industrie believe there is a huge market for new passenger aircraft during the remainder of this century, as the world's airlines phase out their present aging, noisy and fuel-thirsty planes. And Lathière says Airbus Industrie is "determined to get at least 30 percent of it."

Airbus Industrie, for instance, puts the long-term market for all types of passenger aircraft at around 7,800 planes, with a total value of about \$440 billion. It thinks airlines will need about 3,000 small, 150-seat aircraft, roughly the same

number of wide-body, medium-range 220-seaters and about 1,000 new long-range planes.

The company's aim is to compete in all these segments of the market in direct competition with Boeing, the only other maker that already offers clients a full range of small, wide-body and long-haul jets. "We are absolutely convinced that the future viability of our whole project depends on widening our range of aircraft so that we can meet an airline's total fleet needs, with all the economies that it offers," Lathière insists.

The U.S. exposure offered to Airbus Industrie by the Pan Am deal should prove valuable. And, by 1986, Airbus Industrie wants its four member companies and their governments to back its latest projects, the TA-11, a four-engine, 250-seat long-range aircraft that would compete directly with Boeing's 747 jumbo jet. ☛

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LABOR MOVEMENT IN U.K. UNDERGOES PROFOUND CHANGE

MINERS' STRIKE, MEANWHILE, HAS
SPLIT UNION AND PUBLIC ALIKE.

JOHN LLOYD

British Prime Minister Margaret Thatcher does not like the labor movement. That is not simply a statement of the obvious: Far more than any leading Conservative since the war, Thatcher is hostile to labor as a political-industrial movement.

Most democratic countries have major parties of the left with strong links with the trade unions. But the British Labor Party does not simply have *links* with the unions—it was created by them, as their parliamentary voice. The unions affiliated with the Party—presently accounting for more than 6 million members, over half

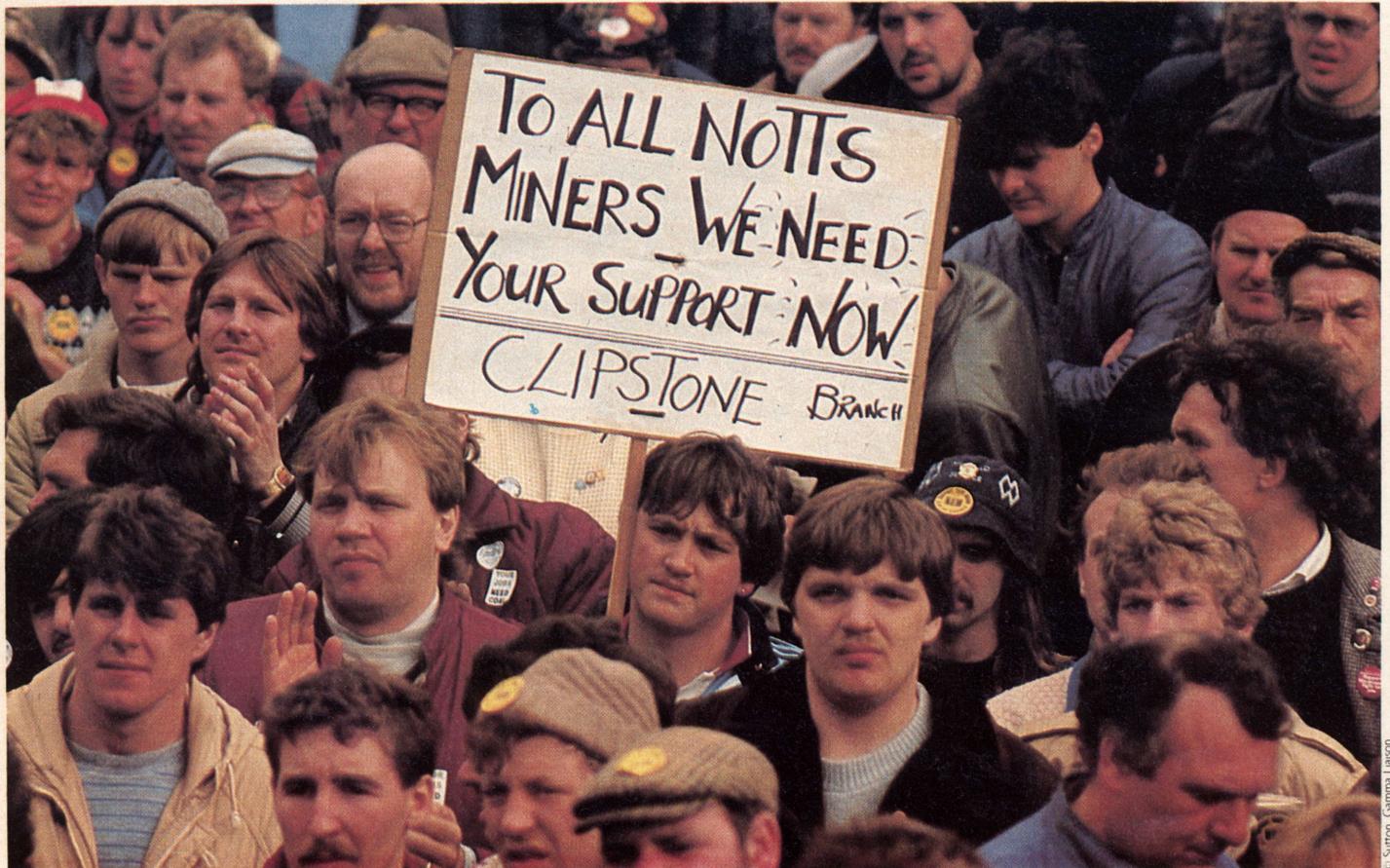
the total unionized workforce of 10 million—command some 90 percent of the votes at the policy-making party conference. They provide some 80 percent of the cash, and they have a very large say in the election of the party leader and his deputy. The unions and the party have proved indivisible: They are “the movement.”

The Prime Minister's dislike of this part-mystical, part-practical creation is of a piece with her preference for things to be rational in her terms. A Socialist party ought, she thinks, to “stand on its own feet” and make its appeal in straightforward Socialist terms. Trade unions, for their part, should make honest business

of offering a service (wage and job protection). Those workers who wish to hire these services should be able to do so; those who do not want them should not be required to take them. But all the talk of “this great movement of ours,” “working class unity” and “together we stand, divided we fall” leaves her cold.

One of Thatcher's most important missions has been to dissolve the traditional coincidence of interest between labor and working class. Typically, she has done more than talk or fume: She has acted, both directly and indirectly, to put flesh on the bones of her belief.

Her *direct* action has been in the legislative field. Two acts—the 1980 and 1982 Employment Acts—have curtailed unions' ability to put pressure on employers by limiting their “immunities.” This has meant narrowing the scope unions' activities may enjoy before being liable for civil action in the courts—the particular British form of union “rights.” Earlier this year, a Trade Union Act was passed enjoining unions to hold elections—usually by mail—for their executive bodies, for the holding of strikes and for the maintenance of their political funds. The Government hopes to simultaneously hobble what it regards as the unions' irresponsible power and to enlist the



Those miners who support the strike have attracted both approval and attacks, but the challenge to Thatcherism has been real enough.

votes of the ordinary members (presumed to be moderate) against the strongly politically motivated leaderships.

Thatcher's *indirect* action (or inaction) unquestionably has been more far-reaching and effective. Unemployment has risen in the United Kingdom from around 1.3 million people (5 percent) in 1979 to 3.3 million (12 percent) in 1984. Part of this has been due to world recessionary pressures, part to the continuing lack of competitiveness in U.K. industries—and a large part due to the deflationary attack on inflation which has been the centerpiece of the Thatcher Government's medium-term strategy.

The consequences of this spiraling increase in unemployment have been borne by all sections of the workforce, but most of all by those in the ranks of blue-collar workers. Their unions—the general and skilled manual unions which are the backbone of the Trade Union Congress (TUC)—have seen membership and funds peel away and have seen their activist-inclined shop stewards retreat into cautious pragmatism as their members sought to keep their jobs.

Both strategies have worked well. The unions, identified in Thatcher's 1979 campaign rhetoric as *the* major contributors to Britain's economic and social decline, by the 1983 election had become so uncontroversial, because so cowed, that they were barely an issue in the campaign—the first time since the late 1960s that they have not dominated the fate of government.

Instead of being able to mount or orchestrate massive strike action to destabilize the Thatcher Government—as many of the leaders and activists wished to do—the unions were forced to accept the fact that the unprecedented power they had enjoyed under the Wilson/Callaghan Labor Governments of 1974-79 had gone.

The 1983 election rammed the point home. The Labor Party's main electoral strength—blue-collar workers, the "true" working class—deserted in huge numbers. Only 38 percent of them voted for the Labor Party in the last election. In 1959, when the Tories also gained a huge majority, the level was 62 percent. Only 27 of the working class as a whole (as distinct from those who voted) voted for "their party."

Ivor Crewe, Professor of Government at Essex University and one of the country's foremost electoral analysts, called this shift "the most significant post-war change in the social base of British politics." Thatcherism had managed, it seemed, to uncouple trade unionism from the Labor Party where it counted.

The trade unions had their own problems, quite separate from those of the Labor politicians. Unemployment had turned the table on them and management was cutting back hard on staffing levels, partly in response to falling markets, partly to offset the increases in productivity which many companies were experiencing. Demarcation lines, a particular feature of British industry, were erased or lowered under the pressure of new technologies. Managements in the United Kingdom—as elsewhere—increasingly resorted to part-time, contract or short-term workers to boost production when required, to be fired when no longer needed.

These managerial initiatives, which have met relatively little union resistance because little could be organized, have begun to produce what Professor William Brown of Warwick University has called the "Japanization" of British labor: This refers to the emergence, especially in large companies, of a "core" of relatively secure, highly skilled, well paid workers, surrounded by a "periphery" of more transient less secure, relatively lowly paid colleagues.

This reserve army of the periphery often lacks union membership, is willing to work for lower than union rates and makes do without the conditions set by well organized work forces. Its members are themselves unwilling or unable to take industrial action and their presence tends to act as a moderating force on the more secure who are able to do so.

All this was working through the British body politic, and the trends appeared to be confirmed by the result of the 1983 election. The conventional wisdom was, quite simply, that organized labor had suffered at the very least a severe setback, at worst a shove down the slope of irreversible decline. The Labor Party itself was written off by some commentators, parallels being drawn with the descent of the Liberal Party to virtual irrelevance after World War I.

The TUC officially gave up its attempts to organize massive protests against the Government and sought an accommodation with the second-term Thatcher Government (only to see that Government respond by banning trade unions at its big, high-security communications base at Cheltenham, an integral part of NATO's intelligence gathering network.)

Then came the miners' strike, a strike which was not supposed to happen, but which has progressively convulsed British public life. Two men have dominated the stage: Ian MacGregor, the Scots-born U.S. citizen whom Thatcher made chair-

man of the National Coal Board last September after he had pushed the British Steel Corporation toward profit, and Arthur Scargill, president of the National Union of Mineworkers, an uncompromising Marxist and veteran of the 1974 miners' strike which toppled the Heath Government.

Scargill had tried twice since becoming president in 1982 to get a strike and failed to get the necessary 55-percent vote in a national ballot. MacGregor produced, in March of this year, a plan for cutting capacity over the next 12 months, with the loss of 20,000 jobs and 20 pits. The most militant mining areas asked the executive for permission to strike (for which a ballot was not required) and were given it. The moderate areas, like Nottinghamshire, held a ballot and got a resounding no to a strike.

Since then, much of the history of the strike has been dominated by the split within the union. Those in Nottinghamshire who continue to work—the vast majority—were subject to mass picketing by their colleagues from Yorkshire. Lone or small groups of back-to-work miners have been taken through surging picket lines in armored buses guarded by thousands of police in the militant areas. Parts of the coalfields have become almost militarized zones. Now, as winter comes, with no settlement in sight, the crisis deepens.

The strike has seen a flouting of rules and great violence, unprecedented police activity and a cascade of legal actions against their union taken by normally loyal miners. It has also focused attention on Thatcher's Achilles heel: unemployment. Scargill, a figure too extreme for many, has still managed to put the Government on the defensive, and to gain support from such improbable establishment figures as Church of England bishops.

Those miners who support the strike have attracted both odium and admiration, but the challenge to Thatcherism from the mines has been real enough. It has embarrassed the TUC and the Labor Party because it has been raw, undemocratic in many ways and often violent. But it has forced the Government into a fight with labor it must have thought it could avoid, helped to bring the pound down to unheard of depths against the dollar and other currencies and is causing a mild, but growing, panic in business and financial circles. From this point, no clear "winner" is discernible, but after the miners' strike, the political terrain will not be the same. €

John Lloyd writes on labor topics for the *Financial Times* of London.

SHOULD U.S. CONSIDER VALUE-ADDED TAX?

SOME ECONOMISTS AND POLITICIANS ARE POINTING TO SUCCESSFUL E.C. EXPERIENCE

JAMES DAVID SPELLMAN

The specter of the federal deficit causing the economic recovery to collapse into a prolonged recession has renewed debate on Capitol Hill about alternative revenue-raising measures. Pointing to Europe's successful experience, some economists and politicians are advocating that the U.S. adopt the value-added tax (VAT).

The E.C. member states all levy the VAT. At each stage of production and distribution, the VAT is imposed on net increases in the value of goods and services after the costs are subtracted. In the manufacture of a computer, for example, the raw-material suppliers, computer manufacturers, distributors and retail stores all in turn are taxed on the value they incrementally add to the finished product. To avoid a cumulative tax, meaning taxing a tax, each company subtracts the VAT earlier paid on goods along with their production costs when calculating the tax base.

The E.C. switched to the VAT when its Council of Ministers agreed in 1967 to harmonize the members' tax systems by replacing their consumption tax codes with the VAT. All of the original members had been using a cascade tax. Like the VAT, this tax was collected in bits, levied each time a good changed hands enroute to the marketplace. Unlike the VAT, the previously paid tax could not be subtracted, meaning the tax was compounded.

Trade distortions resulted for two reasons. The cascade taxes paid on similar products differed widely, depending on the extent to which the manufacturing process remained within one company. And governments could subsidize exports by overestimating the levy on imports and the cascade-tax content of goods they would rebate to domestic manufacturers. To promote trade, the E.C. agreed to abolish cascade taxes.

The type of VAT E.C. members now impose is a "consumption" VAT, which subtracts full investment costs instead of periodic allowances for depreciation of capital when determining the good's added value at a particular stage of production. To collect VAT revenues, European governments use the "invoice" method: Each company must collect VAT on all its sales, deducting the VAT paid by its suppliers only when supported by invoices. All E.C. members rebate any VAT incurred in producing exports and levy VAT on imports without giving credit for consumption taxes paid abroad where the good was made. Typically exempt from VAT in Europe are businesses with low sales, rentals, medical care, insurance, education, lotteries, credit operations and nonprofit organizations.

A number of questions confront the United States before deciding whether the VAT is a viable way out of the current deficit quagmire. How much revenue would VAT raise and at what costs to economic growth? During a cycle of recession to expansion to recession, would incoming revenues be stable? How would the tax influence choices by consumers and businesses on whether to consume or save? Would the VAT encourage particular investments and purchases over others?

The VAT's potential impact on different income groups also raises questions. Could the tax be progressive, using a lower rate for goods largely bought by low-income groups and vice versa? Finally, what ways could be used to effectively administer the tax? What tradeoffs in the tax's neutrality and progressivity would be needed to limit administrative complications. Europe's experience with the VAT sheds some light on these questions.

REVENUE

The general rate of VAT in the E.C. ranges from 8 percent in Luxembourg to almost

17 percent in France. In 1982, the Nine collected \$157.7 billion from VAT, about 16.6 percent of their total collected revenues, according to the Organization for Economic Cooperation and Development (OECD). Most members have increased their general VAT tax rate by at least 50 percent between when the VAT rate was first introduced and today. Denmark's and Ireland's increases are the largest, about 120 percent and 113.4 percent, respectively, while France's was the smallest, 11.4 percent.

VAT's importance as a revenue source has fluctuated widely within the E.C. In France, VAT's share of total revenues has fallen the most, by 22 percent. Italy's decline was smaller, 18.5 percent, and Belgium's dipped by 13.9 percent. For the United Kingdom, Denmark and Ireland, the reverse was true—VAT's share of total revenues rose by 50.6 percent, 19.8 percent and 19.0 percent respectively. The remaining members showed declines or gains of less than 5 percent.

Europe's experience with the VAT has demonstrated that the tax is a more stable source of revenue than income taxes because consumption tends to fall less than income during recessions and rises less during economic recoveries.

The amount of revenues the United States could raise depends on the VAT rate and tax base selected. For example, suppose the exemptions from the VAT were broad—including education, medical expenses, and utilities: the estimated tax base in 1983 would amount to \$892.5 billion, a 41.4-percent share of U.S. total personal consumption that year. This share is roughly equal to that in the E.C. If a 5-percent rate were used, about \$49.63 billion in new revenues would result. As another example, if exemptions were strictly limited, the estimated tax base would rise to \$1,586.2 billion, almost three-quarters of total personal consumption. That would yield \$79.31 billion in income with a 5-percent VAT.

NEUTRALITY

A tax's worth as a tool of economic policy is judged by its influence on rates of investment and consumption. In theory, a flat-rate, across-the-board VAT is neutral; all goods would be similarly taxed, minimizing tax considerations in decisions by businesses and consumers and allowing the market to operate freely. Some economists argue that such a VAT encourages more efficient allocations of capital and resources than an income-tax system.

Unfortunately, there is little research

to substantiate or challenge these claims. If Europe's experience says anything, it demonstrates that fluctuations in VAT have had less impact in determining the level and destination of savings and investment than such factors as interest rates and world economic growth. However, consumption decisions have been greatly influenced.

EQUITY

Taxes in Western economies have had several roles, a key one being to redistribute some income. To make the VAT progressive, a lower rate would have to be levied on goods and services disproportionately bought by low-income groups and vice versa for high-income groups. The simplest VAT scheme would be a flat rate, but that would be highly regressive. A compromise has to be struck between the tax's equity and its administrative problems. Making the VAT progressive would decrease the efficiency and raise the complexity in administering the tax. Exemptions erode the tax base and complicate decisions determining which products and organizations fall within the exempt classifications.

A Brookings Institution fellow, Henry J. Aaron, concluded in 1981 that European experience shows that "multiple rates can be used to eliminate the regressivity of the value-added tax, but that the penalties in administrative complexity, increased compliance costs and distortions in consumption decisions have been high and probably unjustified." By using exemptions, zero-rating and different tax rates for different classes of goods and services, VAT in the E.C. has been made somewhat progressive. Should the U.S. enact the VAT, this assessment will have weight.

ADMINISTRATION

Administrative costs evidently vary widely among the E.C. members. A 1979 *Wall Street Journal* story reported that British businesses incur \$1 billion in costs (12 percent of total VAT revenues) to compute and collect the tax. According to a 1976 study, the administrative costs to U.S. firms would amount to less than 1 percent of their sales. Further, the IRS would have to process at least 25 percent more returns. Whether the administrative costs would outweigh the expected benefits is another question that will decide the VAT's fate in the United States.

Enacting a new tax system is a politically wrenching process. The economic problems attributed to the deficit would

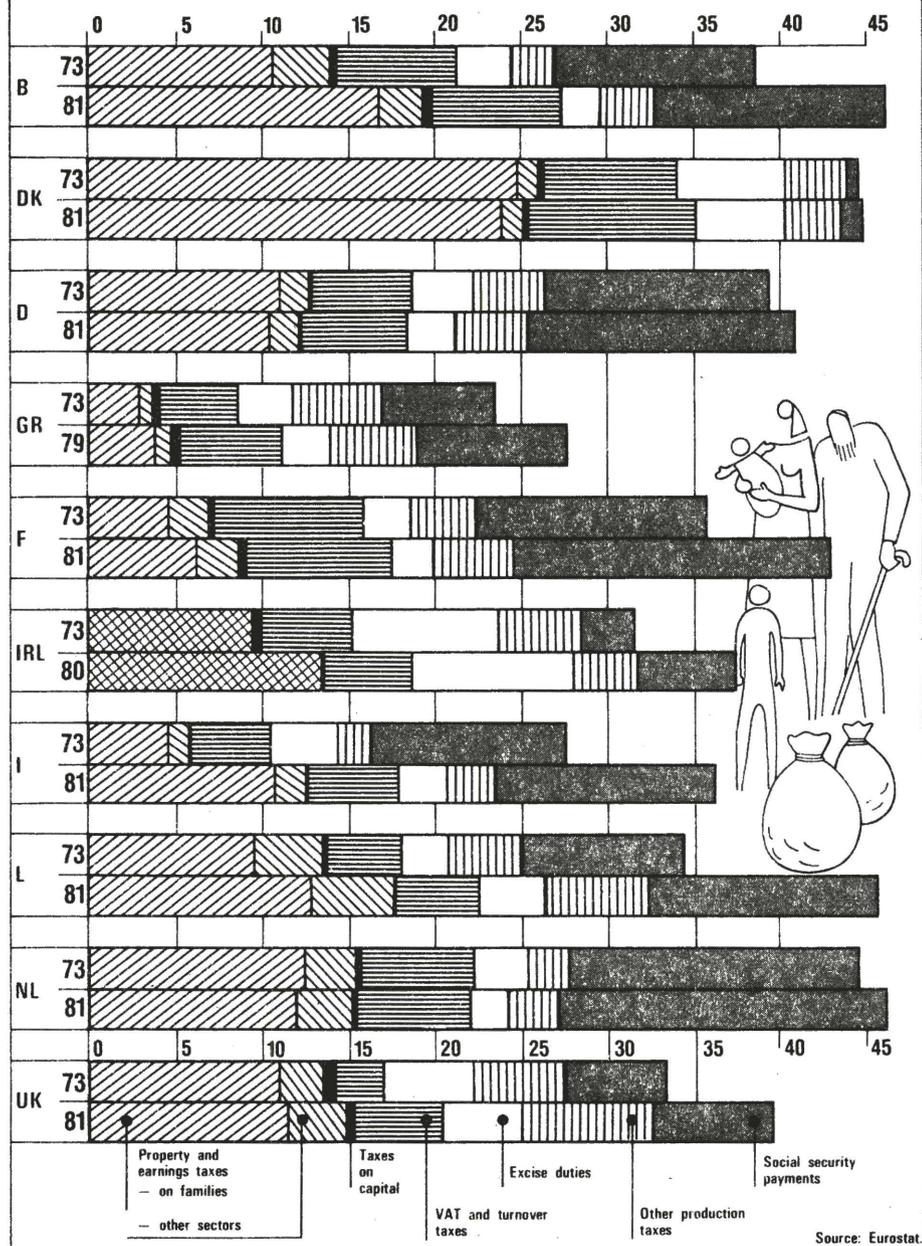


have to be great to generate political support for a new tax. There would also need to be widespread support that government has exhausted all possible avenues in cutting federal spending. As it

stands now, the U.S. seems a long way from following Europe's example. €

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The development of global, mandatory taxation (including social security payments) 1973 to 1981 (in % of GDP)



SOURCE: European Community Information Service. Tax Harmonization.

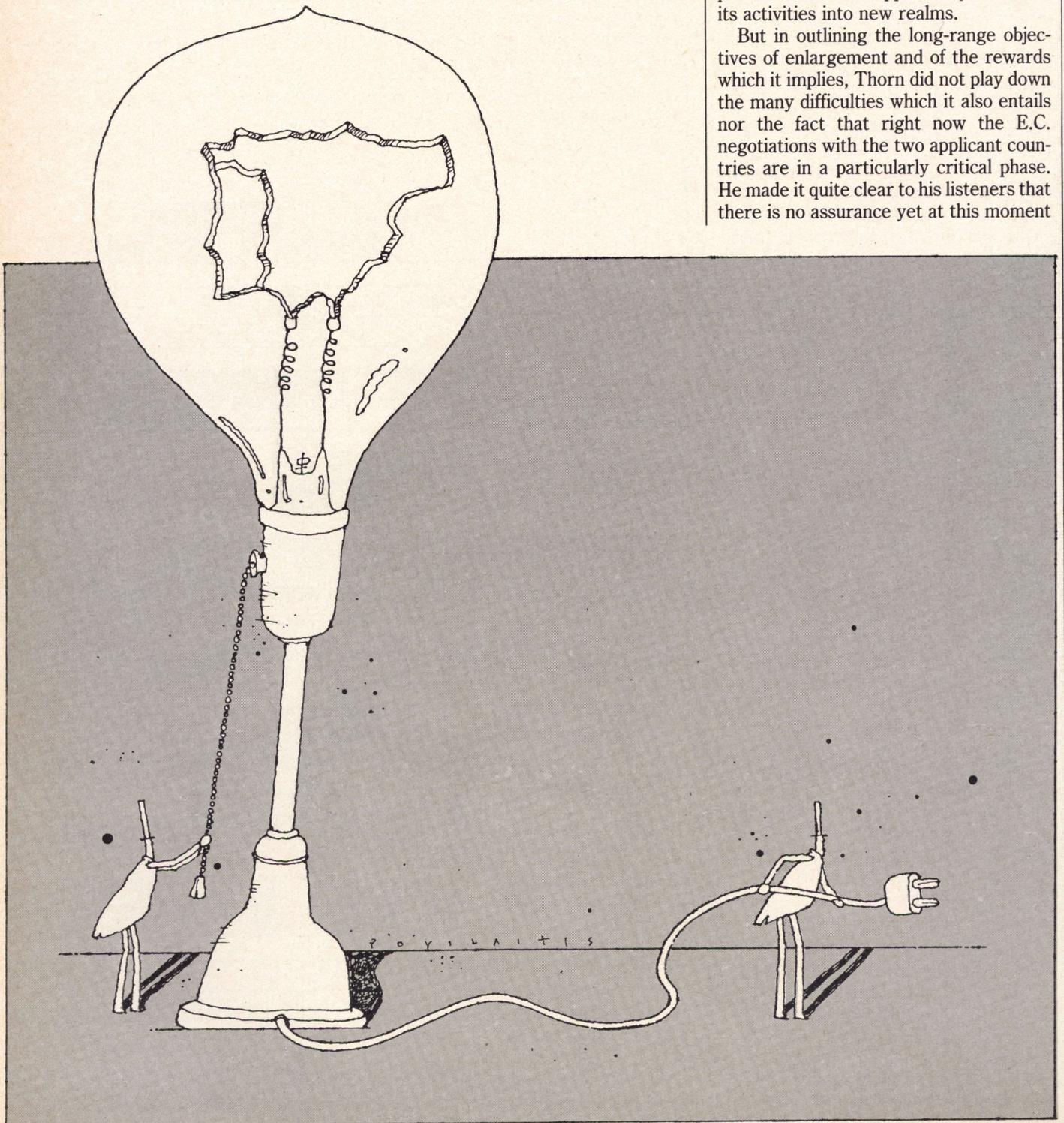
E.C. ENLARGEMENT FACES CRITICAL TEST

NEGOTIATIONS TO INCLUDE SPAIN AND
PORTUGAL BY 1986 ARE "CONDEMNED
TO SUCCEED."

H. PETER DREYER

“We are condemned to succeed,” E.C. Commission President Gaston Thorn said before a high-level Barcelona audience on October 15, 1984. For the accession to the E.C. of Spain and Portugal, which was the central topic of his remarks, would at one and the same time compel the Community to strengthen its internal cohesion and present it with the opportunity to extend its activities into new realms.

But in outlining the long-range objectives of enlargement and of the rewards which it implies, Thorn did not play down the many difficulties which it also entails nor the fact that right now the E.C. negotiations with the two applicant countries are in a particularly critical phase. He made it quite clear to his listeners that there is no assurance yet at this moment



that Spain and Portugal will indeed be full members by January 1, 1986, which has been the target date for many months past.

Increasingly of late, and for good reason, the question has come to be raised in E.C. capitals, as well as in Madrid and Lisbon, whether the membership deadline can indeed be met, or whether there might be further and politically dangerous delays. "We think about this possibility all the time, but we do not like to talk about it," says a senior Commission official.

It is true, of course, that the January 1986 date represents a solemn commitment entered by all the E.C. Governments, and one furthermore which has been confirmed by every European Council (of E.C. heads of state and government) this year and last. On October 24, Portuguese Prime Minister Mario Soares and Irish Prime Minister Garret FitzGerald, president-in-exercise of the E.C. Council of Ministers, signed a "common declaration" affirming the integration of Portugal into the Community by the January 1986 target date. So far, too, ministers keep insisting that the objective will be attained.

But is their attitude realistic? Are they really "on schedule?" Throughout the summer, after all, the game plan had been to wind up the negotiations by September 30, and this day has come and gone—and now is forgotten. It might be argued perhaps that there are still 14 months to go, and consequently no ground for worrying. But such thinking would be altogether delusive for two reasons.

Firstly, an irreducible minimum of nine to 10 months is needed for ratification procedures in the 12 national parliaments involved, and the complex treaties therefore must reach those parliaments not later than April 1, 1985. Secondly, these treaties must first be written (and in many languages), a process which officials claim will take three months. Work on this has not yet started and in fact cannot begin prior to the termination of the negotiations themselves.

Putting it differently, unless these negotiations have been fully concluded by the end of December this year, it is virtually impossible for the two Iberian Peninsula nations to enter the E.C. at the beginning of 1986, as desired. Thus, not many weeks remain. Given the "state of play" by mid-October, it will require, in the words of Thorn, an extreme effort to reach this imperative target.

True, many points, including some quite important ones, have by now been settled in the negotiations which, it must be recalled, have gone on for well over five years. Even they, however, cannot be

considered as final until there is complete agreement on all terms. On October 23d, the Council made the first major breakthrough by adopting a common position on vegetable fats (including olive oil), social affairs and the dismantling of Spain's highest industrial tariffs.

Yet as regards the chief hard-core issues, which naturally are more numerous in the case of Spain's than Portugal's future relationship with the E.C., the negotiators have remained substantially apart until now. This is not the place to discuss in detail the full scope of the problems involved, but by way of illustration it might be stated that, for instance, the Spanish fishing fleet alone is two thirds as big as the combined fishing fleets of the 10 present E.C. member countries.

Almost more to the point still, on such incisive matters as fisheries, wine, fruit and vegetables to name the most outstanding, the E.C. member states have not yet been able to agree among themselves on what to request from or offer to the two applicants.

There exists thus a situation, not necessarily unique in the E.C., where, at the highest political level in the capitals, solemn declarations favoring Spanish and Portuguese membership follow one another in rapid succession, but things are distinctly different slightly lower down. There, most national administrations are making truly heroic efforts to get as much as possible out of the accession of the two candidate countries, while at the same time limiting to the utmost the cost and possible damage to their own economies.

What all this amounts to is that E.C. Foreign and Agriculture Ministers must get together quickly on the numerous controversial topics which in many sessions so far they have failed to resolve. It is only if, and when, they succeed, and after the Spanish and Portuguese delegations have had some time to consider any E.C. propositions and possibly come forth with counterproposals of their own, that true negotiations on the chief points now separating the two sides can get under way.

Given these harassing time constraints, which must get worse with every precious week that passes without significant progress, the question obviously comes to the fore whether a further delay in getting the two countries into the E.C. would be all that devastating, and whether the January 1986 deadline is inviolable. In this connection it needs to be noted that a postponement, if any, would most likely have to be for a full 12 months, as the accession of a new member at a time other than the first of a

calendar year would cause major administrative problems.

Unfortunately, there can be little doubt that failure to stick to the target would be bound to have serious and wholly adverse implications on both sides of the negotiating table. Within the E.C. itself, it is not just—though that would be bad enough—that this would strike a severe blow at its credibility, both within and outside. There is also the anything-but-imponderable circumstance that the urgently needed and finally agreed-on stocking up of the Community's value-added tax revenues is tied to Spanish and Portuguese membership, the two in fact to be enacted through one and the same ratification procedure. The Federal Republic of Germany above all has made it quite clear that it will not abandon this link in any event.

As for the candidate countries, their inability to join at the date so long and so vocally held out to them would certainly be a matter of political embarrassment to the Socialist Governments in Madrid as well as Lisbon, to say nothing of the negative impact (worse assuredly for Portugal than Spain) on their economies. For another complication, and in what could affect their E.C. stance altogether, both these Governments will have to confront vital elections fairly soon. Last, but not least, there exists for Spain the additional grave issue of an upcoming referendum on membership in the North Atlantic Treaty Organization which the country joined in the expectation that this would make it easier to get into the E.C.

Another problem is that, should the extreme effort demanded by the Commission President prove unavailing and assuming furthermore that the Spaniards will not call it quits in a fit of pique, the only two alternatives to delay are just as unacceptable. The first would be that Madrid in the end compromise and accept many conditions it finds totally disagreeable—a bad preparation for harmonious membership. The second alternative is that important parts of the negotiations be swept under the rug, as it were, and left undealt with for now, in the (presumably futile) hope that they can be straightened out once the two countries actually are members. This latter approach Thorn quite rightly described as counterproductive.

Consequently, the situation now must be summed up by saying that on the enlargement issue, the E.C. finds itself in a box. The remaining weeks of 1984 will show whether and how it manages to get out of it. ☛

H. Peter Dreyer is the Brussels correspondent of the *Journal of Commerce*.

QUESTIONS RAISED ON TRANSPORT OF NUCLEAR MATERIAL

EUROPEANS SEEK NEW RULES GOVERNING SHIPMENT OF DANGEROUS OR TOXIC PRODUCTS AND WASTES.

ANNA LUBINSKA

Several months ago, just before the Turkish film director Yilmaz Guney died, Belgian television broadcast one of his many good films. "The Flock" tells of a family of shepherds whose last chance of livelihood falls through when the sheep they have grazed die on the way to market in Istanbul in a railroad car. The animals die because the freight car previously had been used to transport a dangerous pesticide, but no one had taken any notice. Although the example is extreme, it does illustrate the

importance of clear information and safety precautions when dealing with the transport of dangerous and toxic substances and wastes.

Recently, 278 kilograms of plutonium oxide destined for the Japanese experimental fast breeder reactor were guarded by the Japanese army, with the ship flanked by French and U.S. warships and its journey tracked by satellite. Because of publicity surrounding the shipment, the public was informed. The same cannot be said in the case of the recent ship collision involving the French freighter *Mont Louis* which was carrying

uranium hexafluoride (enriched and not) to the Soviet Union. The storm-whipped waters of the North Sea were not the only murky place during the weeks following the accident, which took place in busy shipping lanes on August 25th, 18 kilometers off the Belgian coast. The information released by both the Belgian and French authorities—originally prompted to break the news of the accident by the Greenpeace international environmental organization—seemed to fluctuate with the tide.

With the last "hex" container safely dispatched to Pierrelatte, France, the public hue and cry has died down in Europe, but a number of questions remain unanswered:

- Why was so much secrecy allowed to shroud the transport of the dangerous cargo? If the authorities had been more open, could public fear and speculation have been avoided?
- Why did the captain not reveal the nature of the cargo he knew he was carrying? If the alarm had been raised immediately, salvage experts would have gained valuable time in retrieving the cargo.
- Why were the trucks carrying the



The recent sinking of the *Mont Louis*, above, shows the urgent need for greater security measures in the transportation of toxic waste.

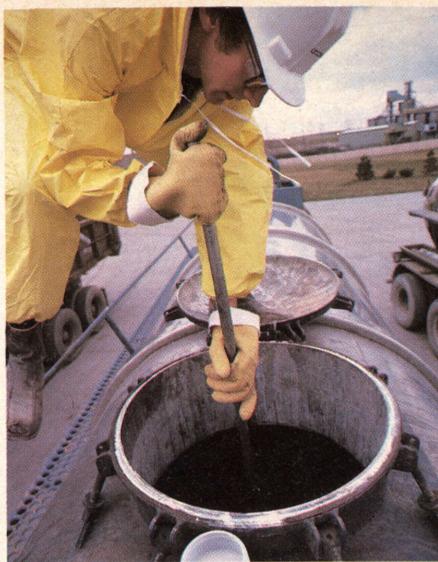
goods some 1,000 kilometers from the Pierrelatte nuclear complex to Cherbourg not marked?

Similar questions concerning information were raised earlier this year in the E.C. when 41 drums of dioxin-contaminated soil from the site of the trichlorophenol reactor explosion in 1976 in Seveso, Italy, disappeared mysteriously. With a little help from Greenpeace again, they were discovered in a warehouse in St. Quentin, France, in March 1983. A number of European companies were involved in the shipment, but it took several months for the details to surface.

As industry is quick to point out, neither of these incidents took lives. This is true. The 16-millimeter steel casings containing the "hex," which serve to heat it up in order to release it, protected the contents from the marine environment and vice versa. The drums containing the Seveso wastes were tightly sealed. In view of the volume of dangerous and toxic substances which are moved in the E.C. (200,000-300,000 trucks every year), accidents during transportation are relatively few. Some are due to chance, some can be put down to the traffic, but some are also due to negligence, inadequate labeling and carelessness, which, even if unintentional, can have serious consequences. It is this context that the E.C. can give "teeth" to existing international conventions and agreements.

There are about 10 different international conventions and European agreements governing the transport of dangerous goods. Most important, however, is that they have not all been ratified by all participating states. Neither Greece nor Ireland, for example, have ratified the agreements covering transport of dangerous goods by road (ADR) or rail (RID). Air-transport rules (ICAO) are stricter and sea transport still remains unresolved. A convention proposed by the International Maritime Organization (IMO) on the transportation of dangerous goods (including radioactive material), which would reinforce current labeling and packaging requirements, has floundered because signatory states could not agree.

Secondly, none of these agreements are mandatory. Also, states tend to apply stricter rules with regard to dangerous cargo transportation within their own borders. Directives adopted by the E.C.'s Council of Ministers are, on the other hand, binding on member states. Breaches of these laws can lead to cases before the European Court of Justice. In the case of transport of dangerous substances, the E.C. Commission is in the process of setting up a task force made up of environment and, for the first time,



Above, testing tanker cans.

transport officials. They will examine the possible need for the E.C. to accede as a single body to these conventions and, by introducing Community legislation, enforce them among the 10 E.C. member states.

A far more immediate problem, however, has been posed by the fact that the transfrontier shipment of dangerous and toxic wastes has not been covered by these international conventions nor by E.C. rules adopted in 1978. The 1978 directive sought to monitor and control the storage and disposal of certain toxic and dangerous wastes. It made no allowance, however, for transport of such wastes across E.C. borders because this activity only became apparent in later years, as the volume of special wastes grew, requiring more landfill, dumping at sea or special incinerators.

Not all E.C. member states are in a position to deal with particularly dangerous or toxic wastes. Greece, Luxembourg and Denmark, for example, are too small and cannot afford to build special disposal facilities. The Netherlands bans landfills because of the country's high water table. The solution is to export the wastes to specialized facilities such as the 100 or so that exist in the Federal Republic of Germany, or even beyond the E.C. to the German Democratic Republic, where cheaper disposal plants attract clients. Of the 30 million metric tons of toxic waste produced annually in the E.C., 3 million tons cross borders, of which 300,000-500,000 tons alone go to the German Democratic Republic.

During a European Parliament enquiry which followed the Seveso dioxin hunt, it became clear that not all of the Ten had applied the 1978 directive. Among the worst offenders were France, Belgium (dubbed by some as the "trashcan of

Europe"), Italy and Greece. The Netherlands and the Federal Republic of Germany (which is the only E.C. country to impose a system of permits for the movement of dangerous and toxic wastes) scored well legally, although illegal dumps were uncovered all over the Community. But not all countries had monitored dumps, which made things all the more easy for midnight movers dumping wastes nationally or sneaking across borders.

In June 1984, E.C. Environment Ministers adopted rules to control the cross-border transport of dangerous and toxic wastes. These oblige the shipper to produce evidence that a suitable waste facility awaits the shipment and that the receiving country has been notified and does not contest. They also include labeling and packaging criteria, as well as environmental risk potential. Because of the increased volume of wastes treated outside the Community, the directive also applies to non-E.C. countries accepting dangerous and toxic wastes.

The Commission's directive was welcomed by the chemical industry for which harmonized accompanying documents will reduce delays. But industry is not so happy about the principle of "producer liability" which the Commission has suggested for such shipments. As yet unsettled, this question will form the object of a Green Paper by the Committee. Some experts believe that such a system, together with an efficient back-up system of insurance and re-insurance (which the E.C. already applies in the nuclear field), is the only way to guarantee speedy compensation and a high level of security.

Recent events have prompted the E.C. member states to push through controls on the cross-border transport of wastes. Following the Mont Louis accident, E.C. Commissioner Karl-Heinz Narjes, whose portfolio includes nuclear safety, suggested the possibility of E.C. rules which would limit the sea transport of dangerous goods to a certain number of ports and tighten up controls on loading operations. The scope again would include third countries. But getting member states to accept an E.C. regulation in a field in which they dispute its competence is not going to be easy, according to the Commissioner, as discussions in the much wider context of the draft IMO convention have proved.

The Commission should not be daunted. If there is opposition from some countries, there are also those that are prepared to act quickly. ☾

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E.C. EYES NEW TIES IN CENTRAL AMERICA

MINISTERIAL MEETING SIGNALS INCREASED POLITICAL AND ECONOMIC RELATIONS.

MARC PIERINI

On September 28-29, 1984, a conference of Foreign Ministers of the European Community and Central American countries was held for the first time ever. On March 1, 1985, the third Lomé Convention—a pact on trade, aid and investment between the E.C. and more than 60 developing countries, including 13 Caribbean countries—will take effect for the period 1985-89.

These two events in themselves show how important Central America and the Caribbean are for Europe. Yet, relations between the E.C. and the Caribbean Basin region have developed as two different sets of policies, mainly because of the different histories of the two groups of countries in the area.

In the Caribbean, E.C. member countries have had a long colonial presence that—in many cases—ended only recently. It was indeed the British accession to the E.C., effective in 1973, that brought about the negotiation of the first Lomé Convention in 1973-74. Most of the 13 Caribbean members are former British colonies, one a former Dutch colony. The Lomé Convention benefits are also extended to the Netherlands Antilles and the British overseas territories. France is also present in the Caribbean through its overseas *départements*.

In Central America, on the other hand, only one country—Belize, a member of the Lomé Convention and a former British colony—has historical ties with the present E.C. countries. Nonetheless, Spain, which will soon join the E.C., ruled the Central American region for about 300 years until 1821. Spanish accession to the E.C. will undoubtedly help strengthen cooperation between Europe and Central America.

In economic terms, relations between the E.C. and the Caribbean region as a whole are significant: \$2.7 billion worth

of exports to the E.C., \$2.3 billion worth of imports from the E.C. annually and about \$120 million in aid each year.

Lomé and the Caribbean

The Caribbean signatories to the Lomé Convention are Antigua-Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, St. Christopher and Nevis, St. Lucia, St. Vincent and the Grenadines, Surinam, Trinidad and Tobago. The Convention grants duty-free access to the E.C. market without reciprocity, subject to compliance with agreed rules of origin. For those products also part of the E.C. Common Agricultural Policy, there is preferential access. For sugar exports, a special agreement guarantees a higher-than-world-level price for agreed supplies; on average, this alone represents annually a \$30 million addition to export receipts for sugar exporting countries.

A wide array of financing instruments is available to these 13 countries through the Lomé Convention in the form of grants, soft-loans or development loans. These can be used to finance: a) country programs or regional Caribbean programs, b) government, semi-public or private investments, c) any sector from transport infrastructure to hotels, from rural production to a regional shipping line or airline and d) various forms of financial involvement such as direct help to government investment or lines of credit to development banks, or equity participation. The two financial arms of the Lomé Convention are the European Development Fund and the European Investment Bank: together they allocate annually about \$60 million to these 13 countries.

In addition, a scheme called "Stabex" provides for compensation of shortfalls in earnings derived from exports of agricultural commodities to Europe such as bananas from the Windward Islands or nut-

meg from Grenada. Another scheme, called "Sysmin," is providing finance for rehabilitation operations in the mining sector.

The Lomé Convention was hailed as "a new model for relations between industrialized and developing countries, a model for cooperation on a basis of complete equality of partnership" (Bernard St. John, of Barbados, at the signature ceremonies of Lomé II in 1980). Most trade-and-aid schemes benefiting developing countries are usually granted on a purely unilateral, revocable basis. The "Lomé policy" brings about substantial additional benefits:

- Because it is a five-year, legally binding treaty, its trade-and-aid benefits are guaranteed. This means that Caribbean governments can rely on highly predictable trade-and-aid behavior from the 10 E.C. countries. For Caribbean businessmen, it has meant permanent duty-free access since 1975 to a European market of 270 million people.

- Because of its multipurpose nature, it offers an array of trade, finance and investment measures, combined in one single agreement. Each Caribbean country has equal access to these instruments.

- Because it provides for a permanent dialogue between Europe and Caribbean governments, both at technical and political level, high officials, Cabinet members and members of Parliaments meet at regular intervals to clear any difficulties that might have arisen.

- Because it addresses, on an equal footing, a group of developing countries, it prevents discrimination on purely political grounds. Therefore, in the event of political change, neither trade-and-aid benefits nor E.C.-sponsored investment programs are interrupted.

The Lomé Convention, like the United States' Caribbean Basin Initiative, carries a set of provisions called "rules of origin" which have sometimes been criticized by Caribbean countries. Their rationale is simple: the exceptional step of granting duty-free access to a given group of developing countries implies the setting up of some discipline to ensure that the duty-free area results in a genuine trade preference for the countries concerned. These rules also protect E.C. tax-payers who ultimately forego the proceeds of the custom duties.

Another reason is that a legally-guaranteed zero-tariff arrangement, such as the Lomé Convention, is a powerful incentive to lasting investments in capital, technology and know-how. In turn, one must ensure that the beneficiary country

(i.e. its economy, its budget, its people), and not some third country, ultimately benefits from these investments. Serious enforcement of the rules of origin is also a way to ensure that investors will be committed to the host country.

Central America

So far, relations between the E.C. and the five Central American countries—Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua—as well as with Panama, the Dominican Republic and Haiti, have consisted in trade arrangements under the E.C. Generalized System of Preferences (GSP) and annual foreign-aid allocations.

The E.C. is the third main export outlet for these five countries, absorbing about 17 percent of their total exports. Nearly 30 percent of these exports enter duty-free; and 7 percent are eligible for favorable GSP treatment; another 46 percent enter at a duty of 5 percent. Nevertheless, the rate of utilization of the E.C. GSP scheme by these countries is very low, about 5 percent. This is why seminars are run by the E.C. in these countries to help their economic operators fully utilize the opportunities offered under the scheme.

Over the past five years, E.C. aid to these five countries averaged \$56 million per year and came entirely in grant form. It was used mainly for projects in the rural sector, but also for food aid and regional integration institutions. Together, the E.C. and its member states provide about 17 percent of the total Official Development Assistance received by these countries.

The September 1984 ministerial meeting in San José, Costa Rica, signaled a

new beginning. Assembled at the initiative of Costa Rican President Luis Alberto Monge, the meeting brought together for the first time the Ministers of Foreign Affairs of the five Central American countries and of the ten E.C. countries together with E.C. Commissioner for Development Edgard Pisani, and Foreign Ministers of the four Contadora countries (Colombia, Mexico, Panama, Venezuela) and of Spain and Portugal which are soon to join the E.C. Their meeting was about creating the conditions for a new type of political and economic dialogue between Europe and Central America. They undoubtedly succeeded.

The agreement reached in San José covers three broad areas: political, economic and procedural questions. In the political area, the E.C. member states went further than their previous statements in support of the Contadora process (such as the one made by the European Council summit of E.C. heads of government of June 1983 in Stuttgart). Moreover, the communiqué contained language agreed upon by all Ministers present: They concurred that "the problems of that region cannot be solved by armed force, but only by political solutions springing from the region itself." They found the Contadora process to be "the best opportunity to achieve a solution to the crisis" and they agreed on "the necessity for the verification and control" of the implementation of a Contadora agreement. In addition, the Europeans expressed their willingness to support the implementation of any agreement emerging from the Contadora process.

In the economic field, the E.C. and

Central American countries agreed to open negotiations for a region-to-region framework cooperation agreement. The intention is to reach an agreement by summer 1985. In addition, the E.C. agreed to simplify the use of its Generalized System of Preferences and to extend its benefits for Central America. Concerning financial assistance, the E.C. committed itself to do everything possible toward the development of the region. As a matter of fact, the E.C. Commission has already put forward to the 10 E.C. member states proposals to step up financial assistance to the region.

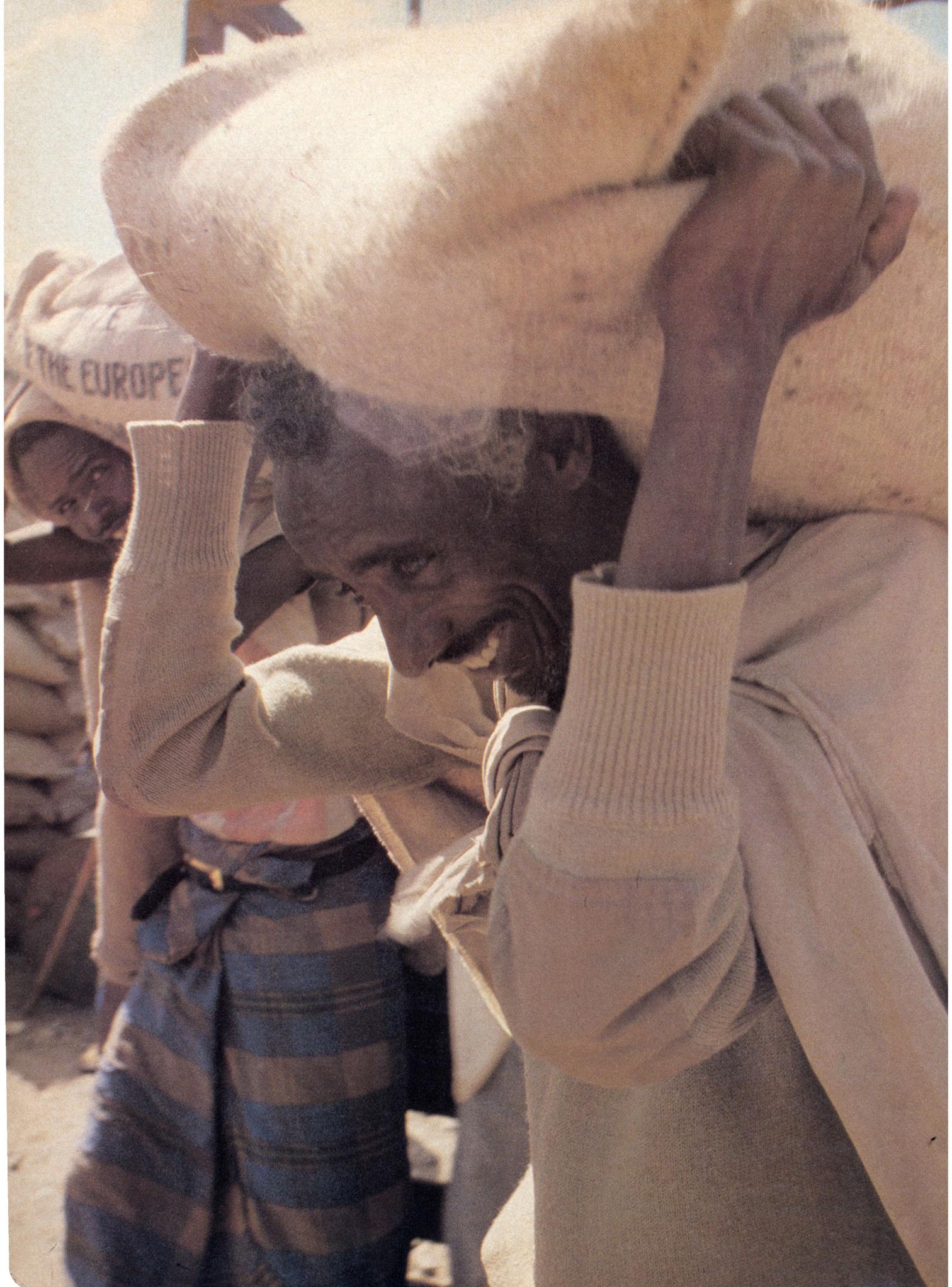
Procedural arrangements also were made in San José. It was agreed that further E.C.-Central American meetings will take place at regular intervals at ministerial and official level. In addition, the E.C. Commission will soon open a permanent office in San José, Costa Rica.

Though geographically distant and a relatively minor trading partner, the E.C. brings to Central America an essential message: After centuries of wars and struggles, the European countries decided—through regional economic cooperation initially, then with further steps toward unity—to move away from internal European rivalries, from what now appear as European civil wars. In the words of Pisani at the San José Conference: "... [between us] war is now impossible, unimaginable. War has been excluded from our mental categories, it is not a part of our language any more. Between us, I certify it, war is dead." ☾

Marc Pierini is responsible for development affairs at the E.C. Commission's Delegation in Washington, D.C.



Foreign Ministers from 21 European, Central American and Contadora countries sign the final document at San José in September.



REFUGEES BENEFIT FROM E.C. FUNDS

DISASTER RELIEF, LARGELY UNHERALDED, HELPS THOUSANDS OF HUNGRY AND HOMELESS.

MALCOLM SUBHAN

Drought, floods and hurricanes are nothing new. But on today's crowded planet they can leave far more people homeless than in the past, especially in the poorer countries. And just when the balance of terror has brought an uneasy peace to the richer countries, in many poorer ones, political and social turmoil is forcing people to leave their homes for the precarious safety of refugee camps.

If the scale on which disaster relief must be organized is much greater today, so is the number of agencies trying to cope with it around the world. Many of them are non-governmental organizations, such as Oxfam, War on Want, Caritas Germanica and Médecins du Monde. Others are international agencies, ranging from the Red Cross to UNICEF and the U.N. High Commission for Refugees. More surprising, at first sight, is the presence among these agencies of the European Community. After all, there is a dense network of relief agencies throughout the E.C., and the 10 E.C. member states individually contribute large sums each year both to national organizations and to the various U.N. agencies. Is there any need for an economic community to involve itself in humanitarian work?

The E.C.'s involvement in emergency aid goes back some 15 years. Under the second Yaoundé Convention the E.C. undertook to help the 18 African states linked to it through the convention with emergency aid in time of natural disasters. The E.C. also broke fresh ground in providing the 18 countries with financial help in times of low commodity prices. This was the forerunner of Stabex, the mechanism for stabilizing export earnings which is a key element of the Lomé Convention, the trade-and-aid pact linking the E.C. to 64 African, Caribbean and Pacific (ACP) countries.

Natural disasters ignore national frontiers and there are refugees in Asia and

Latin America as well as in Africa. Recognizing this, the European Parliament decided in 1971 to extend emergency aid to these countries through the E.C.'s own budget. As a result, there is virtually no Third World country which cannot turn to the E.C. for help in coping with natural disasters and refugee relief.

The sums provided are not enough in relation to the overall needs, of course. This is because the E.C. believes it is better placed to help developing countries deal with their more long-term development problems. While recognizing the need for emergency aid to save lives in a calamity, the E.C. is more concerned with providing longer-term economic help. As a senior E.C. Commission official, Gérard Molinier put it: "We are the Community's firemen. Our job is to help people when disaster strikes, bringing them food, medicines, tents, blankets and eventually finding the transport needed to get supplies through to the victims. Long-term aid is the responsibility of others in the Commission and the Community." (For further detail of specific grants see p. 50.)

But is it logical to make a distinction between emergency and development aid? If the lives saved by emergency aid are to be assured a reasonable future, then provision must be made to help them on a more long-term basis when necessary.

The issue was raised during the negotiations for the new Lomé Convention. Both the E.C. and the ACP countries felt the need to revise the provisions for emergency aid. They agreed that such aid should continue to be extended to ACP countries facing serious economic and social difficulties of an exceptional nature and that it should cover immediate needs. Both sides reportedly agreed that emergency aid could be used to repair buildings and vital equipment as well as to provide food, shelter, medical supplies and seeds. This means that reconstruction and rehabilitation programs eventu-

ally can be integrated into the national indicative programs of the ACP countries.

Any moves in this direction can only increase the effectiveness of emergency aid and ensure that the sums devoted to it yield long-term benefits. During the first nine months of 1984, the E.C. had allocated some 29 million European Currency Units, or ECU, (currently about \$22 million) in emergency aid for the ACP countries and another 8 million ECU for the non-associated countries in Africa and Latin America. By the end of the year, it could commit another 30 million ECU under the Lomé Convention and up to 5.5 million ECU in the non-associated states.

Most of the emergency aid this year has gone to save lives in drought-stricken areas of Africa. The exceptions have been cyclone relief (in the Philippines, for example) and aid to refugees in Central America and Thailand. A glance at the relief projects suggests that large parts of black Africa have been hit by drought, which inevitably has been followed in many regions by famine and a shortage even of drinking water.

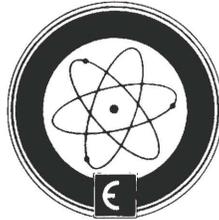
Proposals for emergency aid are received by the Commission in Brussels from a variety of sources. They include its own representatives in the field, non-governmental organizations, the Red Cross, international agencies such as the World Food Program and governments themselves. The projects selected by the Commission are implemented by these same institutions and, on occasion, by the national government, but under the supervision of the Commission's own representative (usually the delegations which it maintains in the ACP countries and some Asian and Latin American capitals).

Earlier this year, the Commission took the initiative to send its own team to Mozambique to help fight famine. The reason was simple: none of the agencies the Commission normally relies on was in a position to take on the task. In view of the urgency of the situation, the Commission asked the German Red Cross to put together a four-man team on its behalf, which it then flew out in a specially chartered aircraft along with relief supplies and Land Rover. Indeed, for a long time the E.C. team was the only one.

The E.C. frequently made the headlines during 1984, but often because of its budgetary problems and its economic difficulties. Its aid program went unnoticed, although to thousands of people in Africa and elsewhere it was an important lifeline, sometimes the only one. €

Malcolm Subhan is the Brussels correspondent of *The Economic Times* of Bombay.

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New Issue - July 1984

THE FEDERAL REPUBLIC OF

GERMANY

ECONOMIC GROWTH REBOUNDS, BUT UNEMPLOYMENT REMAINS HIGH.

WELLINGTON LONG

Despite the recent strike by metal workers that closed most of the Federal Republic of Germany's automobile plants for a month, Germany probably will achieve 2.5 percent real growth in its gross national product this year—less than dramatic, perhaps, yet a reversal of the trend inherited by Christian Democrat Helmut Kohl when he formed his Government two years ago. Unfortunately, that growth is not matched by a reduction of unemployment, which remains stubbornly at around 2.2 million people, partly because the children born during the baby boom of the 1960s now are entering the labor market at a time when few new jobs are being created.

Meanwhile, the debate over how to deal with *Waldsterben*, or the destruction of forests, also has counteracted, to a certain extent, the buoyancy felt by business after Kohl came to power. Above all, the emergence of the ecological party known as the Greens, just as the center of power shifted to the right, has shaken politics. In some places, the Greens already have replaced Foreign Minister Hans-Dietrich Genscher's Free Democrats (liberals) as the third, balance-of-power party.

IG Metall, the metalworkers union, called the strike in support of its demand for a reduction of the work week with no corresponding loss of pay. The union's leader argued that this would force owners to hire new people and thus sop up unemployment. So far, it seems not to have worked that way, and even government ministers have complained that management apparently is trying to make up the summer's loss of production by scheduling more overtime shifts rather than by increasing staff.

Although the strike was the most serious in years, it had little effect on the economy other than the loss of produc-

tion. Prices are stable, long-term interest rates have dropped slightly and exports are rising, particularly to North America—to the United States up by 49 percent during first half of the year and to Canada up by a startling 54 percent. Although imports in real terms have risen less than exports, the swelling strength of the U.S. dollar has bumped up their prices so that Germany's export surplus for the year may be slightly smaller than for 1983, when it reached 42.1 billion deutsche marks (currently about \$13.6 billion).

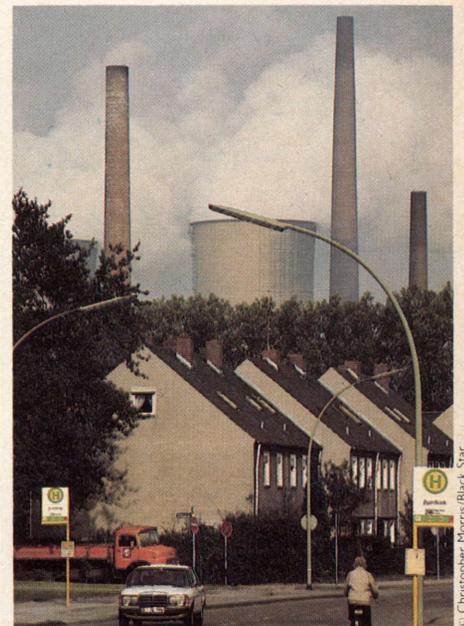
The dollar now costs more marks than in the last 12 years and every householder and driver in the Republic feels it in his own pocket, as the prices for heating oil and gasoline rise steadily—for the latter, something like 18 increases during the first nine months of the year. Economists believe that GNP will grow in 1985 by about another 3 percent, and the Government has promised a new impulse the year after that, with income-tax cuts that in particular provide relief for families with children.

In the meantime, the problem of *Waldsterben* keeps pushing itself to the fore, with one result being added costs as industry is required to reduce pollution. The Germans are more worried than anyone else in Europe about their trees. They have always managed their forests better than most of their neighbors, and they became sensitive to the effects of air pollution on them long before other Europeans. This is at the root of the differences between Bonn and its European Community partners over the date at which automobiles should be required to meet U.S. exhaust standards: The Germans perceive an emergency; its partners do not, at least not yet.

The latest government survey showed that 50 percent of the German trees are damaged to some degree by air pollution. Broken down, the figure sounds less frightening—about one-third of the trees

are identified as "slightly damaged," so slight that a hiker with an untrained eye cannot see it. At the other end of the scale, 1.5 percent of the trees are listed as "seriously damaged or dead." Most trees live for about a century. The third of the trees now "slightly damaged" obviously won't live that long, but no one yet knows how much shorter their life span will be.

Interior Minister Friedrich Zimmermann, who is responsible for environmental questions, puts the blame partly on those who blocked the construction of nuclear power plants for so many years. He contends that France suffers less air pollution over its forests because the French have built about twice as many nuclear power plants as has Germany. Construction of nuclear power plants has resumed. By the end of the year, about 28 percent of Germany's electricity will be generated by nuclear power plants, rising to an estimated 35 percent by the end of



Stability of prices and rising exports to the U.S. and Canada have contributed to economic growth in Germany.





© Richard Buetner

Frankfurt/Main, above, has established itself as Germany's banking center.

the decade. But the opponents of nuclear power have not given up. The local initiatives that fought it during the 1970s have generally been amalgamated into the Greens, and they have won national clout.

In the same election in early 1983 that confirmed Christian Democratic leadership of the government, the Greens also won representation in the federal parliament for the first time. Since then, they have acquired the balance-of-power position in the state of Hesse, where they tolerate a Social Democratic Government, and stand to repeat that performance next year in the state elections in Berlin, the Saar, and North Rhine-Westphalia. But their success has raised new problems for the Greens, as they are faced with the possibility that they might be asked to accept Cabinet posts.

For the moment, the Greens are an anti-party party. One group argues that this must continue to be the party's pos-

Opposite page: Bad Kreuznach.



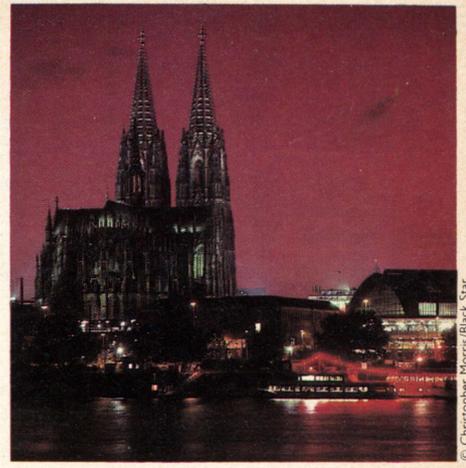
© German National Tourist Office

Worry and alarm over the future of Germany's environment is a main concern of the Green Party. Pictured above is the Rhine Valley.

ture. They believe that abandonment of its fundamental opposition to shared responsibility for managing an economy they reject would be a betrayal of their voters. But others fear that voters recently won will start to slip away if the party is seen to be unwilling to accept responsibility on any terms. The great concern of Chancellor Kohl's Christian Democratic Party is that coalitions of Social Democrats and Greens might nudge them from power in several of the states they now control.

To general surprise, Kohl has embraced the *Ostpolitik* developed by Social Democrat Willy Brandt when he was head of government, continued by his successor, Social Democrat Helmut Schmidt, and always fought so bitterly by the Christian Democrats while they were in opposition. Kohl has taken considerable pains since, and despite, the first deployment of U.S. Pershing missiles in Germany to keep a dialogue going with the Soviet bloc. He picked up quickly on German Democratic Republic President Erich Honecker's remark that leaders must seek to limit the damage caused by the missiles dispute. He invited Honecker to visit him, and Honecker accepted, only to cancel at the last moment under pressure from Moscow.

That was the first setback to a relationship that had been developing smoothly despite the mutual hostility of the two superpowers. After the Bonn Government guaranteed two commercial bank loans totaling 1.9 billion marks to the German Democratic Republic, Honecker announced several relaxations on travel between the two states, started dismantling the automatic firing devices along his border and suddenly permitted about 27,000 men, women and children to emi-



© Christopher Morris/Black Star

Cologne is noted for its cathedral, and for its historic ties with the Roman Empire.

grate to the Federal Republic. Still, some of Kohl's own supporters thought the concessions too few when compared to the huge loans. There also was some muttering that Kohl had failed to prepare the party for the loan deals, which violated the Christian Democrat's own traditional insistence that Communists should be lent money only if they agree, in advance, to something in return. This unrest among some of his supporters may explain why Kohl decided to be the first head of government in 15 years to address a rally of Germans expelled from Eastern Europe after World War II.

On the domestic political front, Kohl's biggest problem is the continuing saga of allegedly illegal, tax-deductible payments made to his and other political parties by various industrialists including Friedrich H. Flick. The Greens are the only parliamentary party untainted by the political-payments tar brush which already has claimed several victims, including Count Otto Lambsdorff, the former Minister of Economics who was instrumental in switching Genscher's party out of its alliance with the Social Democrats and into a marriage with the Christian Democrats. This move made it possible for Kohl to form a Government. Other victims probably will follow, and the affair probably has won the Greens new supporters among anti-establishment voters.

The federal government, however, is almost certain to weather the affair. As Kohl has survived several involving other ministers. The mandate of the present parliament runs for three more years, and, while the Social Democrats and Greens may wrest control of some state Administrations from the Chancellor's party, not even the most optimistic among them sees any chance of forcing a premature national election. €

Wellington Long is a free lance writer based in Bonn.

GERMAN RELATIONS WITH U.S. FACE STRUCTURAL STRAIN

POLITICAL DEVELOPMENT HAS LED TO CONFLICTS, BUT CONTINUITY EXISTS.

ANDREI S. MARKOVITS
and KAREN E. DONFRIED

Relations between the United States and the Federal Republic of Germany have become less harmonious in the past five years. While the very existence of the Federal Republic and its collective identity remain inextricably tied to the United States, the special relationship between these two countries is definitely changing. The main argument of this essay is that present difficulties are mainly structural in origin and thus largely independent of particular people. While political actors clearly affect and, in this instance, have generally served to exacerbate the difficulties wrought by structural changes, they have usually been of a secondary nature. In sum, Germany's close ties to the United

States are not disintegrating, but they are changing.

Change does not preclude continuity. Continuity was perhaps overemphasized in analyzing the Federal Republic and its relationship to the United States, when Germany enjoyed a period of rare successes in both the political and economic realms. Conversely, with the deinstitutionalization of conflict, i.e., the rise of grass roots politics in the Federal Republic, change has become equally overemphasized as the only viable lens through which Germany's public life could best be observed. We suggest three basic reasons for this mode of interpretation, which we shall term "sensationalist," "subjective" and "objective-structural" respectively. The essay tries to highlight each of these three dimensions in terms of how American-German rela-

tions have been perceived mainly in the United States.

The sensationalist dimension refers to the human tendency to stress the unusual over the usual. In the earlier period of continuity and *Modell Deutschland*, there was an inordinate amount written on neo-Nazism, and later the terrorists of the far left captured headlines as the new threat to the German state. At present, *Die Grünen*, Petra Kelly and the peace demonstrations make better copy than the more typical and pervasive, but less exciting, Christian or Social Democratic voter. Such reporting is detrimental in that it provides a warped image of the Federal Republic with a stress on the "abnormal." The tendency in the media to favor the sensational helps explain the emphasis on strains in American-German relations.

There are particular subjective reasons also which underlie current American-German problems. The United States has a special relationship with the Federal Republic because of its great role in the creation of modern Germany, particularly through the Marshall Plan. For a number of historical reasons, the United States feels differently about Germany than just about any of its other European allies. Over the last few years, the American-German relationship, once analogous to one between mentor and protégé, seems to have turned into one between disappointed father and wayward son.

This disappointment on the American side is a function of unmet expectations—expectations of a German gratefulness which would express itself in German subservience to the American will. The United States traditionally has been the dominant partner in the American-German alliance and as the economic and political prestige of the Federal Republic increases, the interaction between the two countries has become more egalitarian and balanced. It is to this slowly encroaching parity that the United States finds it difficult to adjust.

Another important subjective dimension, the "Holocaust effect," has made the Federal Republic a special case in international relations. Because of the crimes committed by the National Socialists, the Federal Republic is still looked upon in a unique way by most states in the international community, including the United States. The past still colors how outsiders regard any German Government, no matter how democratic.

The much-feared issue of German identity is inextricably linked to the attempts to create a German state and



German security is guaranteed both by NATO and the U.S. Above, German children play with American soldiers at this September's NATO manoeuvres in Fulda, Germany.

nation in the 19th and early 20th centuries. As a result of this process, Europe was plunged into two world wars, yet the problem of "German national identity" remains unresolved because of the country's post-war division. Relations between the United States and the Federal Republic are very much affected by the question of German identity due to the American role in creating and upholding the Federal Republic as a *Teilstaat* (partial state) within Germany. American leaders are fearful that any moves towards a reunified Germany will call into question the special relationship between the United States and the Federal Republic.

Sensationalist and subjective factors are important in understanding the current strains between the United States and Germany, but they alone do not provide a sufficient explanation. The key to understanding the present problems can only be found by closely examining the changing political relations between the two countries since the late 1960s. This is what we mean by the objective-structural factors underlying the current tension.

The end of the 1960s and the beginning of the 1970s marked the transition to a new phase of Atlantic policy for the United States. Instead of the previous asymmetry in both military and economic affairs in favor of the Americans, the U.S. now confronted a growing European economic power, which began to provide unwanted competition. Europe also had started to define its own profile with respect to security policy. Among the major background factors in this change were the U.S. preoccupation with the war in Vietnam, détente policy in Europe, the growth in power of the European Community, the relative weakening of America's economic position, an increase in Soviet nuclear capability and growing global interdependence.

Two sources of tension in American-German relations have been apparent since the late 1960s: incompatible views on the future of the relations with the Soviet bloc and growing friction on economic issues. The inescapable interconnections between foreign policy, economic relations and defense have provided the main source of problems between Germany and the United States. In what follows, we shall explore these three areas separately in order to determine how each has contributed to the changing pattern of American-German relations in the 1970s and 1980s.

FOREIGN POLICY

The mainstay of international relations in the early 1970s was détente. On the

global scale, there were strategic-arms-limitation and other agreements between the United States and the Soviet Union, exchange of visits between President Richard Nixon and Secretary General Leonid Brezhnev and rapprochement between Washington and Peking; within Europe, there were the expansion of the Common Market and *Ostpolitik*. In the global arena, the United States was the driving force; within Europe, Germany took the lead.

The Chancellorship of Willy Brandt marked the start of détente and his *Ostpolitik* was based on confirming the status quo in Europe in order to create a climate in which a "new order" could be established in Europe under the auspices of "peaceful coexistence." During détente, the Federal Republic exercised increased independence and returned as a significant actor in its own right to world affairs. Despite some initial reservations concerning particular elements of Bonn's *Ostpolitik*, the Nixon Administration was generally supportive. In addition to its intrinsic importance (recognition of the German Democratic Republic, the Oder-Neisse line and territorial and political status quo in Eastern and Central Europe), *Ostpolitik* directly related to the Federal Republic's security policy. Bonn's acceptance of the status quo did not diminish Germany's strategic dependence on the United States or its allegiance to the North Atlantic Treaty Organization (NATO), but lowered the tensions between Germany and the Soviet bloc.

One can easily distinguish crucial differences between the German and American détente settlements with the Soviet Union. German negotiations with Moscow concerned the political core of the Cold War, whereas American negotiations focused on its military aspects. Détente had been achieved by the Federal Republic through political reconciliation over borders, trade and credits. Conversely, détente had been pursued by the United States through negotiations primarily concerning critical elements of the strategic balance. The Federal Republic did not need to negotiate specific security matters with the Soviet Union, because German security was guaranteed by the United States and NATO.

A series of events (Nicaragua, El Salvador, Iran, Afghanistan and Poland, among others) led to a serious deterioration in American-Soviet relations by the end of the 1970s. Given their different geopolitical and economic positions, the United States and Germany developed rather dissimilar interpretations of Soviet motives and, more importantly, stressed different responses as being appropriate

strategies to counter Soviet policies. Be it in the case of Afghanistan or Poland, under Presidents Jimmy Carter or Ronald Reagan, the American position focused on the Soviet Union as a global power with predatory ambitions which could only be countered via a show of strength. In marked contrast, Germany's strategy—also enjoying bi-partisan support under Chancellors Helmut Schmidt and Helmut Kohl—stressed the necessity of maintaining an open and conciliatory posture vis-à-vis the Soviet Union and its East European allies. Détente for the Germans lived on while it had reached oblivion in the policy-making circles in Washington.

This independence on the part of America's hitherto most compliant ally led to much frustration among political leaders in the United States. The specters of neutralism and anti-Americanism were supposedly haunting the Federal Republic, thereby driving an irretrievable wedge between these two countries. However, if polls can be considered relatively accurate indicators of popular sentiment, then Germans continue to remain consistently and strongly pro-American and pro-NATO. Indeed, one should see the Federal Republic's continued *Ostpolitik* as a direct expression of the country's inextricable tie to the United States and the remaining salience of *Westpolitik*.

ECONOMIC RELATIONS

Concomitant with the political difficulties of the 1970s, there also developed economic rivalries between the United States and the Federal Republic, both of which have been trying to improve their crisis-ridden economies, and often at what was perceived as being at the expense of the other. Thus, Germans have not been particularly thrilled by repeated American attempts to curtail the import of steel into the United States, just as Americans have continuously found it difficult to accept the rigid terms of the European Community's Common Agricultural Policy. Ironically, the Federal Republic had often been dubbed America's "Trojan Horse" for repeatedly defending the interests of the United States inside the E.C.

Furthermore, Germans have not taken too kindly to American sanctions and embargos vis-à-vis the Federal Republic's trade with Eastern Europe in an era of consistently high unemployment when every new contract means the retention of jobs. The American position has been viewed as particularly hypocritical in Germany since it has been regularly accompanied by record grain sales to the Soviet Union by the United States. Lastly, the tremendous currency fluctuations, which in 1979 pushed the dollar

well below 2 Deutsche marks only to raise it above 3 Deutsche marks by 1984, and the different interest rates in the two countries further exacerbated an already complex economic relationship dominated by general uncertainty in the world market as a whole. In short, the relatively innocent world of the 1950s in which the Federal Republic enjoyed a major economic miracle under the protective umbrella of *Pax Americana* has long been lost to both countries.

DEFENSE

The most recent defense issue to dominate American-German relations has been the deployment of intermediate range missiles in Western Europe. Since 1963, Bonn has been worried by the Soviet arms buildup and its detrimental effect on the strategic balance. It was the Federal Republic which saw the placement of Soviet SS-20s in Eastern Europe as fundamentally changing the strategic situation in Europe and mandating a Western response. In the German view, the Soviet Union had achieved superiority in intermediate nuclear forces in the European theater, to add to its longstanding numerical preeminence in conventional forces. This new situation increased the European, and particularly the German, sense of physical vulnerability and heightened doubts about the reliability and effectiveness of U.S. protection.

Initially, the European initiative to match the Soviet SS-20s found no support in the United States. However, a favorable decision was reached in December 1979 to deploy a modernized long-range theater nuclear force of 572 Pershing IIs and cruise missiles. The agreement required that there be arms limitation talks with the Soviet Union and that at least one other Continental NATO country station the new missiles on its soil. The dual-track decision appeared beneficial to Schmidt for three reasons: the missiles symbolized an increased U.S. commitment to the defense of Western Europe since they were American; they could provide sufficient leverage to encourage the Soviets to discuss arms limitations; and they would relieve the Germans of having to strengthen their conventional forces, a domestically rather unpopular measure at the time.

Then, as the Soviet Union seemed willing to negotiate, German interest in deployment waned. Consistent with a bargaining chip strategy, the Federal Republic now emphasized the negotiation side of the dual track. However, this now met with opposition from the United States which, from the end of the Carter Administration, regarded deployment as

a means of underscoring U.S. global commitments and power. Thus, as the Germans became increasingly against deployment, the Americans became equally pro-deployment. Public opinion in Germany grew more negative on the issue of the Euromissiles, as those weapons, combined with Reagan's anti-Communist stance and bold rhetoric, heightened the common fear that a nuclear war could and would be fought in the European theater.

Despite the eventual deployment of medium-range missiles in the late fall of 1983, the signs of discord within the Atlantic alliance have mounted during the last year. Americans should be concerned as the missile deployment, rather than

People on both sides of the Atlantic must see to it that conflicts are not exacerbated by misperceptions, misunderstandings and ill will.

underscoring American leadership, suggests that American authority is eroding—an authority seemingly dependent on military presence rather than on mutual respect among the allies. Reagan, though ostensibly a strong leader in German eyes, particularly following Carter, excited apprehensions in the Federal Republic with his inflexible, hawkish approach to foreign policy. Thirty years have elapsed since the end of World War II and the United States no longer stands as the untarnished symbol of democratic values. A fundamental contradiction has developed in our relationship with Germany as well as with Japan: Our most reliable political and military allies have become our most intense economic competitors.

The economic and political tensions are not a product of the American-German alliance itself, but of different geopolitical positions. Disagreements over responses to events such as occurred in Afghanistan and Poland highlighted the conflicting views of the United States, a global power, and the Federal Republic, a regional power, and marked the end of détente between the United States and the Soviet Union. Differences over economic policy arose over the "locomotive" role imposed on the Federal Republic by

the United States, the Federal Reserve Bank's maintenance of high interest rates, which proved detrimental to German and European recovery, and the European pipeline deal with the Soviet Union. In each of these trouble spots, the basic conflict resulted from the different vantage points of the United States and of the Federal Republic.

Continuity exists nonetheless. The underlying alliance is still a strong one. Yet, it is rare that relations between nations are always harmonious and stable. To ignore these negative aspects can be harmful and lead to distrust between the two. Given the many changes which have informed both the United States and the Federal Republic over the past 30 years, the steadiness and reasonableness which have characterized American-German relations is admirable. Yet solidarity must not be confused with an absence of tensions.

A fear of anti-Americanism is shared particularly by older Germans and Americans. They are apprehensive that their countries' underlying relationship of cooperation and trust will deteriorate as a new generation of leaders takes power. These senior policy-makers hail from an era when pro-American feelings in the Federal Republic were more pronounced and self-assertiveness less so. Perhaps we have reached a time when German leaders are less inhibited in criticizing certain American policies and policy-makers. But it does not follow that they will therefore assume more anti-American values than did their predecessors.

In retrospect, it is the period between the late 1940s and the late 1970s which can be categorized as "abnormal" from the point of view of German political development. While many of Germany's interests continue to correspond quite harmoniously with those of the United States, others have diverged over the years and will continue to create conflicts. The causes of these conflicts are largely structural and, as such, are independent of immediate agents such as particular persons, parties and interest groups. However, this is in no way to imply that agents cannot influence matters for the better or the worse. Indeed, it is up to the agents on both sides of the Atlantic to see to it that the already considerable and taxing structural conflicts not be exacerbated by misperceptions, misunderstandings and ill will. €

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NEW ISSUE

October 12, 1984

\$200,000,000

European Investment Bank

12⁵/₈% Notes Due October 15, 1999

Interest payable on April 15 and October 15

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“BERLIN IS IN”

SETTING THE CULTURAL TREND IN THIS HOT SPOT FOR CREATIVE PEOPLE.

PETER HOFFMANN

Tolerance of outsiders and appreciation of the eccentric, a cosmopolitan interest in the arts and a taste for things from beyond national and linguistic borders have long been a hallmark of the Berlin scene. Prussia's Frederick the Great, the enlightened 18th-century despot, is reputed to have said “à chacun ça façon,” (to each his own way) when he invited the persecuted Huguenots and Jews to come to live in Berlin.

Berlin's hectic pace, its around-the-clock nightlife and its uninhibited socio-cultural *laissez-faire* atmosphere for years have attracted painters, sculptors, filmmakers, playwrights, musicians, writers and other creative people, not only from Germany but from around the world. For decades, this was a somewhat synthetic process fueled by massive subsidies from Bonn as part of a political rationale that assigned to Berlin a showcase role vis-à-vis the Communist East. The subsidies are still there: about half of Berlin's budget of slightly less than \$7 billion is paid by Bonn and the cultural budget is almost \$120 million, a huge sum.

In the last two or three years, especially with the arrival of the *Jungen Wilden* painters in New York galleries, Berlin once more is recognized internationally as a cultural focal point and trend generator. Berlin is in. In “Liquid Sky,” the satirically erotic film by Russian émigré director Slava Tsukerman, one of the New Wave heroines says to her friend: “Let's go to Berlin, that's where they appreciate us.” Leo Castelli, one of New York's great galleries, showed young Berlin photographers this summer. Other New York galleries are gearing up for a new round of Berlin-based painters next spring. Movies about Berlin or partly shot in Berlin, such as the late Rainer Werner Fassbinder's “Berlin Alexanderplatz” and Frank Ripploh's “Taxi zum Klo”

were acclaimed by American cineastes and critics.

To Günter Grass, the German writer and liberal political activist who nowadays also heads Berlin's prestigious Arts Academy, the city's new international reputation is neither unusual nor surprising. “It's always been like this,” he said during a reception in early September marking the beginning of Berlin's *Festwochen*, four solid weeks of top-flight cultural events with talent from all over the globe.

Grass says artists and writers have always been attracted to Berlin from the Federal Republic of Germany and from other countries because they sense and feel the city's uniqueness, that it is something special, a giant metaphor for the tensions in the world. “This city is ailing, but she blooms,” Grass says, in some sort of unhealthy, hot-house atmosphere. The city has an euphoria, he grants, “but with all those hysterical side effects.” Nevertheless, he thinks writers and intellectuals in Berlin are acutely attuned to the social and political ills of the city, while he has the impression—he isn't sure—that New York intellectuals “don't even notice the problems of the South Bronx.”

Attracted by economic incentives offered by the city to most newcomers and by its quintessential urban liberalism, Berlin once more is haven and hot spot for the malcontents and the creative, for those who can't hack the determined normalcy of the Federal Republic. Because of its peculiar four-power status dating from the days when the Allies were real allies, Berlin, unlike the rest of the Federal Republic, doesn't have a military draft. This attracts draft evaders, conscientious objectors and a larger-than-normal share of leftist radicals and visionaries.

Rosa von Praunheim, one of the best-known low-budget filmmakers in the city who has lived 10 years in New York and who has taught at the San Francisco Art Institute, says: “Munich is like San Francisco—laid back, relaxed, outdoor-ori-

ented, great scenery. Berlin is like New York—dirtier, rougher, anarchic, full of freaks and outsiders. It also is Germany's biggest cultural showcase.”

Günter Meisner, the Berlin actor best known in the United States for his portrayal of Adolf Hitler in the television series “The Winds of War,” agrees. Meisner, who is also a sculptor and former gallery owner, thinks Berlin has attracted its share of foreign artists for a long time. “Berlin always has been a sentimental touchstone for American artists,” he says. “When I started my gallery in 1959, there were five others,” Meisner, now 58, says: “Today, there are 250.” *Zitty* and *Tip*, two city magazines that list the cultural goings-on, typically include 100-odd galleries, plus museums and other shows.

One of the artists who has been coming back to Berlin for several months each year is George Rickey, the American sculptor. Rickey was first introduced to the city in 1968 with a grant from DAAD, the German Academic Exchange Service which for decades has brought American and other foreign artists to the city under a special *Künstlerprogramm* (artists' program) and which more recently has sent German artists to New York for a year to work in studios in a former school in Queens.

“Everything that is supposed to be wrong with Berlin is interesting to me,” Rickey says. “It is very quiet; the phone doesn't ring so much; I can think. Also it is a city full of culture, much more available than in New York. Although it is an isolated city, an island, everybody goes through there sooner or later. I find it stimulating. It is a place to go to reflect and be left alone, yet to have all kinds of cultural resources available.”

A new DAAD grantee this year is a New York multimedia artist, Tunisian-born Collette. “I think I'm going to stay here,” she says. In addition to environments, paintings and objects, she has been asked to design costumes and sets for West Berlin's Deutsche Oper. “It's stimulating, but not yet draining,” she says. “It's easier to withdraw here and much easier to work here.” She is somewhat hard pressed to define what attracts her: “It's enigmatic, but I feel right here. It's close enough [to New York] yet far enough. You've got all you need to work, what you need to live and inspiration—and yet no roaches and you don't have to double-lock the doors.”

Conversely, the *Jungen Wilden* Berlin artists who have been developing and maturing for the last decade and a half

have made an impact on the New York art scene. While the future is by no means predictable, the betting, at least among German dealers and art historians, is that Berlin artists may well continue to be a force on the international art scene. "It started in Kreuzberg, like the SoHo loft scene," explains Eberhard Roters, director of the Berlinische Gallerie and one of Germany's best art historians and exhibit organizers. "It's a charged atmosphere there. *Petite bourgeoisie*, Turks and artists all live there, providing an impetus for aggression, but also for sublimation."

The result was a kind of *heftige Malerei*, an emotional, passionate style of painting that supplanted cool minimalism, concept art and other more cerebral art forms. A revived interest in the United States in German expressionist painting from an earlier generation also helped. Even if it was wrong, American audiences maybe "saw in the *Jungen Wilden* an artistic, really artificial, reincarnation of the *furor teutonicus*," according to Roters.

This first wave included painters like Bernhard Koebeling, Georg Baselitz and Markus Luepertz, followed by a second group which including Salome, Rainer Fetting, Helmut Middendorf and Peter Chevalier. A third wave of painters, some of them reintroducing a new metaphysical style somewhat reminiscent of El Chirico, are getting ready for New York showings next spring. In this group are Thomas Schindler, Albert Weisshaupt, Hermann Albert, Ter Hell and Reinard Pods.

Whether they'll have as much an impact as the original *Jungen Wilden* is hard to say. Michael Pauseback, director of Berlin's Gallerie Onnasch which probably has the consistently strongest ties to the New York art scene, is convinced that the Berlin art scene will continue to provide important impulses. "The base is simply too strong, it can't just disappear," Pauseback notes.

Whether it can be sold internationally remains a question. Pauseback says New York museums have not brought any works by the *Jungen Wilden*, but there have been sales to San Francisco. According to Pauseback, this is largely because West Coast collectors tend to look at the works first and then at the names, while New York buyers look at the signatures first. Pauseback says among dealers there is still skepticism toward things German, and they tend to back American artists much more than Germans. €

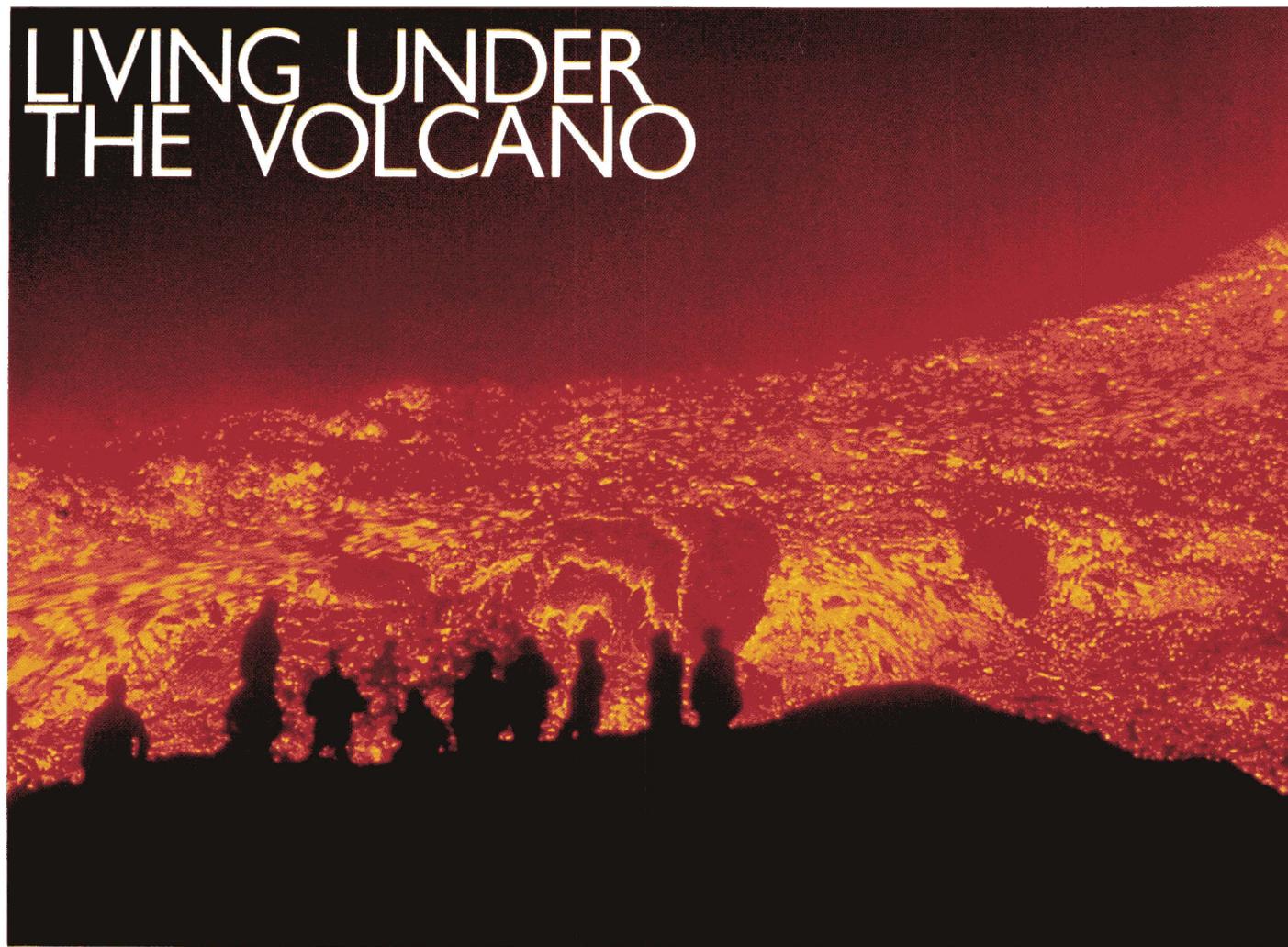


Berlin's growing magnetic appeal attracts many artists, such as Colette, above, who relish its cosmopolitan and eccentric atmosphere. Many of them gather at "in" nightclubs, such as the Zwiebelfisch, below.



Peter Hoffmann, a native Berliner, is a Washington, D.C. correspondent for *McGraw-Hill*.

LIVING UNDER THE VOLCANO



© Breton/Sipa-Press

Etna, above, is the biggest and the most unpredictable of Europe's volcanoes, whose violent eruptions have been a constant threat to surrounding areas.

MARY-ANN DEL MARMOL-
MALINGREAU

Volcanoes are a prime and most spectacular manifestation of the forces at play in the formation of the earth. Volcanoes have been part of our environment since the dawn of humanity. Their behavior is as diverse as the antics of human beings and sometimes just as disconcerting. It is not surprising then that they are often described in human terms such as active, extinct, erupting, dormant and so on.

During Antiquity, the Greeks and the Romans explained volcanic phenomena through the actions of Hephaestus, also known as Vulcan, the god of fire. One of the early theories about volcanism was given by Plato, who thought that the eruptions originated from a central stream, the Pyriphlegethon, from where "the lava spits to the surface of the earth." Seneca, the Roman author, is credited with being the first to give a very valuable list of the principal volcanoes

known in his time, including Etna, Santorin, Vulcano and Stromboli.

The first precise and detailed documents often referred to in volcanology are the two letters addressed by Pliny the Younger to Tacitus, his uncle, describing the eruptions of Vesuvius in 79 A.D.: "...around the seventh hour a cloud appeared which looked like a tree.... Ashes were falling, a rain of pumice and black stones.... The night was darker than any other.... At the top of Vesuvius, fire tongues and columns were glowing in the dark...." The first modern contribution to vulcanology was written at the end of the 18th century by Sir William Hamilton, the British Ambassador to the Court of Naples, in a series of letters addressed to the Royal Society of London.

Modern scientific volcanology was initiated in 1902 by two geologists who were struck by the destruction caused by Mt. Pelee to the city of St. Pierre in Martinique. Since then, volcanology has increasingly become a science in its own

right thanks to the insights and enthusiasm of many scientists in Europe and the United States. The entire list would be too long to cite, yet names like Rittmann, von Pagang, McDonald and Tazieff must be mentioned because they have been at the forefront of the study of modern volcanology.

The active volcanoes of Europe

While people are usually attracted by the most spectacular and colorful events related to active volcanism, it is important to consider a wider range of phenomena, most notably the geodynamic processes which are grouped under the now-famous concept of plate tectonics.

That term describes the slow movement, rearrangement and separation of the oceanic and continental crusts around the globe. Where plates converge, like in the Cascade Range of the western United States, subduction volcanoes are formed. Where they diverge, as in Iceland or East Africa, rift volcanoes will appear. Hot spots within the plates themselves create

volcanoes like those in Hawaii.

The active volcanoes of the Mediterranean Basin are at the edge of the Eurasian plate where it meets the plunging African plate. The meeting line, called the Aegean zone, extends over more than 1,500 kilometers across the Mediterranean Basin. Several regions of the Federal Republic of Germany and France are also dotted by permanent volcanoes.

The German volcanic area extends over 600 kilometers, roughly following the Rhine river. The volcanoes are divided in 11 groups from the south to the north: Hegau, Kaiserstuhl, Jura Souabe, Katzenbuchel, Trapp von Frankfurt, Vogelsberg, Western Eifel, Eifel Laach, Siebengebirg, Westerwald and Odenwald, Spessart and Taunus. This area has been dormant for a long time.

In France, the Auvergne volcanoes form a three-to-four kilometer-wide range which extends some 46 kilometers. Eruptions occurred from 35,000 up to 1,000 years ago. The oldest volcanoes are in the northern region and the youngest in the south. Many lava flows streamed to the east or to the west.

In Italy, the volcanoes in Tuscany and the provinces around Rome have not erupted for at least 100,000 years, but the Mediterranean Basin is dotted with active volcanoes, meaning those which have erupted during historic time. Vesuvius, Stromboli, Vulcano, Etna and Santorin are all famous, or infamous, names. Who can look without emotion at the human figures of Pompeii, frozen in their desperate attempt to flee the fiery clouds storming down the slopes of Vesuvius? Who can look without awe at the glowing lava gushing from Etna and destroying orchards, fields and villages?

Vesuvius

Vesuvius has earned a reputation as the most violent and vicious of all Europe's volcanoes. It is 10,000-12,000 years old and has erupted at least 77 recorded times. In 79 A.D., an eruption covered Herculaneum and Pompeii with ash and debris up to 20 meters deep. This powerful eruption followed at least 300 years of peace and quiet. The last slow summit eruption began during the night of June 2, 1932, and lasted until 1944.

Campi Flegrei

Located a few kilometers west of Naples, it is another very active area of the Mediterranean basin. This region, which extends in to the Gulf of Pozzuoli, has been subject to important bradyseismic movements since antiquity. The motion, resulting from the swelling and contraction of an underground reservoir, can be observed well at the Setapis Temple in Pozzuoli where the base of the columns

are known to sink and rise in the sea. An increase in activity has been observed recently. As this area is densely populated, the uncertainty about the outcome of the current instability creates serious social and economic problems.

Stromboli

Those who have approached the Aeolian Islands at the early hours of the day cannot forget the sight of Stromboli rising from the sea as the vessel nears. Indeed, Stromboli has an almost perfect conical shape; its name means "spinning top." Only one-third of the cone is visible above the water. Stromboli was already recorded as an active volcano in 450 B.C.

This is the only volcano in Europe with persistent activity. Instead of typical eruptions of short duration, followed by long quiet periods, Stromboli shows a rhythmic and sometimes spectacular ejection of incandescent material which lasts from several minutes to several hours. First there is a hissing noise, then ashes rise from the depression, there is a roaring noise, the crater bottom is hurled into the air, and finally, red-hot rock fragments are thrown out. The expression "strombolian" describing this typical activity is now used throughout the world to define eruptions of a similar nature.

Vulcano

Vulcano, located on a small island near Lipari, has given its name to a particular kind of eruption where the lava seal located at the top of the magma column is violently destroyed. The first record of activity at Vulcano dates back to the 5th century B.C. The last eruption occurred in 1888-1890. Today, volcanologists consider that the likelihood of a future eruption is high.

Etna

Etna is the biggest active European volcano. Its name means "which has the property to burn" in the Indo-European language. The Sicilians called it also Mongibello, "the mountain of mountains" from the Arabic word *djebel*. It is a huge mountain, with an area of 1,570 square kilometers and a diameter of 60 kilometers. Etna is the most unpredictable volcano in Europe. Eruptions can occur at the summit, at the flanks—as was the case from 1964 to 1971—and in the lower part of the mountain. Lateral eruptions can take place where one or several radial fissures open from the top to the flanks. These latter "eccentric eruptions" are accompanied by earthquakes.

At the end of March 1983, a fissure opened on the southern flank, roughly 4 kilometers south of the central crater. Within a few hours, the lava had cut through a road and overrun several buildings. By April, the fissure was 750 me-

ters long and at least four principal vents were spewing out their lava, destroying more buildings. In early May, with the lava flow threatening the village of Nicolosi, bulldozers and explosives were used to divert the devastating mass.

This action was presented by the media as a failure, because 20 percent of the total flux diverted ceased to flow into the artificial channel after reaching a length of 700 meters in two days. In fact it was a success, but for unexpected reasons. The cool debris from the sides of the lava flow was blown into the active lava channel and formed an obstruction 500 meters downstream which diverted the lava into the prepared lava channel. This occurred two days after the explosion, but it was overlooked by the media which had expected an immediate diversion and had already left, after drawing the wrong conclusions. Few in the media acknowledged the enormous and effective work done by the 100 Italian workers who built the largest lava diversion barrier ever erected.

Santorin

Santorin's last eruptions date from 1939 to 1941 and again in 1950 when several domes formed and lava channels flowed. The most disastrous eruption known at Santorin occurred about 1500 B.C. The quantity of magma thrown was so enormous that a caldera formed caused by the emptiness created in the reservoir. This disaster destroyed the entire Minoan civilization.

While the name volcano often conjures up visions of far-away and exotic places such as Hawaii, Luzon, Java, Martinique and others, Europe can claim a fair share of the "hot spots of the world." The history of European volcanoes is uniquely well documented. Volcanoes tend to repeat the past. Historical documentation is thus a major factor in the understanding of their present and future behavior.

History shows that eruptions can bring terrible destruction in a very short time. It also shows that man tends to forget these events very quickly. Yet, in a geological time scale, the span of human life is insignificant. Many volcanoes which are dead in the collective memory are only dormant and they can awaken suddenly without much warning. Like human beings, in the long term they are not easily predictable. Volcanoes give fertility to the land; their shape and majesty please the eye, yet, for all their gifts, they may also bring terror and destruction. ☾

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NEWS OF THE E.C.

E.C. URGES ACTION ON DRUGS, SMOKING

E.C. member states should make drug abuse, cigarette smoking and infectious diseases the primary targets of any joint action they take to promote and protect public health, the E.C. Commission said in a recent report. Not only are these among Europe's most serious health problems, but they also offer the most practical and potentially beneficial outlet for concerted E.C.-wide action, the Commission said.

Until now, the E.C., as an institution, has been only peripherally involved in health policy. Although the treaties that established the E.C. did not envision protecting public health as one of the Community's major functions, the European Parliament has repeatedly raised health issues and has argued the case for cooperation among E.C. members on important health problems.

The E.C.'s Council of Ministers responded to the Parliament's concerns by including in the E.C.'s Medium Term Social Action Plan provisions for studying health care costs and seeking arrangements for cooperation in health matters. At their June 1984 summit meeting in Fontainebleau, France, E.C. heads of state included the problem of drug abuse in an inventory of issues to be studied by the E.C.'s newly established Ad Hoc Committee on Institutional Affairs.

The problem of illicit drugs and the growing use of heroin among Europe's young people



The E.C. Commission has advocated joint action to fight the growing problem of drug abuse among Europe's young people.

has caused serious concern throughout the Community. Aside from measures to limit the supplies of illegal drugs sold in Europe, stepped-up educational efforts are needed to limit demand and discourage young people from becoming drug users, the Commission said.

Cigarette smoking also

poses a major health threat. The Commission said smoking will be the principal cause of more than 1 million deaths from lung cancer in E.C. member states between now and the end of the century. It said E.C. action is needed to encourage non-smoking to be the norm among Europe's teenagers.



Smoking will be the principle cause of 1 million deaths in the E.C. between now and the year 2000.

E.C. PROPOSES TAX REFORMS TO ENCOURAGE INVESTMENT

The E.C. Commission recently proposed two corporate tax initiatives designed to encourage E.C. businesses to make productive, job-creating investments in Europe's economy. The proposals are designed to make it easier and less costly for European companies to finance productive investments out of their own pockets or to raise funds in Europe's capital markets.

Although some recovery is anticipated this year, Europe's economy has been entangled in a protracted investment crisis. In real terms, business investment in the E.C. has fallen in each of the past three years. In 1983 total investment in the E.C.'s 10 member states reached only \$310 billion, 0.9 percent less than in 1982 and off more than 8 percent from its peak in 1980.

Declining investment has prompted a slowdown in Europe's productivity growth and has handicapped European firms in competing for world markets. For these reasons, finding ways to revitalize the E.C.'s investment climate has become one of Europe's key economic policy goals. The Commission's tax initiatives are part of its effort to stimulate the kind of investment growth seen vital to Europe's economic recovery.

The first of the Commission's two proposals would standardize the so-called "carry-forward" and "carry-back" provisions of business tax laws in the E.C. member

states. These provisions allow European businesses to use financial losses suffered in a given year to offset part or all of their tax liability in a past or future year. The Commission said its proposal would create an E.C. standard for such provisions that was as liberal as possible without encouraging evasion or abuse or without unduly reducing the tax revenues of member states.

The proposed rules would allow E.C. firms to carry forward business losses into any subsequent tax year. It would allow them to carry back losses for up to two years. The Commission said the latter provision would be particularly valuable to an affected company because it would allow the company to obtain a tax refund that would improve its financial position. Both the carry-forward and carry-back provisions would create a more favorable tax climate for E.C. businesses, thereby encouraging investments that could create new jobs or safeguard existing ones.

At present there are no E.C.-wide regulations as to how far business losses may be carried backward or forward for tax purposes. National laws on the subject vary widely among the E.C.'s members. The Commission's proposal would create an E.C. standard that would bring time limits on carry-back and carry-forward privileges into line with the most liberal of the existing national statutes.

The second proposal would allow E.C. countries to reduce or abolish duties charged on the raising of capital. E.C. companies presently are required to pay a 1-percent "capital duty" when they form or increase their capital. This capital tax has long been criticized as being counter-productive. The Commission's proposal would give E.C. countries authority to set their own capital duties at between zero and 1 percent and would bar them from collecting capital duties on mergers and related transactions.

The Commission said it would prefer to abolish capital

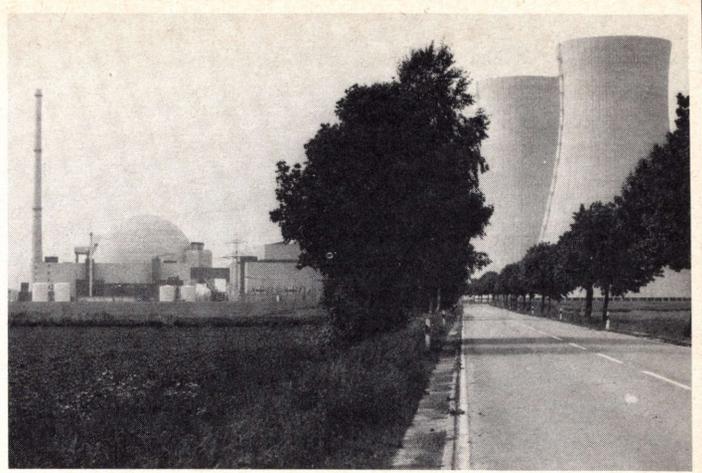
duties altogether, but noted that some E.C. countries were not prepared to forego the revenues generated by such taxes. Capital duties add to the expense of obtaining investment in capital markets. Both of the Commission's tax proposals would need the approval of E.C. Finance Ministers before becoming law.

EUROPE'S NUCLEAR INDUSTRY CONTINUES TO GROW

The unforeseen shift in energy economics that has caused many public utilities in the United States to scrap major nuclear power projects has left Europe's nuclear power industry largely unscathed. While economic considerations such as declining oil prices and the domestic availability of cheap coal have forced the United States to re-evaluate its commitment to nuclear power, the E.C. is planning to continue backing nuclear power as the primary energy option of the future.

According to a report published by the World Watch Institute, power generated in the United States by nuclear plants is 65 percent more expensive than electricity produced by coal-fired power plants and 30 percent more expensive than electricity from oil-burning plants. These cost comparisons have caused U.S. utilities increasingly to question the wisdom of investing in nuclear plants. Between 1975 and 1983, 87 planned U.S. nuclear power plants were scuttled. Still others have been converted to coal.

The situation in Europe, however, is quite different. According to E.C. Commission Vice President Etienne Davignon, the primary difference is that Europe lacks America's enormous coal reserves, much of which are easily accessible and can be strip mined. This factor makes coal-fired plants relatively inexpensive to operate.



While the U.S. is reverting back to oil and coal, the importance of nuclear power as an energy source is growing in Europe.

Nuclear power, however, still remains a good value in Europe, where domestic coal supplies are more scarce and buried at greater depth. Nuclear power presently is the source of more than 20 percent of the E.C.'s electricity supply. In 1982, E.C. Energy Ministers described it as "an essential element in the Community's long-term energy strategy." Nuclear power provides Europe with one of its few home-grown energy options.

Europe's big push to exploit nuclear energy came in the wake of the economic chaos generated by the oil-price shocks of the 1970s. These price shocks convinced European policy-makers that their best hope of achieving energy security was to diversify Europe's energy sources by reducing dependence on imported oil and by encouraging the exploitation of domestic coal, oil and natural gas resources and the construction of nuclear power plants.

In addition to exploiting nuclear fission—the process used to produce energy in today's nuclear power stations—the E.C. has also taken the lead in research designed to develop nuclear fusion as a commercial power source. Although fusion, the source of the sun's energy, is not expected to be an economically viable source of electrical power until well into the 21st century, it holds out the hope of providing a safe, clean energy source for the future.

E.C. COMMISSION GETS NEW POWERS ON TRADE

The E.C.'s Council of Ministers, the E.C.'s top decision-making body, has approved new rules giving the E.C. Commission broader powers to take action against foreign countries whose unfair trading practices injure on E.C. industries at home or in export markets. The Council also simultaneously adopted a package of measures designed to promote freer trade in certain types of industrial goods within the E.C. itself.

The new foreign trade measure, designed to comply with international trade rules, will give the Commission powers that the governments of most of the E.C.'s trading partners, including the United States, enjoy already under their own domestic trade laws. It will enable the E.C. to pursue action on complaints involving illegal subsidies and dumping, as well as illegal restrictions on raw material exports and violations of export credit agreements.

Under the new arrangement, E.C. industries would be allowed to bring directly to the Commission complaints against the trading practices used by foreign competitors. The Commission would then determine the validity of the complaint and decide within a set time limit what, if any, action to pursue.

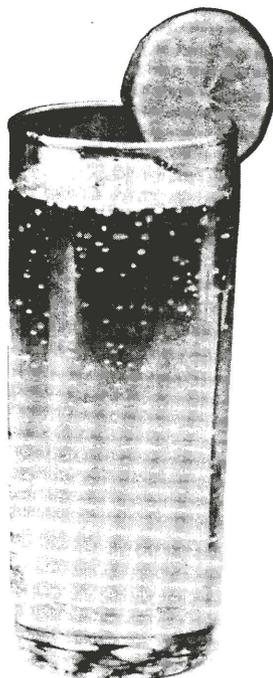
The Council also simultaneously adopted a package of 15 proposals designed to remove "technical barriers" to intra-E.C. trade. Although E.C. law generally mandates free trade in goods and services between member states, some obstacles still exist. Many of these take the form of discrepancies between E.C. members in technical standards or product safety requirements. These discrepancies can sometimes effectively bar goods produced in one E.C. member state from being offered for sale in another. The package of proposals adopted by the Council affects such products as electrical appliances, construction equipment and medical equipment.

E.C. DEFINES REGULATIONS FOR MINERAL WATER

Just what exactly is mineral water? The E.C. recently answered that question by implementing new regulations that set forth the properties a bottled drinking water must exhibit in order to be advertised as mineral water. The rules, adopted in 1980, came into force on July 17. They not only define the properties and characteristics of a true mineral water, but also establish

quality control standards for mineral-water bottlers.

Under the new rules, a product can only be labeled or advertised as "natural mineral water" if it is free of harmful bacteria and originates from an underground source or rock stratum supplied by one or more natural springs. In addition to its natural purity, such water also must contain a recognizably higher content of minerals and trace elements



© Perrier Group

than found in ordinary drinking water.

The same purity requirements also apply to carbonated

mineral waters, whether or not they contain added carbon dioxide. However, the new rules prohibit mineral water from being mechanically or chemically processed for purposes other than separating unstable elements such as iron and sulfur or for the removal or addition of carbon dioxide.

The directive also stipulates that mineral water must be sold exclusively in sealed containers as a means of discouraging fraud and generally bans misleading advertising. Under the new rules, mineral water bottlers no longer will be able to claim that their products possess special powers for curing or preventing disease. However, they will be allowed to make more general advertising claims. For example, they can continue to advertise their products as good for the drinker's digestion or beneficial for pregnant women.

Mineral water is produced and bottled from a great many underground streams throughout the E.C. The most numerous and well known of these are located in France, the Federal Republic of Germany and Italy. In recent years, Americans have acquired a taste for mineral water and sales to the United States from the E.C. have mushroomed as a result. Brands such as France's Perrier and Germany's Apollinaris have become a common sight on American grocery shelves. In 1983, the E.C. exported nearly \$22 million worth of its mineral water to the United States.

E.C. MINISTERS VOW JOINT ACTION AGAINST TERRORISM

E.C. Foreign Ministers, meeting in September, vowed to consider joint action against acts of terrorism involving the abuse of diplomatic immunity. Although they hailed the move as a major advance in the international fight against terrorism, the ministers did not make public the text of their agree-

ment. However, they said they were ready to stand together against serious abuses of diplomatic privileges. Irish Foreign Minister Peter Barry told journalists that the measures would fall within the framework of existing international law and would not involve any dismantling of the principle of diplomatic immunity.

The E.C.'s 10 Foreign Ministers' official statement said: "Confirming that the guiding principle of the Ten is to make no concessions under duress to those who practice terrorism, the ministers agreed to a set of measures designed to strengthen [their] existing cooperation. They declared their readiness to consider common action if one member of the Ten were to suffer a serious terrorist attack involving the abuse of diplomatic immunity."

The United Kingdom had been pressing for common E.C. action to discourage diplomatic immunity abuses since earlier this year, when a British policewoman standing watch over a demonstration outside the Libyan Embassy in London was killed by gun fire originating from inside the embassy. The ensuing public outrage over the incident led to the severing of diplomatic relations between the United Kingdom and Libya and fueled controversy worldwide over the limits of diplomatic immunity.

By convention, diplomats serving in foreign posts generally enjoy immunity from prosecution under the laws of their host country. This immunity is designed to protect them from politically motivated harassment by foreign law-enforcement agencies.

EUROPEANS FEAR UNEMPLOYMENT MOST OF ALL

Most Europeans are fairly satisfied with their lots in life, but when they *do* worry their concerns most often focus on unemployment, crime and drugs, according to a recent Eurobarometer poll. The opinion

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survey of 10,000 people aged 15 and over indicated that most E.C. citizens had few complaints about their health, work and personal lives. The poll found that 52 percent of them even were relatively happy about their wages. However, wage-earner dissatisfaction was more prevalent in Europe's sunnier climes, with 65 percent of the Greeks, 53 percent of the French and 52 percent of the Italians surveyed expressing wage complaints.

When asked about their most pressing concerns, Europeans most frequently mentioned unemployment. Rising unemployment "seriously concerned" 84 percent of the Irish, 79 percent of the Belgians, 78 percent of the Luxembourgers, 75 percent of the British and French, 74 percent of the Dutch, 69 percent of the Italians and 66 percent of the Danes questioned. However, concern over high unemployment was less prevalent in Greece and the Federal Republic of Germany, where only 58 percent and 39 percent, respectively, of the sample were seriously troubled by the jobless rate.

Crime, particularly acts of terrorism, showed up as Europe's second most prevalent worry. The problem was most frequently cited as a concern in Ireland, where 77 percent of those polled mentioned it as a

major threat to the quality of life. Overall, 57 percent of those questioned throughout the E.C. were seriously troubled by crime and terrorism. The problem of drug abuse worried about 50 percent of the sample. Seventy-nine percent of the Irish and 78 percent of the Italians saw drugs as likely to be a growing problem for the next 10 to 15 years.

Other concerns uncovered by the survey varied according to country. Sixty-five percent of the Irish were worried about job losses in depressed regions. Sixty-nine percent of the Luxembourgers and 55 percent of the Dutch were concerned about pollution, while 45 percent of the Danes worried about rising international tensions. The Belgians, Luxembourgers, Irish and French, facing new economic programs, were all worried about further cuts in living standards. Thirty-four percent of the Belgians questioned blamed immigrant workers for their economic difficulties.

In terms of personal experience, the people sampled in the survey judged their economic prospects very differently from country to country. The Belgians and the French were generally pessimistic. The Danes and the British, on the other hand, expected improvement in their economic circumstances.

E.C. TEAM COMPETES IN NEW YORK MARATHON

The famous New York marathon run on October 28 included a team of 22 runners from the European Community led by Michael Hardy, E.C. representative to the United Nations, who was responsible for organizing this agreeable exercise. Some of the runners had flown over (at their own expense) from Brussels; others were recruited from UN delegations in New York. Each of the runners sported a vest bearing the letter E emblazoned

on the back. Eight of the 10 countries of the Community were represented.

This was Michael Hardy's second marathon. He ran the 26-mile course last year and finished again this year, the Community winner being Peter De Vocht of the E.C. Commission's directorate-general for fisheries. De Vocht came in 178th out of the more than 18,000 competitors, completing the course in a time of two hours and 43 minutes.

E.C. FINANCE MINISTERS AVERT BUDGET CRISIS

E.C. Foreign Ministers last month staved off a looming cash crisis by agreeing to chip in fresh funds to keep the E.C.'s finances afloat through the end of 1984. The ministers also approved a \$19.5-billion

draft budget for 1985, but did not make any provision for avoiding another projected cash shortfall next year.

The plan to avert the anticipated 1984 cash shortage calls for the E.C.'s 10 member states to contribute a total of \$750 million to keep the E.C. in business until year's end. The hard-won agreement, which still must be ratified by each E.C. member, followed lengthy negotiations and came

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after repeated warnings from the E.C. Commission that the Community would run out of money sometime in November 1984 if its leaders failed to act.

Although E.C. leaders at their June 1984 summit meeting in Fontainebleau reached an agreement that would give the E.C. more spending money starting in 1986, they left the E.C. facing 1984 and 1985 budget shortfalls. By statute, the E.C. cannot operate at a deficit.

The E.C. derives most of its funding from the value-added taxes collected in its member states. Under present law, the E.C. may claim and spend no more than 1 percent of these VAT tax revenues. Caught in recent years between this 1-percent revenue limit and the ever-increasing outlays needed to support farm prices, the E.C. has found itself increasingly strapped for cash.

In June, the E.C.'s leaders agreed to a financial reform plan that would raise the limit on VAT revenues to 1.4 percent, beginning in 1986. That agreement must be ratified by the national parliaments of the E.C. member states before it can take effect. In the meantime, the E.C.'s leaders agreed that steps should be taken to ensure that the Community continued to operate normally.

The agreement to see the E.C. through the end of the year may still face a rocky road. For example, the United Kingdom made its tentative approval of the agreement contingent on receiving a 1983 budget refund frozen earlier this year by the European Parliament and on a final agreement on a plan for curbing E.C. spending on farm subsidies and other programs. The E.C.'s Foreign Ministers are expected to consider the proposed spending curbs again at their next meeting in Luxembourg on October 22. However, French Agriculture Minister Michel Rocard said France would not accept the plan because the plan's provisions would "asphyxiate" the E.C.'s Common Agricultural Policy.

AID ROUNDUP

The E.C. Commission recently authorized the following emergency or development assistance projects (One European Currency Unit, or ECU, equals about \$0.74):

Emergency Aid—Mocorro: 500,000 ECU to assist drought victims in the southern and southeastern regions. The aid has been made available through the League of the Red Cross Societies. It will provide for the purchase of basic foodstuffs such as vegetable oils, chick peas and lentils for about 7 million people who have been badly hit by the drought. . . .

Mali: 1.5 million ECU to assist drought victims in several areas of the country. The aid will purchase food and seeds and pay to transport them to the affected areas. . . . **Brazil:** 500,000 ECU to assist drought victims in northeastern Brazil. The aid will support a nutritional program set up by the League of Red Cross Societies to serve the needs of mothers and children in that region.

European Development Fund—Mauritania: 943,000 ECU to supply water for a population which has low income and which has suffered severely because of drought in the Sahel region. The project will rehabilitate existing freshwater wells which have not been maintained because of disuse or lack of equipment. The E.C. also authorized 1.6 million ECU to maintain the Nouakchott Wharf. The funds will be used for overhaul and repair work and for purchasing equipment and replacement parts. . . . **Senegal:** 6 million ECU to provide drainage in Dakar for the working-class districts of Medina and Soumbédioune. The project involves rebuilding a canal to carry off rainwater and constructing two collectors for waste water. . . . **Mali:** 200,000 ECU to supply the equipment for and to install transformer substations that will help power gold-mining operations in Kalana. The gold mines will be powered by a

hydroelectric plant rather than conventional diesel-driven generators. . . . **Guinea-Bissau:** 390,000 ECU to supply engines, mechanical parts and miscellaneous equipment needed to recondition self-propelled ferries at Joao, Landim, S. Vincente and Farim. The project will also provide further training for those operating and maintaining the ferries. . . . **Guinea-Conakry:** 5 million ECU to rehabilitate the Ignace Deen Hospital in Conakry. The hospital is currently in such a state of decay that it can no longer perform its purpose. The E.C. also will spend 8.5 million ECU toward making the country's Sanoyah textile mill fully operational. The project involves installing auxiliary electricity generating sets in order to supply adequate power for running the mill. . . . **Gabon:** 2.78 ECU to reforest 1,482 acres near the village of Ekouk. The project forms a part of a 10-year program to reforest nearly 10,000 acres at a rate of about 1,200 acres per year. . . . **Somalia:** 2.3 million ECU to aid the northeastern part of the country, which is dry and largely undeveloped. The project would last for four years and involve the upgrading of irrigation systems, the rehabilitation of date palm groves, the introduction of secondary crops, the development of livestock and handicrafts industries and the provision of equipment and extension services. . . . **African ACP States** (The ACP states are those linked to the E.C. under the Lomé Convention, the E.C.'s principal trade and aid agreement with the Third World): 925,000 ECU will aid the African ACP countries in an initial contribution for the period 1984-87 toward making them self-sufficient in gathering statistics and training staff to perform statistical duties. The project will provide technical assistance for teaching programs, research and recruitment examinations, study trips, seminars and the supply of teaching materials. . . . **Mauritius:** 1.1 million ECU to fund a training program in

Mauritius that will form part of a vocational education strategy for that country. The new project is designed to improve the skills of various categories of workers and to reduce unemployment through better matching of skilled workers to specific job openings. . . . **Afghan Refugees in Pakistan:** 1.2 million ECU to provide an estimated 30,000 refugee families living along Pakistan's northwest frontier with tools, seeds, insecticides and other necessities to establish gardens and for a related project to give an additional 10,000 families a start in the poultry business. . . . **Mozambique:** 1 million ECU to buy and transport corn, bean, sorghum and vegetable seeds for 45,000 drought-stricken families in the Tete region. The resupply operation is designed in part to encourage Mozambicans, many of whom have taken refuge in Zimbabwe where conditions are less severe, to stay put in their home districts. . . .

Food Aid—Nicaragua: 5,000 tons of white corn. Since the E.C. does not produce white corn, arrangements were made to buy the corn in a developing country where it grows in sufficient quantities. . . . **Angola:** 200 tons of milk powder and 100 tons of butteroil, valued at 547,000 ECU, to avert the threat of famine facing 125,000 people in the country's Huila, Cunene and Cuando Cubango provinces. The aid will meet the needs of about 55,000 people for three months. . . . **Mozambique:** 3,000 tons of grain, valued at 650,000 ECU, to feed residents of Tete province, where a three-year drought has played havoc with local agriculture. . . . **Refugees in Thailand:** 1,160 tons of beans and 975 tons of fish, valued at 1.9 million ECU, to aid 231,000 Khmer refugees and 80,000 displaced Thais who have fled from military operations along the border between Thailand and Cambodia. . . . **Lesotho:** 300 tons of milk powder and 200 tons of butteroil to feed segments of the population most seriously affected by drought.

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BOOKS IN REVIEW

Europe's Stagflation, edited by Michael Emerson, Oxford University Press, \$16.95, 228 pp.

Europe's Money, edited by Rainer Masera and Robert Triffin, Oxford University Press, \$24.95, 286 pp.

European Industry, edited by Alexis Jacquemin, Oxford University Press, \$16.95, 377 pp.

These books stem from the inaugural conference of the Center for European Policy Studies (CEPS) in Brussels. CEPS is represented in the United States by Peter Rous, 200 33rd Street, New York, NY 10016. Tel: (212) 888-7015. The volumes also can be ordered in Europe from CEPS, 33 rue Ducal, 1000 Brussels, Belgium.

SARAH HOGG

When the conference that gave rise to these three volumes took place, in December 1982, the E.C. economies were well bedded in the mire of recession. Some slight movement had taken place that year: While output in the Community had actually fallen in 1981, for the first time in six years, it rose a pathetic 0.5 percent in 1982. In 1983, it actually managed to double that growth rate; in 1984 it may succeed in doubling it yet again.

But this snail's gallop still will not produce a growth rate of much over 2 percent. Europe's recovery does not compare well with the athletic pace of the American economy. Of course the Europeans have their respectable excuses, based on the high level of American interest rates. But these three valuable books seek to examine Europe's own root causes of economic feebleness.

Of the three, Michael Emerson's **Europe's Stagflation** is naturally the pivot. Stagflation—or, as Robert Triffin rather nicely rechristens it in **Europe's Money**, “infession”—is a kind of generalized symptom of the European disease. Perhaps it is not the disease itself. Perhaps the causes of that lie buried in the industrial deficiencies considered in

European Industry: failures to adjust, develop, cooperate and nurture the industries of the future. But stagflation or “infession” are certainly the symptoms to which most political and academic diagnosis are directed.

Robert Triffin prefers “infession” because he believes it more accurately reflects the sequence of events: inflation, followed by persistent recession. In fact, during the latest cycle, the two moved closely together. Consumer price inflation peaked in 1981, the worst year for output. But, in both this cycle and the previous one, recovery was not strong enough to dent unemployment. Europe's unemployment rate has risen every year since 1973.

Emerson's volume, which is particularly rich in analytical detail, contains several papers which analyze the depressing developments in European labor markets. Europe, unlike the United States, has manifested a singular inability to create new jobs. Several authors tackle the problem of why governments found themselves unable or unwilling to stimulate demand. Perhaps the neatest encapsulation is given by Andreas Boltho, with his notion of an “expectations trap” equivalent to the “liquidity trap” discovered by Keynes in the 1930s. By this new trap, Boltho suggests something like this: While financial markets are concerned with rates of monetary growth and their inflationary consequences, the industrial sector is still focused on the question of the level of effective demand. So governments cannot reflate without arousing inflationary expectations, but industry will not generate “spontaneous” recovery without a stimulus to demand.

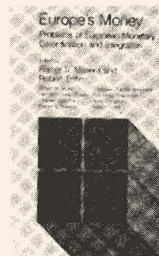
That is a grossly crude paraphrase of his analysis, but it touches on the issue addressed by many of the authors and conference participants: why governments fear to reflate because of the inflationary consequences. In the old days, of course, one reason for this fear would have been anxiety about the exchange rate. In **Europe's Money**, Niels Thygesen analyzes the effect of the European Monetary System (EMS) on both the policies and different inflationary tendencies of its full members.

He comes—to my mind, quite rightly—to some mildly encouraging conclusions. The EMS experience has been both less than its apologists hoped and more than its detractors forecast. Realignments have been quite frequent, though the endurance of the 1983 set of parities, beyond publication of this book, must have increased the average “typical” interval, reckoned by Thygesen to be only six to nine months. But he points out that the size of realignments has tended to grow during the life of the EMS, now rather over five years old.

Even so, these realignments have been achieved (given the delicate task of rebalancing national interests) with surprising ease. Even the British non-member of the EMS can claim a part in this, through its Finance Minister's role as arbitrator during realignment weekends. As Thygesen points out, the EMS has not developed into a kind of crawling-peg system of exchange rates, through which they are adjusted according to objective criteria. Nor, however, has it been “permissive,” adjusting exchange rates to make full room for the excess inflation of the weakest members.

In other words, it has made a mild contribution toward economic convergence in Europe, while at the same time providing living proof that Europe's members can sometimes achieve continuing agreement about something—even, it might be added, something as inherently difficult as the “discretionary collective management of exchange rates.” One might perhaps make one caveat, touched on by more than one author: the relative simplicity of attempting to hold the EMS together when the dollar is strong, compared with the inherent difficulty of holding the deutsche mark down in line with other European currencies as, or when, a weakening dollar is driving funds into Frankfurt.

Even so, the EMS's life has been a “not unsatisfactory one.” This enables Rainer Masera and Robert Triffin, in their introduction, to enjoy the luxury of making clear and positive proposals based on the papers in this volume. They urge further development toward monetary union: the creation, in effect, of a European Federal



Bank, able to issue European Currency Units (ECU), whose value would no longer be defined according to a "basket" of national currencies. Following from this, there would have to be European monetary targets, followed by budgetary coordination between different governments and, in somewhat sweeping conclusion, the reform of "certain institutional arrangements" which impinge on "the nature of the trade-off between output and inflation stabilization." By these are meant, for example, provisions in various countries for the indexation of wages or financial assets.

It has to be said that this is the kind of financial futurology that is well beyond the thinking of even those Governments most committed to the EMS. All the same, it is futurology along the right lines. The ECU has been a great success story, within the confines of its nursery, achieving considerable popularity as a currency in which to denominate financial assets. But the optimism on which such a vision of the

future is based needs a healthy corrective in the form of the third volume in this series. **European Industry** is, perhaps unwittingly, something of a catalogue of national divisions and governments' failure to cooperate within Europe.

In part, this is because the very purposes of industrial policy are a matter of heated debate between and within governments. The summary by Alexis Jacquemin provides a neat categorization of policies at the national, sectoral and "micro" level. Successive authors discuss the pros and cons of intervention by government at the various levels of the economy, though there are also some interesting case studies of particular industries. The mood in this volume, too, is positive—directed toward "concerted industrial policies" in Europe. Pierre Defraigne presents these as both more liberal and more effective than competitive national policies.

He is, undoubtedly, correct. But the reality shows Europe making little

progress in this direction. There is, as Jacquemin says, "widespread agreement on the unsatisfactory performance of our economies and the need for a new industrial policy direction." Yet even the simplest and oldest view of what that policy should be—the creation of a free internal market in which European industries could develop continental economies of scale—has not been fully realized. The firm organized on a European scale, moreover, is "often treated with suspicion by governments reluctant to afford it the benefits of their various industrial policy instruments." It is hard to escape the conclusion, when listening to the chorus of E.C. Finance Ministers complaining about American interest rates, that the curse of Europe is its preference for cooperation against outsiders, rather than in the resolution of its own internal difficulties and divisions. €

Sarah Hogg is economics editor of *The Times* of London.

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 recommendations of these publications, which can be purchased or ordered from most booksellers.

Control of Foreign Policy in Western Democracies: A Comparative Study of Parliamentary Affairs Committees. Edited by Antonio Casese. Oceana Publications, Dobbs Ferry, 1983. 690 pp. \$60.00.

A three-part study which discusses parliamentary foreign affairs committees in national and transnational settings. Volume I studies the committees at the national parliamentary level in terms of membership, organization, procedure and scope of authority. Volume III assesses the impact of such committees on foreign policy. The European Parliament and its foreign affairs committee are the subject of Volume II. Topics addressed include the individual and combined impact of the Parliament's Committee for External Economic Relations, the Committee on Cooperation and Development and the Political Affairs Committee.

European Marketing Data and Statistics 1984. 20th edition. Euro-monitor Publications, London, 1984. Available from Gale Research Co., Detroit. 353 pp. \$175.00.

Annual statistical handbook of market information on 30 European countries. In addition to providing country-by-country economic profiles, includes statistics on basic marketing parameters, including consumption, market size, retail sales, production and trade. Also contains sections on consumption trends in health and education, culture and mass media, communications and travel and tourism.

Development Assistance Policies

and the Performance of Aid Agencies. By Hassan M. Selim. St. Martin's Press, New York, 1983. 531 pp. \$40.00.

Focuses on the performance of financial flows, development assistance policies and aid agencies in member countries of the Organization for Economic Cooperation and Development's Development Assistance Committee. Includes case studies of the E.C., the United States, the United Kingdom, the Federal Republic of Germany, Japan, the Netherlands and Sweden.

European Yearbook 1982, Volume XXX. Edited by Pierre Drillien. Martinus Nijhoff Publishers, Boston, 1984. 863 pp. \$129.00.

A French-English reference guide to European organizations. Provides detailed factual profiles on each organization's activities, achievements, publications and staff in 1982. Also contains a section with articles focusing on timely issues, including the E.C.'s Mediterranean policy.

Greenland in the Process of Leaving the European Community. Edited by Hjalte Rasmussen. Forlaget Europa, Copenhagen, 1983. 101 pp. 75 DKR, paper.

A series of reports delivered at a conference organized by the Danish Society for European Studies. Describes the relationship between Greenland, Denmark and the E.C. and details the motivations behind the 1982 decision by a majority of the Greenland electorate to leave the E.C. Presents the issue from cultural and

sociological standpoints, studies Danish policy vis-a-vis Greenland in the past decade and delves into Greenland's internal politics.

Multinational Excursions. By Charles P. Kindleburger. MIT Press, Cambridge, MA, 1984. 275 pp. \$22.50.

A collection of papers, lectures, articles and reviews which focuses upon the role of multinational corporations in the international economy. Among topics addressed are the multinational corporation in world affairs, the clash of economics and sociology in the internationalization of business and direct investment in less developed countries and in militant developing nations. The origins of U.S. direct investment in France and international banks and businesses are discussed, followed by Kindleburger's reviews of major books on the multinational corporation.

The Independent Nuclear State: The United States, Britain and the Military Atom. By John Simpson. St. Martin's Press, New York, 1984. 340 pp. \$30.00.

A chronology and overview of British military research and development in atomic energy. Describes the technical evolution of British nuclear weapons systems, and surveys U.S.-U.K. interactions in this sphere. Also studied are recent British attempts to achieve a closer political association with the rest of Europe, as well as a movement by the British Government to implement a policy of unilateral nuclear disarmament.

The Agricultural Fisheries Cooperatives in the E.C. General Committee for Agricultural Cooperation in the EEC, Brussels, 1983. 137 pp.

A detailed description of the structures, economic activities, and impor-

tance of the agricultural and fisheries cooperatives in each of the E.C.'s member states. Also discusses cooperative organization at the E.C. level and evaluates both the impact of E.C. policy on agricultural cooperatives and the role of the General Committee for Agricultural Cooperation in the E.C.

Ireland and the European Communities. Edited by David Coombes. Gill and MacMillan, Dublin, 1983. 202 pp. £20.00, paper.

A collection of essays assessing the political, economic, legal and social consequences of Ireland's membership in the E.C. Provides perspectives on central issues such as Irish sovereignty and neutrality since joining the E.C. Also studies new approaches called for by the E.C. in industry, commerce and agriculture, as well as in local and national government.

Industrial Relations in Planned Economies, Market Economies and the Third World. By J. Wilczynski. St. Martin's Press, New York, 1983. 256 pp. \$35.00.

A study of industrial relations in capitalist, socialist and Third World countries. Addresses topics such as organized labor, technological change and standard of living from a comparative standpoint. Also examines topical issues, including women and employment, workers' participation in ownership and management and the humanization of work.

Politics and Nationhood: Post-Revolutionary Portugal. By Thomas C. Bruneau. Praeger Publishers, New York, 1984. 175 pp. \$28.95.

Examines revolution of 1974 in Portugal and the subsequent development of a new regime. Studies the economic and political background to current Portuguese modernization and the

politics in the liberal democratic regimes. Includes results of national survey which reveals attitudes on both the revolution and recent regimes.

Les Effets de la Cour de Justice des Communautés Européennes dans les Etats Membres. By L'Institut Universitaire International (Luxembourg). Editions UGA, Brussels, 1983. 301 pp. BF 647.

A compilation of essays in English and French on the authority of the Court of Justice in the member states of the E.C. Among topics addressed are the powers granted to the court by Articles 169 and 177 of the E.C. founding treaty, the role of the court as enforcer of the treaty and effects of the court's decisions in the Federal Republic of Germany, France, the United Kingdom and Italy.

The British Nuclear Deterrent. By Peter Malone. Croom Helm, London, 1984. 200 pp. \$27.50.

Traces the development of British nuclear weapons from 1940, when research was initially undertaken, to the present. Synthesizes the history of nuclear weapons in the United Kingdom with domestic politics as well as U.S.-U.K. relations. Examines in detail the British Government's commitment to the nuclear deterrent as a last line of defense.

European Security in the Global Context. Institut d'Etudes Européennes. Editions de l'Université de Bruxelles, Brussels, 1983. 72 pp. BF 200, paper.

A compilation of lectures delivered in Wepion, Belgium, June 3-5, 1983. Discusses various threats to West European security, including those outside the North Atlantic Treaty Organization (NATO) area. Covers deterrence strategies and ways of defending Western Europe. Studies intra-NATO conflicts, including military-technological and political-cultural aspects. Also considers the extent and influence of the peace movement in Western Europe.

European Interests in ASEAN. By Stuart Harris and Brian Bridges. Routledge & Kegan Paul, London, 1983. 85 pp. \$10.00, paper.

Details the political and economic development and the regional and international impact of the Association of Southeast Asian Nations (ASEAN). Focuses on Europe's economic, political and strategic interests in ASEAN and studies the extent to which these may be developed in the future. Considers also the Kampuchean problem and the respective roles of Japan and the Pacific Community as they relate to the future of E.C.-ASEAN relations.

The Third Oil Shock. Edited by Joan Pearce. Routledge and Kegan Paul, London, 1983. 109 pp. \$10.00, paper.

A series of papers examining the impact that prolonged low prices in oil would have upon the world economy. Addressing the issue from a hypothetical standpoint, the essays consider the gains and losses, in both the short- and

long-term, which would result from lowered oil prices. The potential effects of lower prices on oil-exporting countries, on oil-importing developing countries, on the Soviet Union and Eastern Europe and on the international financial system are discussed.

The International Debt Problem and Its Impact on Finance and Trade. Practising Law Institute (PLI), New York, 1984. 241 pp. \$35.00, paper.

A course handbook intended as a supplement to the PLI program of February 9-10, 1984. Discusses various means for resolving debt crises, including the International Monetary Fund, The Bank for International Settlements and the Eximbank. Also examines the debt rescheduling process, the impact of economic crisis in high-debt countries on multinational company operations and techniques and opportunities in countertrade.

Unemployment and Growth in the Western Economies. Edited by Andrew J. Pierre. Council on Foreign Relations, New York, 1984. 142 pp. \$5.95, paper.

Four articles which analyze the problems of unemployment and inadequate economic growth in both the United States and Western Europe. Examines how unemployment affects trade, encourages protectionism and damages domestic politics and the overall trans-Atlantic economic relationship. Offered are a number of specific policies aimed at reducing joblessness, including job sharing and early retirement. Also debated is the role that macroeconomic policy can play in reviving the Western economies and in coping with long-term unemployment.

Regional Economic Development and Policy. By David Pinder. George Allen and Unwin, Ltd., London, 1983. 130 pp. \$24.95 cloth, \$10.95 paper.

A survey of regional economic theory and policy within the E.C. Discusses the origins and complexities of regional planning and assesses the utility of strategies for regional industrialization. Draws conclusions about the effectiveness of regional policies applied by national governments and international agencies such as the European Regional Development Fund. Also studies the impact of regional policies in view of tight public-expenditure controls.

Competition and Industrial Policy in the E.C. By Dennis Swann. University Press, Cambridge, 1983. 212 pp. £5.50, paper.

Defines and provides an overview of the E.C.'s competition and industrial policies. Includes discussion of tariffs, quotas and equivalent measures. Concentrates also on non-tariff barriers, including the state and cartels. The industrial policies of both the European Economic Community and the European Coal and Steel Community are assessed.

The Present State of Communist

Internationalism. By Lawrence L. Whetten. Lexington Books, Lexington, 1983. 253 pp. \$28.95.

Chronicles the development of Communist internationalism, in theory and practice, from 1920 to the present. Details both Soviet and other Communist Governments' viewpoints on the potential for a single transnational Communist Party and presents the role of nonruling Communist parties in this development. Profiles parties most pivotal in the future of transnational Communism, including those in France, Italy, Spain, Poland and Third World countries.

The Crises of the European Regions. Edited by Dudley Seers and Kjell Ostrom. St. Martin's Press, New York, 1983. 176 pp. \$25.00.

A series of papers presented at a conference organized by the European Periphery Group of the European Association of Development Institutes. Discusses development strategies for regions in Portugal, Spain, Finland, Sweden and Yugoslavia. Also considers state and regional social movements in Southern Europe, assesses centralized and decentralized planning methods and addresses geographic, demographic, economic and political aspects of regional development.

Spain and the United States: Since World War II. By R. Richard Rubottom and J. Carter Murphy. Praeger Publishers, New York, 1984. 163 pp. \$24.95.

A study of postwar relations between Spain and the United States. Reconstructs developments during the 30-year period since the signing of the Madrid Pact in 1953 and evaluates the pact's influence on the economic and political evolution of Spain. Discusses prospects for the future of Ibero-American relations.

The Economic and Social Interest Groups of Spain. By the Economic and Social Committee of the European Communities. Editions Delta, Brussels, 1984. 238 pp.

A profile of 21 Spanish management and labor organizations in the fields of agriculture, insurance, banking, trade and small and medium-sized enterprises. Details each interest group's structure, principal activities and role in Spain's economic and social context.

World Guide to Abbreviations of Organizations, 7th edition. By F.A. Buttress. Grand River Books, Detroit, 1984. Available from Gale Research Co., Detroit. 730 pp. \$115.

With approximately 43,000 entries, this reference book constitutes an international guide to abbreviations of organizations in fields of commerce, industry, administration, education, journalism, politics, medicine, science and technology and recreation. Language of entry is that of the country of origin, except in the case of international bodies.

Inside the EEC. An Irish Guide. By Ruth Barrington and John Cooney.

O'Brien Press Ltd., Dublin, 1984. 192 pp. Available from Irish Books & Media, St. Paul, MN.

An overview of the European Economic Community which focuses on Irish membership in the E.C. Explained are the E.C. structural groups and the effect of the Common Market on trade, industry and agriculture. Other topics addressed include the European Monetary System, E.C.-Third World relations, women in the E.C. and social affairs.

Defence and Dissent in Contemporary France. Edited by Jolyon Howorth and Patricia Chilton. St. Martin's Press, New York, 1984. 264 pp. \$27.50.

Divided in two parts, this collection of essays strives to explain the pattern of defense and dissent which prevails in France. The first part studies defense policies in post-war France and includes historical perspectives and discussion of French nuclear weapons. Opposition to French defense policies is the focus of part two, which chronicles the French peace movement in the post-war era as well as the rise of the new left.

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A report prepared for the E.C. Commission as part of the FAST Program (Forecasting and Assessment in the Field of Science and Technology).

Analysis of Organic Micropollutants in Water. EUR 8515. Edited by G. Angeletti and A. Bjorseth. Kluwer Academic Publishers, Boston, 1984. 339 pp. \$59.00.

Proceedings of the Third European Symposium held in Oslo, Norway, September 19-21, 1983.

The Health Service Market in Europe: Hospital Equipment. EUR 8845. Edited by R. Rapparini. Elsevier Science Publishers, New York, 1984. 223 pp. \$53.50.

Proceedings of an international symposium held in Luxembourg on October 17-19, 1983.

Thermal Processing and Quality of Foods. EUR 9038. Edited by P. Zeuthen et al. Elsevier Science Publishers, New York, 1984. 933 pp.

Proceedings of the concluding seminar held under the auspices of COST (European Cooperation in Scientific and Technical Research) on the thermal processing and quality of foods in Athens, November 14-18, 1983.

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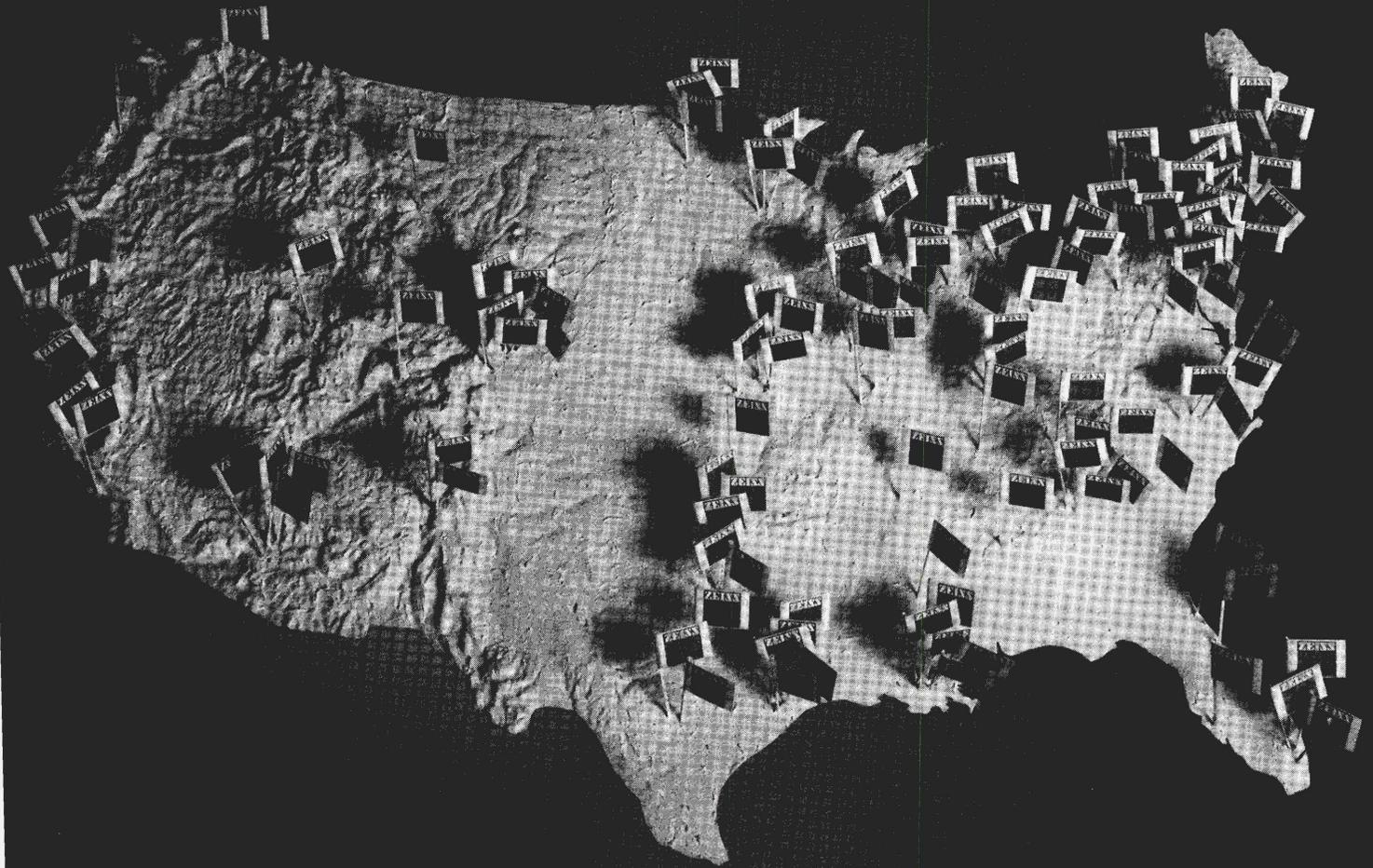
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