EUROPE

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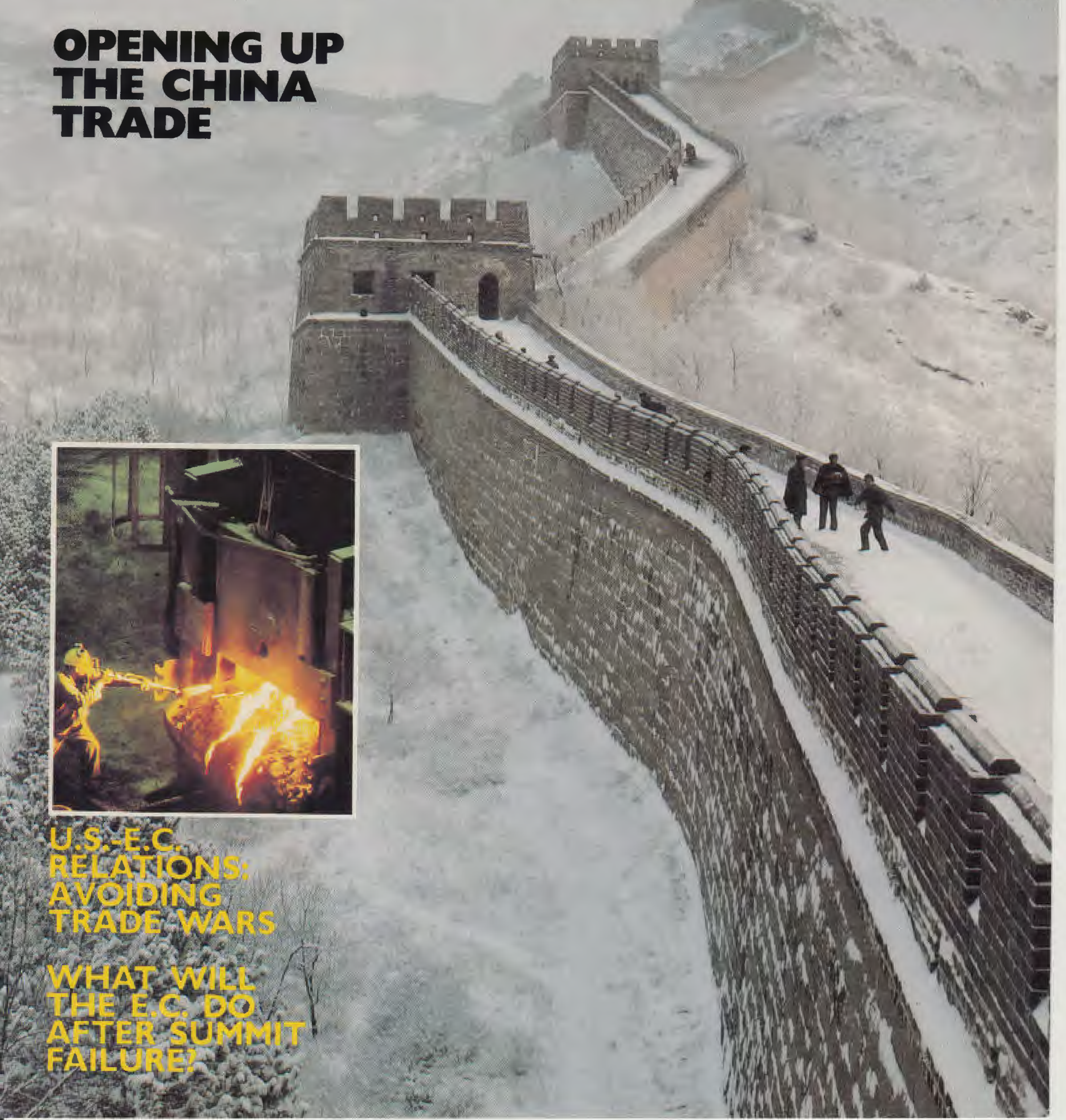

OPENING UP THE CHINA TRADE

U.S.-E.C. RELATIONS: AVOIDING TRADE WARS

WHAT WILL THE E.C. DO AFTER SUMMIT FAILURE?

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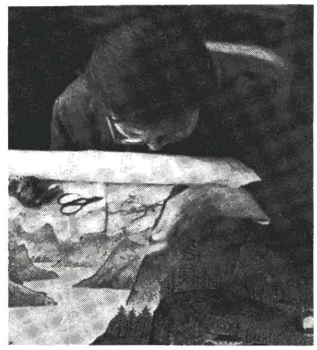

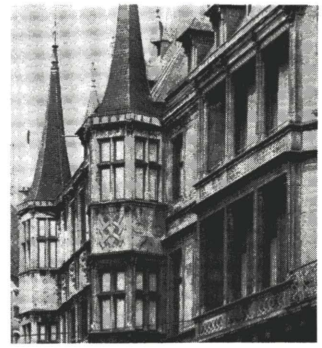

COVER: The Great Wall just north of Peking. (© George Holton/Photo Researchers, Inc.) Inset, an electric steel furnace. (Courtesy Iron and Steel Institute)

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PUBLISHER'S LETTER

1984—A YEAR OF DECISION

The new year—1984—seems destined to be a decisive year for both the European Community itself and for E.C. relations with the United States. The failure of the December 1983 summit of E.C. leaders in Athens to solve the nagging budget problems that plague the Community and threaten its future development places the E.C. under even more intense pressure to find an acceptable compromise on revenues, spending and agricultural policy reform. But despite the gloom and doom predictions by some pundits that the E.C. is about to come apart at the seams, the Community marches on. In this issue American University's William Cromwell reflects on the aftermath of the Athens summit and takes an historical look at the development of the Community. Sir Roy Denman examines the advantages of free trade. Former U.S. Special Representative for Trade Negotiations Robert S. Strauss inaugurates *Europe*'s new guest column with a piece on U.S.-E.C. relations.

Since today's young people will be the leaders of tomorrow's Europe, the E.C. has made the young a focal point of its social programs. The worrying fact is that young people under 25 account for nearly half of the E.C.'s 10 percent plus unemployment rate. Ian Murray of *The Times* of London writes from Brussels that finding ways to train unskilled young people to enter new growth industries is near the top of the E.C.'s agenda.

Elsewhere in the magazine we take a slightly different look at new technologies. James David Spellman examines what the E.C. is doing to foster research in the field of biotechnology. The E.C. already outspends the Japanese government in biotechnology research and development, but Spellman concludes that the E.C.'s success in the field may ultimately depend more on coordination than on spending. Another relatively new industry—information technology—is the target of an ambitious E.C. program still in its infancy, that will make money available for pilot projects. Giles Merritt, Brussels correspondent for London's *Sunday Times* takes a look at the hows and whys of this bold new project, nicknamed Esprit.

U.S. Secretary of State George Shultz and E.C. Commission President Gaston Thorn met in Brussels December 9 to discuss trade problems. "It's too easily forgotten that the volume of two-way trade between the United States and Europe totals $90 billion each year. We must be doing something right," said Shultz.

Our E.C. member state report in this issue highlights Luxembourg, with stories featuring the twin lifebloods of the tiny country's economy—banking and steel. Alan Osborn, Benelux correspondent for the *Daily Telegraph*, reports that despite some troubling economic problems, the spirit of enterprise is still alive and well in the Grand Duchy, as is the struggle to build and protect its national identity.

Last, but not least, Europe takes a trip through the wonderful world of chocolate—a confection once considered so seductive that the Catholic church debated whether to forbid its consumption by monks. With the new American love affair with fine chocolate, *Europe* takes a look at the inroads European manufacturers are making in the battle for the hearts, minds and purse strings of American "chocoholics."

Finally, with this issue we launch a new design for the magazine. We hope the changes we have made will make *Europe* more attractive and readable and we invite comment from our readers.

Denis Corboy

AROUND THE CAPITALS

PARIS

Be Fruitful And Multiply

For more than a decade, various French Governments have tried to stop the dramatic decline in the nation's population growth rate by encouraging families to have more than two children. And for more than a decade, French couples have steadfastly ignored the Government's call to be fruitful and multiply. The latest incentive to be offered is a proposed law to pay 24,000 francs—about $3,000—to couples producing a third child. The measure has sparked a press debate on whether France can increase the reproductive habits of its citizens through financial enticements.

Under the proposed law, the government will pay $125 a month to either a mother or father who quits work because of the birth of a third or subsequent child. The "parental leave" payments will continue until the child is 2 years old, for a total payment of $3,000 if the parent remains at home during that time. If the parent chooses to return to a part-time job, the Government will still pay $75 a month to the family.

The bill is the work of President François Mitterrand's Socialist Administration, which points out that the measure also could help reduce France's 9 percent unemployment rate. The bill is expected to be passed this year in the National Assembly, where the Socialists hold an outright majority.

Critics of the bill, however, contend it is doubtful that financial incentives can win what the French press has dubbed the battle for the third child. "All past financial incentives have proved to be ineffective," the leftist daily *Libération* commented. "But it's a mere formality to debate these questions because nothing really seems to influence the desire of people to have or not to have children. The Parisian daily *Le Parisien Libéré* joined in the debate: "the birthrate cannot be decided by decree. Among other things, it is influenced by confidence, or lack of confidence, in the future."

France already has enacted laws that have increased maternity leave to six months, opened day care centers for non-working mothers, guaranteed a minimum income for families with at least three children, and offered a wide range of discounted prices for such things as subway tickets for *les familles nombreuses*—families with many children. Despite these laws, the French currently have 1.9 children per family, a figure that has been virtually unchanged for the past 10 years. That figure is under the 2.1 percent figure considered necessary to renew the population and far below the 2.9 figure registered in France in 1964.

The result has been a marked decline in the population growth rate, which has been cut in half in the past seven years from 0.8 to 0.4 percent. France currently is the world's 16th most populous nation, with 54.6 million citizens. But by the year 2020, demographic experts predict France will slip to 25th place in the rankings, with 57 million people.

If the decline in the growth rate is not halted, the Government has warned that France will become underpopulated, underproductive, and top heavy with senior citizens who will overtax the social security system. "This nation must be convinced that it is a national obligation to bring our fertility rate back to a level that will assure the replenishment of the generations," French Social Affairs Minister Pierre Beregovoy said in announcing the proposed law.—CAROLYN LESH

LONDON

Advertising For Diplomats

Over 1,800 people responded to a recent newspaper advertisement announcing five "challenging appointments in international relations" for Britain's diplomatic service. It was the first time in almost 10 years that the Foreign Office in London, which draws two out of every three high fliers from Oxford and Cambridge universities, extended its normal recruitment procedures to outsiders aged between 32 and 42. At last, cynics observed, the establishment had recognized that life really can begin at 40.

The announcement said that candidates need not be university graduates. Aspiring ambassadors being sought from outside would be the sort of people who had held "responsi-


The Diplomatic Service

Challenging Appointments in International Relations to £17,900

The Diplomatic Service is seeking applications from men and women for five posts at First Secretary level. Successful candidates will be required to work at home and abroad. Their function will be to represent Her Majesty's Government in Foreign and Commonwealth countries, to advise on the formulation of foreign policy and to promote British interests overseas in a wide variety of fields.

Preference will be given to candidates who have held responsible posts in international, industrial, commercial, financial or other sectors which have given them experience relevant to the work of the Diplomatic Service. Successful candidates will also be required to demonstrate effective management skills.

Candidates, aged at least 32 and under 42 on 1st October 1983, need not be graduates but should possess intellectual qualities or professional qualifications comparable to those indicated by the possession of a good honours degree. They must be able to demonstrate a clear aptitude to learn languages.

Salary, as First Secretary, will be in the range £13,645–£17,905 plus additional allowances on posting overseas. There are prospects of advancement to the next grade Grade 4 (£20,490–£24,405) while more senior positions carrying salaries of £30,000 and above are open to the most able.

For full details and an application form (to be returned by 14 October 1983) write to Civil Service Commission, Alencon Link, Basingstoke, Hants RG21 1JB, or telephone Basingstoke (0256) 68551 (answering service operates outside office hours).
Please quote ref: A/292/2.

This advertisement for diplomats appeared in *The Times* of London.

ble posts in international, industrial, commercial, financial, and other sectors which have given them experience relevant to the work of the diplomatic service." Starting as first secretaries the five successful candidates will receive a salary of up to $27,000, with the prospect of rising to more than double that as a top-level ambassador in places such as Bonn, Paris, and Moscow.

The real significance of the advertisement, however, went far beyond the mere announcement of five vacant jobs. By opening its ranks to new blood, the Whitehall system is at last bowing to critics who argue that the senior ranks of the British civil service—which have been, for so long, the envy of the Western world—are suffering from serious stagnation. They feel this can be cured only by a process of rejuvenation, with new dynamism from outside.

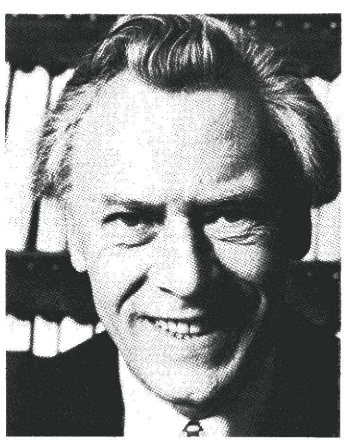
The strongest critic waging a campaign for radical change is a former member of the club, Sir John Hoskyns, 56-year-old head of Prime Minister Margaret Thatcher's policy unit in Downing Street until his resignation last year. His message has shaken the political establishment—which he defines as the top 3,000 civil servants and between 300 to 400 members of Parliament—by asserting that they have become second-rate by a process of intellectual deterioration. In an address to Britain's top businessmen, at the Institute of Directors, he said: "A country of 55 million people is forced to depend on a talent pool which could not sustain a single multinational company." His attack on the system lambasted it for "institutional timidity," "second-rate thinking," and "general intellectual slackness," all of which had contributed to "30 years of policy failure."

Many other critical voices have joined the campaign demanding fresh thinking on the way problems are tackled in government. There is a growing volume of opinion arguing that the way top management in Britain's businesses think, act, and take decisions is often far more appropriate for getting results than the way senior members of the government and civil service approach problems. Perhaps the influx of new blood through more advertisements opening the Whitehall system to outsiders with special talents could be the lifesaver for the moribund club, whose reputation has been sinking under the tide of criticism from Sir John Hoskyns and other disillusioned former members of the club.—JOHN DICKIE

COPENHAGEN

Foreign Policy Is a Struggle

Though many outside Denmark would argue that managing the foreign policy of a small country can hardly be compared to the challenges of superpower politics, the post of Foreign Minister has traditionally given its holder a hard time in Danish politics.

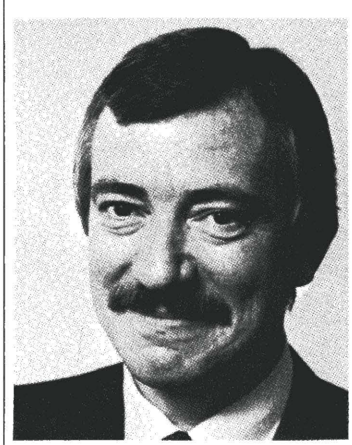


Prime Minister Poul Schlüter: finding solutions to Denmark's economic problems.

Foreign policy, specifically the Danish reaction to the U.S. stance on disarmament and the deployment of new nuclear missiles in Europe, has become a very divisive issue. If observers outside Denmark find it difficult, they should be excused. Most Danish observers are just as confused and their opinions vary widely, from the belief that Denmark is on the verge of leaving the North Atlantic Treaty Organization (NATO) to the claim that no major shift in policy has taken place.

Opinion polls still show a strong majority of Danes supporting the alliance with the United States, but since leaving office at the end of 1982 the Socialists have shifted to the left, following the lead of other European Socialist parties. With the non-Socialist Radical-Liberal Party, traditionally an anti-militarist party, this means there is a majority in parliament for the policy.

It can be considered an irony of fate that this policy is administered by the strongest Liberal-Conservative Government in Denmark since World War II. The highly successful Prime Minister, Poul Schlüter, says that his Government was formed to find solutions to Denmark's economic problems, though there are limits to how far the Government will bend. Foreign Minister Uffe Ellemann-Jensen has been quoted in the press as saying that the anti-U.S. policy he was supposed to represent was plain "silly." Whatever the merit of the adjective, it is obviously a dangerous evaluation of a majority view in parliament. And, whatever the outcome, it shows how partisan foreign policy has become in Denmark. That is a far cry from 1948, when the Socialist Party united with the majority of the non-Socialists in choosing the Western alliance as the foundation of Danish foreign policy.—LEIF BECK FALLESEN



Foreign Minister Uffe Ellemann-Jensen: his job is among the most difficult in Danish politics.

ROME

Cracking Down on Kidnapping

What does an 18-month-old Italian girl have to do with a casino? Both lately have featured heavily in a dramatic resurgence of that curse of modern Italian life: kidnapping. Elena Luisi is only one of the more recent victims of the new wave, but the first baby ever to be snatched for ransom. Until now, rich Italians felt reasonably safe until their children were in their early teens. She was taken from her bed near Lucca in central Italy and her distraught parents, far from wealthy, went into agony as mysterious telephone calls came in from what turned out to be her kidnappers.

Fortunately her story had a happy ending. Police became suspicious of a family friend who kept telephoning to ask how things were going. They arrested him, found he had organized the operation, and soon afterward freed little Elena in a rugged part of Sicily, hundreds of miles to the south. Had a ransom been paid, the kidnappers very likely would have used an increasingly common technique in laundering the money. Since noting the serial number of the banknotes is one of the few checks that the families of kidnap victims have when they hand over ransoms, the gangsters have to launder them fast.

One way is to take the money to one of Italy's few casinos and exchange it for chips. The gangster then gambles a little, loses, throws up his hands in despair and cashes in the chips, receiving "clean" banknotes. Police have gotten wise to this and recently arrested about two dozen people, including casino directors, at casinos in northern Italy. In some cases they found the incriminating banknotes from recent kidnappings at the casinos. However, that has not yet put a stop to the kidnappings, which had been declining recently, but are on the increase again since 1982 when there were 50.

What often happens is that a wealthy, but not necessarily very well known, businessman is seized in or near his house by a gang, which usually comes from Sardinia, Sicily, or Calabria, in the far south of the peninsula. In due course negotiations are conducted with the relatives of the victim, a ransom is agreed and paid—usually about $1 million—and the kidnapped man is released, frequently in the wild mountains of southern Calabria. Provided he has not caught a glimpse of his kidnappers—or provided his kidnappers do not think he has caught a glimpse of them—his life should be in no danger.

The authorities are gradually stepping up their efforts to catch the kidnappers, but the kidnappers are becoming more elusive. They are increasingly picking on less wealthy businessmen who may be good for a few hundred thousand dollars, but whose disappearance attracts less attention. Some businessmen are coming to accept kidnapping as a normal business risk, though they and their families are once again increasing the number of guards they must employ to protect themselves. "I'm much more afraid of the taxman than of kidnappers," one said. "With the kidnappers you can strike a deal. With the taxman you can't do anything."—James Buxton

BRUSSELS

The Crossroads Of Europe

A few years of living in Brussels can easily convince a foreign businessman or diplomat that he inhabits a kind of glorified village. The social and professional circles are small and overlapping. The faces you see at work are often those you see over dinner, at official receptions, and in the bars of fashionable hotels.

Most of the foreigners in Brussels work for governments, big business, or the media. Their work tends to bring them into contact with each other and linguistic and cultural identities carry the association into personal life. It would be rare for a regular patron of the opera or theater, for instance, to attend a performance without encountering at least one professional or social acquaintance.

Like any major city, Brussels has ethnic communities. There almost may be a case for calling the international residents here one of them. Yet even more than in other cosmopolitan cities like London, New York, or Paris, the expatriate residents of Brussels have succeeding in putting an international imprint on the place. It has become the "capital of Europe," not just in the jargon of its worshippers, but also in the way different nationals can sustain their own tastes and styles in a manner scarcely distinguishable from home. I've known Englishmen to spend a week in Brussels, working with national colleagues, playing darts, and drinking English beer in the evenings and never meeting any Belgians but shop assistants or barmen. I suspect the same may be true of Germans, Italians, Americans, and many more.

The same could be said about New York or London, but the point is that Brussels is the capital of a small country and its claims to star ranking in the global league of cities are not immediately obvious. To understand why they are nevertheless legitimate, you have to appreciate both the historical and geographical position of the city. It is commonplace to call Brussels the "crossroads of Europe" yet, placed as it is with Dutch-speakers to the north, French to the south, and Germans to the east, no other term quite captures its unique situation.

Even so, the growth of the international community here—estimated to be about 25 percent of the population—is a comparatively recent phenomenon. It really began with the siting in Brussels of the E.C. Commission and Council of Ministers in the 1950s. Ten years later, the North Atlantic Treaty Organization headquarters moved to Brussels from Paris. In both cases, the relative smallness of Belgium helped its claim prevail over those of others.

Growth continued throughout the 1960s and 1970s as many multinational companies established headquarters in the city, in turn breeding a remarkable outcrop of institutions. At the latest count no less than 1,117 international organizations were based in Brussels and the city claims 4th place in the world league for international congresses after London, Paris, and Geneva.

A perennial debate is conducted on whether all this is necessarily a good thing. None of the 15,000 or so E.C. and diplomatic personnel pay direct taxes to Brussels or to Belgium. There is a long-running tide of resentment at the way ancient residential areas are crushed to make way for new institutional buildings. On balance though, the economic benefits must be enormous. A recent study found that international civil servants living in Brussels were expected to earn about $1.3 billion between 1981-1985, of which some four-fifths would be spent in Belgium.

One thing, however, mars Brussels' claim to be the "headquarters" of the E.C. The European Parliament doesn't sit here. But that omission may not last. Sporadic attempts by some members of Parliament to locate all their activities in Brussels—where they already hold most of their committee and political group meetings—have failed so far. But the new Parliament to be elected in June next year is likely to be composed of more down-to-earth members than the present one. People, in other words, who may be expected to value Brussels' practical advantages over the historic symbolism of Strasbourg. —Alan Osborn

AMSTERDAM

Minority Rights Get Priority

The Dutch Government's budget for the coming fiscal year was marked by an overall trimming, with just one exception—money for improving conditions of Holland's minority groups. In this case, the Government proposed higher outlays. Dutch Interior Minister Koos Rietkerk, a liberal, has said: "Minority groups must have equal rights and equal opportunities in Dutch society. New policies must create conditions emancipating these groups and enabling them to participate in society. Mutual adaptation and acceptance by Dutch nationals of people of foreign origin is needed. Minority groups must not lag behind, socially or economically. Discrimination must be fought. The legal position of minorities must be improved."

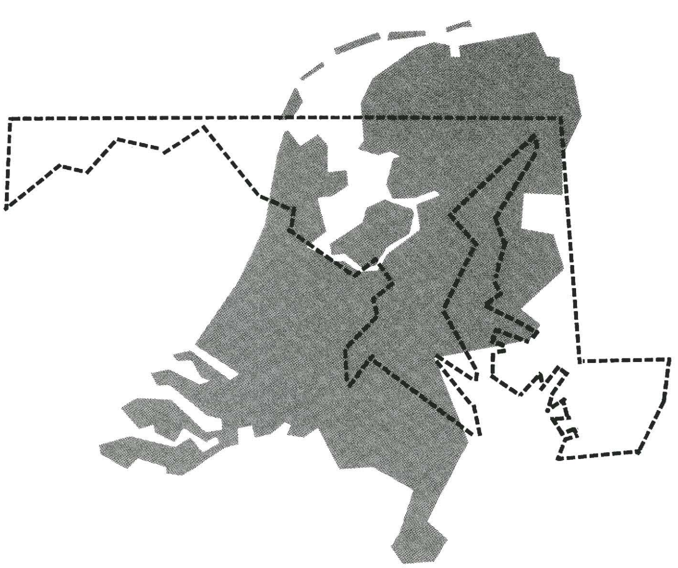
Rietkerk's remarks, contained in a white paper proposing improvements, were opportune. For the first time since World War II, a representative of a neo-Fascist and anti-foreigner party was elected to parliament in September of last year. As Henk Molleman, director of the minorities department of the Interior Ministry, has said: "At present, some 13 percent of the population in Holland's larger cities is of foreign origin. We estimate that in the 1990s some 20 percent of the population in Amsterdam, Rotterdam, and the Hague will be of foreign origin." According to Molleman, foreigners in the Netherlands have to cope with two major handicaps: a difficult language and high unemployment.

The Netherlands is the world's most densely populated country, with 14 million people crammed into a country—part of which is water—that is the size of Maryland. The current unemployment rate is among the highest in the European Community at almost 20 percent. The language is alien to many of the foreigners, in particular to those of Turkish, Moroccan, and Vietnamese origin, though it has been established that Vietnamese children learn Dutch very quickly. The 615,000 people of foreign origin include 180,000 Surinamese, 40,000 Moluccans, 38,000 Antillans from the Dutch Caribbean islands, 6,000 Vietnamese, 2,500 Latin Americans, and 3,000 Christian Turks who came here as political refugees. Six hundred gypsies also want to stay.

In its white paper, the Government states that it has resigned itself to the fact that most of the minority groups, with the exception of the Latin Americans, are here to stay. It proposes special language courses for these people, while urging that attention be given to the culture and language of their country of origin. It pleads for better housing conditions and appeals to local employment offices to give priority to foreigners in distributing appropriate jobs wherever possible. Some municipalities have made a start by distributing small plots of ground to gypsies that have lived there for years.

Particular attention is focused on educating and emancipating women from Islamic countries in order to draw them out of their isolation. Those adapting the best are the largest group of Surinamese. They are a varied mix of Creoles, Hindustani, and Moslems. For the most part, they have opted for Dutch nationality and they have the advantage of speaking Dutch, though often in rudimentary fashion. The Hindustanis' and Moslems' families came from Holland's one-time colony, Surinam, where they had been transported as contract laborers after the abolition of slavery. The Creoles are descendants from African slaves.

The group has its own clubs, theaters and orchestras—often subsidized by the Government. More temples and mosques will be built for these groups and the Government



The Netherlands: 14 million people in a country as big as Maryland.

plans to set up an independant national institution to fight discrimination. What remains to be seen is to what extent the Dutch parliament will approve the Government's proposals and appropriate the funds.
—NEL SLIS.

BONN

Parliament Needs Major Renovation

The meeting chamber in which the Federal Republic of Germany's parliament has made all of its historic decisions beginning with the election—by a margin of one vote—of Konrad Adenauer as the Republic's first head of Government is itself now at the center of a furious row. The chief administrator for the governmental district in which Bonn is located says that if the Bundestag's plenary chamber was being used as a dance hall, he would condemn it as unsafe and have it sealed. There is no reason, the administrator goes on, why the lawmakers should ignore the laws they insist everyone else respect.

The lawmakers, however, seem in no particular hurry to correct the situation. In fact, they deny that their meeting place is unsafe, although they do accept that it needs renovation. The 498 representatives meet in what originally was the athletics gymnasium of a teachers college built in 1930. The presence of that college and of its gymnasium and main lecture hall contributed significantly to Adenauer's decision to make Bonn the capital of the new republic in 1949. It was one of the few cities that still had such office buildings unoccupied by refugees from the east or by occupation armies.

The first parliament elected in 1949 had 402 members, and they just filled the gymnasium. The delegates of the 11 state governments which comprised the upper house—the Bundesrat—took over the smaller, former lecture hall. But when the lower house, the Bundestag, was reelected four years later, it grew to 498 members. This required expansion of the gymnasium, mainly by adding lobbies on the left and right.

Parliamentarians deny that their place in unsafe. They do admit, however, that it needs more renovation than the ordinary repairs that can and are being carried out during each summer recess. But representatives put off needed renovation for years while they dreamed of building a new capital on the banks of the Rhine as big as that on the Hill in Washington. The idea eventually evaporated, however, under the heat of the recession and they returned to considering renovation.

Where to go while the work goes on for 12 or 18 months? Speaker Rainer Barzel rejected suggestions that the representatives move into a local school or uncondemned dance hall. He finally decided that the best solution would be to remove the pumps from an old water works building on the parliamentary grounds, a building recently declared a national monument. After moving back into their rebuilt chamber in 1988, representatives could continue to use the waterworks building as a hearing room. The next thing is to agree on a new interior for the parliamentary chamber. The representatives probably will want to have their semicircles of desks put on an incline rising to the rear. Right now, with all of the desks bolted to a flat floor, it looks just like a bunch of a desks stored in a basketball gymnasium.—WELLINGTON LONG

courtesy German Information Center

The Bundestag's plenary chamber.

ATHENS

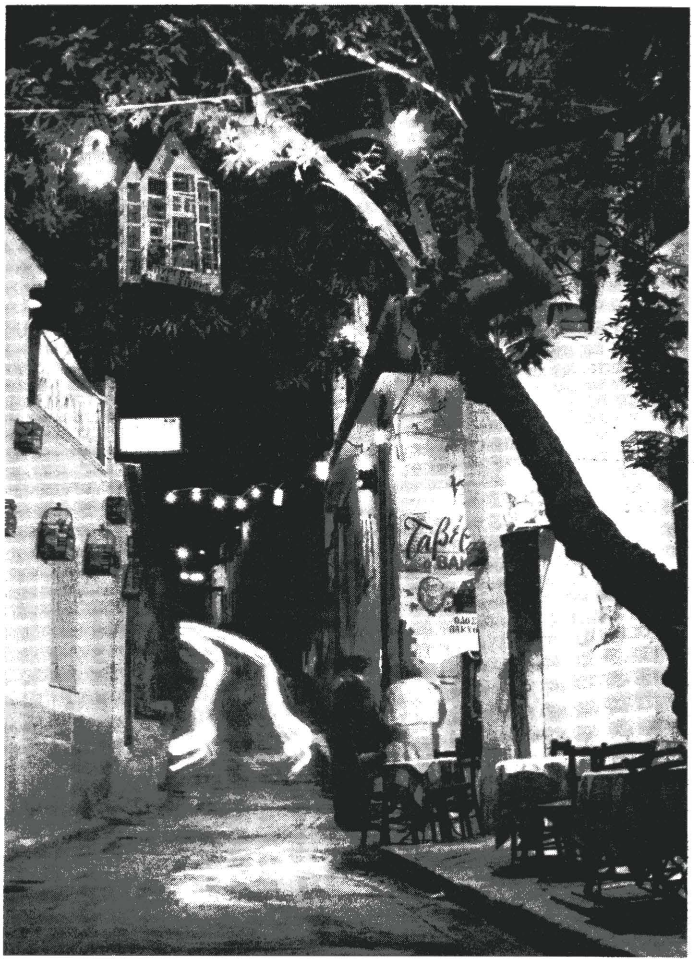
Less Disco, More History

Quiet has fallen over the Plaka. A district of 19th-Century neoclassical buildings clustered beneath the northern slope of the Acropolis rock that has been the nightlife center of Athens for the past decade. A government edict banning noisy nightclubs and discotheques, part of a campaign to restore traditional ways to the most picturesque part of the Greek capital, took effect as the Christmas and New Year entertainment boom threatened to make life miserable for Plaka's 6,000-odd residents.

Almost 50 West European-style pubs, bars, and discos were shut down, along with the Greek nightclubs where amplified music from electrified *bouzoukis* reverberated nightly. The Environment Ministry says the ban was not inspired by kill-joy motives. Officials explain that small establishments where the music is not amplified and where several Greek singers and composers with international reputations started out, are welcome to stay.

The ministry is trying to clean up the Plaka, once the heart of the city, but in recent years a seedy area with few amenities for residents. Old-fashioned *tavernas*, which serve *retsina*—resinated white wine—and traditional Greek cuisine are welcome. Fast-food joints, rapidly proliferating in Athens, are not, according to the Environment Ministry's Plaka office.

A century ago the Plaka—named after the stone slab that divided it from the other seven districts of Athens in Ottoman Turkish times—was a home for one quarter of the city's residents. The area has been continuously occupied for 6,000 years, but fell out of favor shortly before World War II. Dozens of Turkish-style houses were pulled down to make way for archaeologists to expose the ancient Greek and



Roman marketplaces that lay beneath. Residents moved north to Mount Lykavettus.

When Greece's military dictators tidied up the waterfront of Piraeus, the city's port, in the early 1970s, dubious entertainment moved in to the Plaka. Residents fled to more salubrious districts and their family mansions became cheap hotels for backpackers, set over bars and nightclubs designed to attract foreigners. Now the Government has closed down around 60 cheap hotels, and has banned construction of new hotels. A special Plaka police unit keeps a tight control of drug peddling.

The Environment Ministry's long-term restoration plan for the Plaka, put into force four years ago, calls for transforming the district into a pedestrian zone and preserving some 40 buildings of historic and architectural interest. Garish neon signs are forbidden and modern facades have been stripped off to expose the austere lines of neo-classical buildings. The Byzantine churches of Plaka, many sunk below street levels, are getting a facelift. Small workshops that used to flourish in the basements of dilapidated mansions have been driven out, but handcraft establishments are encouraged.

Athenians are trickling back to live in the Plaka again. There are plans to restore Anafiotika, a few streets of decaying island-style homes high up beneath the Acropolis rock, that once belonged to the builders from the Aegean island of Anafi who constructed much of modern Athens. Some residents now worry that the nightclub ban and restoration work will turn the district into a self-conscious replica of its past. Environment Ministry officials disagree, though. They say they will resist efforts from classicists to tear down more of the Plaka to dig up parts of Pericles' Athens. The medieval, Ottoman, and modern Greek heritage, preserved nowhere else in the city, must be given priority, they say.

—Kerin Hope

DUBLIN

Just under 52 percent of Irish farmers consider dairy farming to be the enterprise with the best market prospects, according to the results of a survey taken last fall. The figure was almost 70 percent the year before. This is a direct consequence of the E.C. proposal to introduce a quota system for milk, with a levy which would absorb most of the price as a penalty for production in excess of the quota.

For Irish farmers, the E.C.'s Common Agricultural Policy (CAP) is absolutely vital. With one dairy cow for every two people in the country, it is obvious that exports are essential, and exporting without the market freedom of the export aids provided by the E.C. would be quite impossible under modern conditions. No one recognizes more deeply than the Irish farmer that reforms of the CAP are necessary in order that it may continue to function efficiently.

The principles of proposed reforms were up for discussion by the heads of state of the ten E.C. member states at their recent meeting in Athens, including the controversial quota system and the question of increasing the base for contributions to the budget by the separate nations. The Irish Prime Minister, Garret FitzGerald, went to that meeting determined to fight for the right of Irish farmers to continue to expand milk production without penalty until they have achieved the optimum level of output from their grasslands without resorting to high levels of concentrate feeds.

He pointed out that while the best of the Irish dairy farmers were highly efficient and could compete with anyone, there was a very high proportion of farms where the development of the land and the facilities for optimum numbers of cows had been held back over the years by the lack of a good outlet for dairy products.

The majority of Irish full-time farms are between 40 and 100 acres and they are family farms. The dairy farms have changed steadily over the past 10 years, with many of the smaller operations being discontinued. The average herd size has moved from 10 to 18 cows over the same time, and the trend toward larger and more commercial herds is continuing. Small herds do not provide a living for a family and milk production on part-time farms is difficult.

One developed acre of land in Ireland can carry a cow, providing all grazing and winter fodder. Yields of 1,000 gallons per cow are attainable with inputs of between one-half and three-quarters of a ton of concentrate feed. A herd of 40 to 50 cows can provide a fair living under these circumstances.

Because of the structure of Irish farms, milk production has been one of the best paying enterprises for a very long time. Out of 201,600 holdings over 15 acres, 57,900 are under 30 acres and 113,800 are between 30 and 100 acres. Only 23,500 are between 100 and 200 acres and 6,400 over 200 acres. The farms in the highest category include some very rough hill farms, suitable only for sheep and breeding cattle.

Agriculture provides 11.3 percent of Ireland's gross domestic product, compared to an average of 3.7 percent for the 10 E.C. member states, and there are 17.1 percent of the working population in agriculture, compared to 7.5 percent for the E.C. as a whole.

Ireland joined the European Community at a time when agriculture was just developing away from the old pattern of subsistence farming. There are still many problems, but the potential for livestock farming is very great, provided that the expansion is on a base of low-cost production, which will leave exports able to compete. The climate favors grass production, rather than arable farming, and much of the land is not suitable for tillage operations.

—Michael Dillon

NEW ISSUE

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A FAIR DEAL FOR FREE TRADE

THE CASE FOR RESISTING RISING PROTECTIONIST PRESSURES IN TRANSATLANTIC TRADE.

ROY DENMAN

This article is about something which does not exist. Free trade is like absolute zero in physics, a theoretical concept not encountered in the day-to-day world. But this observation should not deflect us from realizing how far we have been able to move to free trade in the years since World War II. The 1930s were marked not only by the Great Depression, but by the Smoot-Hawley tariff in the United States and retaliation against this very high tariff from a whole range of other countries, a jungle of restrictions in the form of both high tariff quotas and distorting bilateral deals in Europe. Exporting unemployment was a fashionable slogan. Expanding world trade in these conditions was like swimming in a lake choked with weeds.

The reforms in international finance and trade worked out at the end and immediately after the war—and in which the United States played a major part—laid the foundations for what was called the one world trading system. Under the aegis of the General Agreement on Tariffs and Trade (GATT), tariffs and other restrictions were drastically cut in a series of major trade negotiations. The average tariff on industrial goods imported into the United States and the European Community is now only some 4.5 percent.

And not only were tariffs reduced, they were also "bound"—which means in the jargon of the trade that they cannot be increased without a negotiation seeking agreement on appropriate compensation. U.S. exports in 1982 to its biggest customer—the European Community—totaled some $48 billion. By far the greater part entered under tariff headings which were bound. This meant a degree of access stability and prosperity for American and other exporters undreamed of in the 1930s.

All this has meant since 1947 the greatest increase in prosperity the West has known in recorded history. World trade which had stagnated in the 1930s rose by an average of 8.5 percent a year in volume in 1963-72 and even in the oil-shock years of the late 1970s was rising between rates of 5 and 6 percent.

It is argued that protectionism is rife and is stifling world trade. But these charges are exaggerated. With the exception of steel there are few restrictions on trade across the Atlantic. In the case of textiles, often instanced as an example of protectionism, some 40 percent of E.C. imports come in from developed countries without quantitative restrictions—providing in particular a good market for American exporters. In the case of trade with Japan, the restrictions which have been introduced on automobiles in the United States and Europe are familiar to most. Indeed the remarkable thing about the one world trading system is not that there have been some minor inroads of protection here and there, but that in the biggest recession since the 1930s, the system has held.

Of all this general prosperity the United States has deservedly taken a fair slice and not just in its exports to Europe. Between 1970 and 1980, the value of U.S. agricultural exports jumped from $7 billion to over $41 billion. The U.S. share in volume of world exports of agricultural goods rose from 25 to 39 percent. In 1980 the U.S. registered in its trade balance a surplus of just under $27 billion in the agricultural sector. If one looks at manufactured goods the United States share of world exports in manufactures rose from 17 percent in 1978 to 21 percent in 1981.

All this explains the dramatic rise in the proportion of American gross national product (GNP) represented by foreign trade. For one hundred years after the Civil War this never rose above 3 to 4 percent. Then in the 1970s and the early 1980s it soared to a current 12 percent. And that is the background of the change in the American scene from the 1930s to the 1980s. This sketch I have given is a pretty fair defense of what the one world trading system—though not absolute free trade—has brought to Main-Street America and it compares with the memories of 50 years back and "Buddy can you spare a dime." Between 1938 and 1982 U.S. GNP rose five times in real terms.

Some, however, would say that is fine and dandy as far as the general economic

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The European steel industry has taken a considerable battering since 1974, with employment cut by a third. U.S. steel mills are operating at 60 percent of capacity.

scene goes. But in Detroit, for example, the automobile industry is in real difficulty. And Pollyanna lectures about general economics don't help. What about the proposals for domestic content? Production in the United States of motor vehicles and parts fell between 1979 and 1982 by over 50 percent. Now they are rising, but there is still a way to go. Employment and the domestic market have strengthened markedly. But worst of all has been the foreign trade balance. In 1981 in this sector the United States exported $16.2 billion worth and imported $26.2 billion worth, a deficit of $10 billion. In 1982, the deficit reached $15.5 billion. In 1983, exports fell further, imports rose further, and, for the first half of 1983, there was a deficit at an annual value of around $21 billion. So the argument seems persuasive. Whatever the general picture, the case of the automobile industry is a special one. To protect jobs and plants, imports should be restricted.

This, however, is where we should learn something from history. President Herbert Hoover once said that if the Smoot-Hawley tariff were not approved by Congress, grass would grow in American cities. Grass nearly did grow because the Smoot-Hawley tariff was approved by the Congress. And it started the great protectionist slide of the 1930s. The general lesson in Europe as well as the United States over the last 50 years has been that taking protective measures is like giving slugs of red eye to someone not notoriously on the wagon. The more you pour the more is demanded, the more uproarious the demands become, and the worse the patient feels afterward.

But let us turn to specifics and comment in turn on three aspects of the problem: some of the causes and effects of increased competition and requests for protection; the question of relations with developing contries; and the question of steel.

Interest rates have come down markedly over the last two years, but are still historically very high. They pose questions about investment. However, cutting imports is not going to bring down interest rates. That can probably only be done by reducing the budget deficit. Then there is the strength of the dollar, which is caused largely by high interest rates. One economic truth often forgotten is that a strong currency plays a large part in the encouragement of protectionism. Unemployment and low capacity utilization call for measures of this kind, but they tend to be selective. Over-valuation of any currency tends to call for more general protectionist measures.

Looking back on the 1970s, one sees that in the final phase of the breakdown of the Bretton Woods system the dollar was over-valued—by some 15 percent, it was generally held. The result was the Mills bill in 1970 and the Burke-Hartke bill. These would have limited virtually all U.S. imports and very nearly were passed. A year ago it was generally estimated that the dollar was overvalued by about 20 percent and the yen was undervalued by 20 percent. The situation is marginally better now, but still there is rising protectionism, with the passage by the House of Representatives of a domestic content bill.

So the strength of the dollar has caused a good deal of damage. It cuts demand abroad for American exports for industrial and farm products alike and it makes imports more attractive. But what would be the effect on the strength of the dollar if the United States were to cut imports. The answer is that the trade deficit would shrink and the dollar would rise still further. And the problem would get worse.

> Fifty years ago, with the Smoot-Hawley tariff and equivalent restrictions in Europe, we saw the damage protectionism can do.

Then there is the question of relations with developing countries. Often this is put in abstract terms. In practical terms, it means, for example, that U.S. exports of transport equipment to Latin America amounted in 1981 to $5.4 billion, in 1982 to $3.3 billion, in the first half of this year to $1.07 billion. And all this not because of unfair competition but simply because Latin America cannot import; they cannot finance their debt.

In 1982, just under $120 billion of U.S. exports—some 42 percent of the total—went to developing countries. On these purchases of American goods some 6 million American jobs depend. How are these countries supposed to pay for what they buy from the United States? Few would argue that the American taxpayer should pay for them. But these countries need to earn foreign exchange. How can they do so if they are kept out of one of the biggest markets in the world?

Steel is a very important part of the U.S. economy. With American steel mills operating at well under 60 percent of capacity, cutting imports can seem very attractive. But pause to think for a moment of the consequences. Let us assume that by some stroke of sinister magic all steel imports were eliminated. Would the problems of the American steel industry be solved? No. Without foreign competition they would be aggravated.

Plant modernization, already lagging behind that of competitor countries, would be further delayed. Only 34 percent of steel produced in the United States is by continuous casting, the most advanced steelmaking technique, compared with 82 percent in Japan and 56 percent in the European Community. The chairman of a major U.S. steel firm estimated recently that one-third of U.S. steelmaking facilities required modernization. Without imports, labor productivity would decline further and costs would increase.

Already wage rates in the steel sector are well above the average for manufacturing industry. Prices would rise and the rise in prices would have an adverse effect well beyond the steel industry. All that wide range of domestic industries that use American steel would also lose competitiveness. And the great danger is that pressures for increased protection elsewhere increase. If they succeed, this would mean retaliation against American exports which would inflict grave damage on the American economy.

Free trade as such does not exist. But the free world, with substantial leadership from the United States, has made great strides toward it over the last 35 years. This has meant the biggest increase in prosperity in the West in recorded history. It has changed the face of the United States, of Europe, and of the world. The siren voices of protectionism are seductive. But we need to remember the cost, the fact that just over fifty years ago with the Smoot-Hawley tariff and equivalent restrictions in Europe we saw the damage that protectionism can bring.

For the protectionist bell does not toll simply for one industry. It tolls for us all. History will never forgive us if, just as we were emerging from the worst recession for half a century, our courage faltered and we plunged back again into the stifling restrictions and the poverty of the 1930s. Whatever arguments may take place over the Atlantic, the United States and Europe have to work in partnership to keep the one world trading system alive. So far we have managed it. And I am sure that together we will continue to succeed. €

Sir Roy Denman is head of the E.C. Commission's Delegation to Washington.

E.C. SUMMIT FAILS TO REACH AGREEMENT

WHAT ARE THE IMPLICATIONS FOR HISTORICALLY STRONG RELATIONS WITH THE UNITED STATES?

WILLIAM C. CROMWELL

The recent failure of the Athens summit—the December European Council meeting of heads of Government—has produced one of the most severe crises in the history of the European Community. Common Market leaders were unable to reach solutions on a triptych of closely linked financial questions that are central to the continued functioning of the Community in its present form. British-led demands for reform of the Community's costly Common Agricultural Policy (CAP), which accounts for 62 percent of the $25-billion budget, met stiff resistance from France whose farmers benefit handsomely from guaranteed high domestic prices and export rebates which subsidize sales to non-member countries.

While the policy has achieved some of its aims, namely stabilized farm prices and Community self-sufficiency in some commodities, the production incentives inherent in the price-guarantee and export-subsidy provisions have led to mounting farm surpluses which burden Community finances. Commission proposals to discourage excessive dairy production, which represents a third of all farm spending, were opposed by the major producing states. Proposals to keep farm spending increases below the level of Community revenues were also turned aside. The dispute accented the mounting discontent with a Community policy that is disproportionately weighted in favor of a minority of the European work force—less than 10 percent—to the neglect of other programs of benefit to the industrial and underdeveloped sectors of member states.

Inability to agree on farm spending reform led to stalemate elsewhere. British Prime Minister Margaret Thatcher's demand for a reduction in the British contribution to the E.C. budget, a problem resolved previously by short-term restitution arrangements, found little support elsewhere. Arguing that Britain's net contribution of $2 billion to the E.C. budget in 1983 was unfair, Thatcher proposed that all net payments by member countries to the Community budget be limited to a certain percentage of each country's output of goods and services. In the British case, this would have meant a substantial reduction in net contributions to about $400 million. Yet the British concept, gearing budgetary contributions to the level of each country's output, would be hard to reconcile with the Common Agricultural Policy in its present form.

In effect, the British position was that the Community budget, and thus all E.C. programs including agriculture, should be limited by national ceilings on contributions linked to each member's economic strength. This "revenue-driven" budget concept contrasts with the "cost-driven" budget concept under which the Community has traditionally operated. While there was some support for linking Community spending to available revenues, no formula was agreed for the calculation of individual member contributions. Moreover, the British have opposed any increase in E.C. revenues for 1984, necessary to fund existing programs, unless agreement is reached on expenditure control and a reduced British contribution.

As a result of the impasse over these issues, it was impossible to reach agreement on the 1984 Community budget. Unless an accord is reached, providing either for increased revenues (e.g., through an increase in the present 1 percent ceiling on value-added taxes which go to the Community) or for reduced spending, the Community faces the prospect of financial insolvency during 1984. As Belgium's Prime Minister Wilfried Martens observed trenchantly: "This summit is unlike any other. The Community can no longer live with the status quo, because the status quo will collapse."

Another disappointing summit outcome was the continued postponement of setting a date for Spanish and Portuguese membership in the Community. Yet, pending a lasting agreement on financing provisions, Government leaders were understandably reluctant to commit themselves to adding new members which would impose yet further strains on the Community budget.

There is some solace in the outlook for European Community relations with the United States, though the picture is mixed. On the plus side, the U.S. economic recovery—about 3.5 percent real growth in 1983 compared to 0.5 percent for the E.C.—will exert some engine effect on the still sluggish economies of Europe, particularly in export sectors. The E.C. is expected to grow by a modest, yet encouraging, 1.5 percent in 1984. Aided by a strong dollar, which discourages American exports while encouraging imports, the E.C. realized a more than $1-billion surplus in trade with the United States in 1983. This was only the second time in its history that the Community recorded a surplus in trade with the United States, and contrasts with 1981 when the Community experienced an $8.7 billion trade deficit. Given the expected continued strength of the dollar and moderating inflation in the E.C., the recent trend should continue into 1984.

On the other hand, some chronic U.S.-E.C. difficulties remain on the agenda. High U.S. interest rates, likely to remain so given the size and tenacity of budget deficits, attract investment funds from abroad and thus compel competitive rates in Europe which depress the investment side of recovery. The American steel industry, buffeted by the recent recession and facing growing price competition from lower cost foreign producers, is again pressuring the Reagan Administration to restrict imports. E.C. steel producers, having experienced a more than one third labor force reduction between 1974 and 1982 due to production cutbacks, thus once again face threats to their export markets. U.S.-E.C. negotiations over compensation for U.S. tariff and quota restrictions on specialty steel imports are unresolved. The Community has threatened retaliation against U.S. exports unless a satisfactory solution is reached. In agriculture, recent proposals in the E.C. to restrict imports of soybeans and other animal feed products, which account for over half of American agricultural sales to Europe, have led to U.S. warnings that the Community must not seek solutions to its own problems at the expense of the United States.

The Community's present difficulties call for historical perspective. The European unity movement after World War II was the product of several motivating factors: the need, dramatized by two world wars, to transcend European nationalist enmities by creating a broader regional body of common purpose and collective decision-making while respecting national differences; the desire to create the structural conditions for European recovery and prosperity by eliminating or reducing national economic and trade barriers, thus encouraging regionally-scaled investment, production, and marketing activity; and the recognition that in an age of superpowers the European states, acting separately, could exert only limited influence on matters affecting their interests. By the 1950s, the European Community had become the chief embodiment of these impulses. Yet the E.C. was both empowered and limited by member Governments which have resisted the delegation of extensive supernatural authority to Community institutions.

Over the years, the European unity movement has not been a stranger to political crises. It could hardly have been otherwise, given the unresolved tension between national and European levels of political authority. In 1954, plans to create a European Defense Community were dealt a mortal blow by the French national assembly. In 1961, the E.C. deadlocked over establishing guidelines for the CAP, an issue that was resolved only after the Community "stopped the clock" for beginning the second transition phase for establishing the customs union which was predicated on agricultural policy agreement.

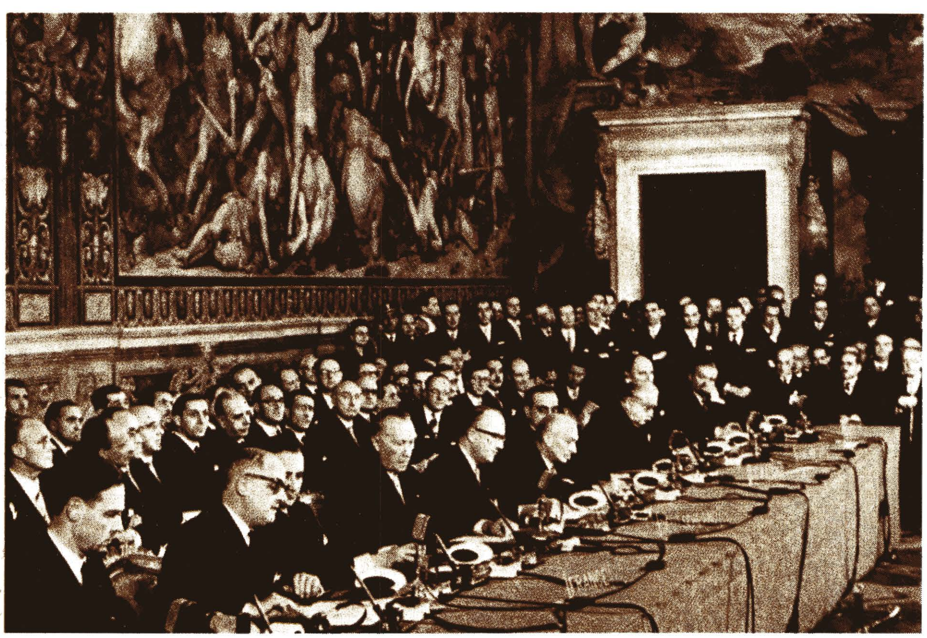
Then, in 1965, trouble flaired over proposals to strengthen E.C. institutional control over Community finances and the prospective third transitional stage which was to inaugurate weighted majority voting in the Council of Ministers. This so-called "empty chair" crisis, so named for the prolonged French boycott of E.C. Council of Ministers sessions, ended with a tacit acceptance that in cases where vital national interests were at stake, a member state could demand a decision based on unanimous consent. While this acknowledgement of a national veto prerogative upset the E.C.'s envisaged supranational evolution, it also underscored that Community policies could succeed only through continuing support decisions by member states on a case-by-case basis.

Nevertheless the Community's early years, buoyed by a prevailing climate of economic growth, must be judged on the whole as positive. The twin pillars of the Common Market, the customs union and the Common Agricultural Policy, were in place by the late 1960s. In the early 1970s, following the Gaullist era in France, agreement was reached on enlarging the Community to include the United Kingdom, Ireland, and Denmark, and organized political cooperation among E.C. Governments was begun. The 1972 Paris summit conference of E.C. leaders ambitiously proclaimed the goal of achieving economic and monetary union by the end of the decade.

The optimism proved premature. The next decade was dominated by the worldwide effects of the oil-price shocks from which the Community has not yet fully recovered. The combined effects of prolonged recession, inflation, high unemployment, depressed investment, pressures on social services, and government indebtedness revived protectionist measures within the Community on a growing scale. Non-tariff barriers and other restrictive practices proliferated. National Governments, hard-pressed to reduce costs of Community membership while retaining its advantages for domestic groups, faced a formidable array of internal constraints that limited their margin for compromise in Brussels. The always tenuous balance between Community and national interests came to be resolved increasingly in favor of the latter. While the Athens summit debacle was by no means inevitable, in a sense it was but the dramatic culmination of unresolved conflicts worsened by the economic climate.

Of course, the ending of the summit without agreement in part represents tactical brinkmanship by the major protagonists, the United Kingdom and France, to demonstrate their resolve for the hard bargaining ahead. Indeed, the crisis atmosphere surrounding the summit failure could have a salutary effect if it helps to break the log jam over Community spending, revenues, and the British budget contribution. Yet to do so will require a stronger demonstration of political will than Governments have mustered thus far.

Crisis has been midwife to progress in the Community before. The collapse of the European Defense Community treaty in 1954 sparked a wave of pessimism that the European unity movement had reached a dead end. Raymond Aron, the eminent French political scientist, brooded pessimistically: "The question today is whether Europe will survive, not whether she will conform to our preferences." However, a different attitude appeared to surface at Athens, namely that Europe will survive *only* if it will conform to national preferences. Yet the very seriousness of the threat to European unity in 1954 gave impetus to the negotiations begun at Messina the following year that led to the creation of the European Economic Community. A similar resolve from member Governments is needed today to surmount the Community's present difficulties. €



Post-war dreams of a united Europe came to fruition on March 12, 1957 with the signing in Rome of the treaties establishing the EEC and Euratom. Together with the 1951 treaty creating the ECSC, they form the "constitution" of today's E.C.

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E.C. CURRENCIES SEEN STRONG AGAINST THE DOLLAR

LEADING FORECASTERS EXPECT GAINS AS EUROPEAN ECONOMIES RECOVER.

ROBERT MORSE

As the new year begins, many key economic variables are pointing to an appreciation of most of the currencies of the E.C. member states against the U.S. dollar in 1984. Behind this expected crack in the recently "invincible dollar," according to highly respected currency forecasters polled by EUROPE, is the record \$80- to \$90-billion merchandise trade deficit the United States is projected to chalk up in 1984. Also, the continued economic recovery in European countries—especially the Federal Republic of Germany and the United Kingdom—will mean that interest rates there will stabilize or move upward, giving their currencies a boost.

However, the experts unanimously agree that a weaker dollar in 1984, especially against the German mark, will force a readjustment of the seven currencies in the European Monetary System (EMS). A new realignment among the EMS currencies—the last one took place in March 1983—is projected to occur in late spring or early summer of 1984, according to ContiCurrency. At that time it is estimated that the Deutsche mark will be revalued upward due to that country's continued low relative inflation rate. The French and Belgian francs, the Italian lira, the Danish kroner, and the Irish pound may be forced into devaluations. The Netherland's guilder should remain basically unchanged.

How do the foreign exchange specialists at ContiCurrency, Inc., Continental Bank, and Citicorp Information Services view the 1984 outlook for each European Community member's currency?

The Federal Republic of Germany's economic recovery in 1984 is looking a little stronger. Prospects are for real gross national product (GNP), after adjustment for inflation, to grow by 2 to 3 percent, with consumer prices rising in the 3 percent range. The country's export sector also should perform quite well, with sizeable 1984 merchandise-trade and current-account surpluses expected of \$25 billion and \$6 billion, respectively. The Bundesbank is expected to raise the level of German interest rates in order to narrow the gap with rates in the United States. This expected increase in German interest rates is why the mark should move upward in the months ahead, as capital flows into German assets.

ContiCurrency expects the mark to increase steadily to 2.40 per dollar by September 30, 1984 from 2.57 on March 31, 1984 and 2.48 on June 30. U.S. interest rates should rise in the fourth quarter, causing the mark to fall back to 2.45 per dollar at year's end.

Despite a recent lull in economic activity, Britain's economy should pick-up steam again in 1984 as the volume of worldwide exports begins to expand. In 1984, real GNP will be up by 2.3 percent, consumer prices will rise 6.5 percent, and merchandise trade and the current account will experience small deficits. Both long- and short-term interest rates are projected to remain virtually unchanged from today's 9 to 10 percent level during 1984, according to Citicorp's economic forecast.

Citicorp sees the pound advancing strongly as a result of the improved economy and the firmness of Prime Minister Margaret Thatcher's policies on wages and prices. In the first quarter of the year, Citicorp expects the pound will average \$1.65, then drop back to \$1.60 in the spring, but rise back to \$1.68 at the end of the year, leaving it up 12 percent from \$1.50 at end of 1983.

Italy's continuing economic and political uncertainties are unlikely to be resolved in 1984. First, the new Craxi Government is having internal difficulties which will make it very difficult for Italy to put in place an austerity budget. Second, until a strong political coalition is formed to pass a stricter fiscal policy, Italy will have a massive budget deficit and a high inflation rate, about twice any country in the European Community except Greece. In 1984, Italy should experience the start of a long-awaited recovery with with a 2.7 percent gain in real GNP, but consumer prices will be up 11.3 percent while a merchandise trade deficit of $11.5 billion is projected, according to Continental Bank. The country's large tourist trade will cause an inflow of foreign currency that will result in a $2.5 billion current-account deficit.

Continental Bank believes that the lira is fundamentally weak, given the country's high inflation rate and its internal and external deficits compared to the rest of Europe. Thus, during 1984 it will stay relatively unchanged against the dollar, reaching 1,597.5 in the second quarter, moving down to 1,608 in the third quarter and rising slightly to 1,589.2 in the fourth period.

The French Government's austerity program, initiated in June 1982, is starting to have some success. However, for the programs' objectives—curbing internal and external deficits and slowing inflation—to be met, it must be kept in place for another year. In the interim, the franc will remain vulnerable, especially against its major trading partner the Federal Republic of Germany, where there is a five percentage point inflation differential. In 1984, France should have a 1-percent rise in real GNP, with consumer prices gaining 8.5 percent. Unemployment should stay at 8.5 percent and both merchandise trade and the current account should have small deficits, says Continental Bank.

ContiCurrency says that the French franc should run a seesaw course against the dollar in 1984. During the first three quarters of the year ContiCurrency sees the franc appreciating, rising to 7.95 francs per dollar at the end of March, 7.76 by June 30, and 7.65 on September 30. However, by the end of 1984 it will fall back to 7.84. It was in the 8 range at the end of 1983. During this same time period the franc will be weakening against the German mark—maybe as much as 5 percent—leading to a change in EMS values.

Belgium also has been benefiting from an economic austerity policy that has stabilized the economy and positioned it for a turnaround. Inflation and unemployment should decelerate in 1984 and real GNP should rise by a modest 1.7 percent, according to Continental Bank. The Belgian franc should improve slightly against the dollar in 1984, remaining at 51.1 per dollar during 1984's first half, then rising slightly to 49.6 by the final quarter, says Continental Bank. It will also weaken against the German mark all during 1984.

The Dutch Government is trying to implement a tougher fiscal policy in order to bring public sector revenues more in line with outlays that are being strained by the high level of unemployment. The joblessness rate should remain in the low double digits in 1984, since the economy should only be able to achieve a 1 percent gain in real GNP, following three years without an increase, according to Citicorp. The Dutch guilder should show a modest appreciation against the dollar in 1984 since it's so strongly linked to the German mark. Citicorp says it will rise throughout the year and be at 2.5 guilders per dollar by the fourth quarter of 1984, up from 2.7 in the first quarter.

Denmark's economy has been making impressive progress in recent months; inflation and interest rates have fallen as a result of the present tight fiscal policy. Continental Bank expects the krone to move progressively higher against the dollar throughout 1984, reaching a 8.63-per-dollar average by the fourth quarter, up from 9 in the first quarter.

The Irish economy is very dependent on export growth. Recently its exports have been having trouble competing in the United Kingdom, Ireland's largest export market. Continental Bank believes that the Irish pound remains artificially high, despite a 9 percent devaluation in March 1983. Continental sees a stable dollar and Irish pound exchange rate relationship in 1984. However, they project that the pound will have to move down by 6 percent, when and if a EMS realignment takes place, in order to restore Ireland's competitiveness with Britain.

Greece probably faces the most severe economic problems of any country in the European Community, according to ContiCurrency. The country has the highest inflation rate in the European Community. The Greek drachma, which was devalued by 15.5 percent against the dollar in January 1983, should continue to fall by 2 to 4 percent against the dollar in 1984 and end the year at 101 per dollar, according to ContiCurrency.

Robert Morse writes for U.S. News & World Report in Washington D.C.

Currency units per U.S. dollar	FRANCE	DENMARK	BELGIUM/ LUXEMBOURG	THE FEDERAL REPUBLIC OF GERMANY	GREECE	ITALY	THE NETHERLANDS	THE UNITED KINGDOM U.S. dollars per currency unit	IRELAND U.S. dollars per currency unit
Monthly average	franc	krone	franc	mark	drachma	lira	guilder	pound	pound
Dec 1982	47.488	8.523	6.857	2.419	70.721	1,397.7	2.668	1.374	1.619
Jan 1983	46.855	8.409	6.769	2.388	82.421	1,374.1	2.630	1.392	1.574
Feb	47.716	8.574	6.882	2.427	83.547	1,398.0	2.677	1.367	1.532
March	47.456	8.617	7.011	2.408	83.853	1,426.3	2.683	1.350	1.491
April	48.607	8.657	7.317	2.439	83.992	1,452.4	2.748	1.295	1.542
May	49.322	8.807	7.430	2.468	84.087	1,469.3	2.778	1.230	1.574
June	50.919	9.120	7.663	2.548	84.450	1,510.7	2.855	1.239	1.551
July	51.833	9.296	7.778	2.588	84.649	1,513.8	2.895	1.220	1.529
August	53.560	9.632	8.040	2.673	89.216	1,587.8	2.990	1.179	1.502
Sept	53.832	9.592	8.060	2.668	92.767	1,601.4	2.986	1.175	1.499
Oct	53.034	9.417	7.952	2.603	92.968	1,582.8	2.920	1.192	1.497
Nov	54.538	9.570	8.160	2.680	96.200	1,625.8	3.000	1.116	1.480
1984 estimates quarter ending									
3/31/84	51.1	9.00	7.95	2.57	97.000	1,568.5	2.667	1.21	1.650
6/30/84	51.2	8.92	7.76	2.48	98.000	1,597.5	2.700	1.20	1.600
9/30/84	50.4	8.90	7.65	2.40	99.000	1,608.0	2.565	1.19	1.650
12/31/84	49.6	8.63	7.84	2.45	101.000	1,589.2	2.497	1.20	1.680
	contin	contin	contic	contic	contic	citi	citi	contin	citi

contic = Conti Currency, Inc. contin = Continental Bank citi = Citicorp

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"TELEMATICS" TO GET R&D BOOST IN EUROPE

CROSS-BORDER PROJECTS WOULD GET MONEY FROM SPECIAL E.C. FUND.

GILES MERRITT

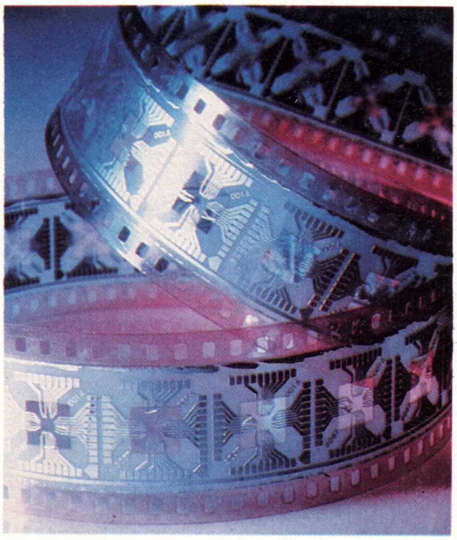
"The ESPRIT program on its own," says Michel Carpentier, "will not close the 'technology gap' that now separates Europe from Japan and the United States. But without ESPRIT our chances of catching up would become very slim." Carpentier is the senior French Eurocrat who has been drafted in from the E.C. Commission to head the task force that is in charge of the 10-year ESPRIT program for boosting European research and development efforts in the field of information technology and telematics.

With the pilot phase of ESPRIT now under way and the first of two five-year main phases costing about $1.3 billion each due to start this year, the project has now moved off the drawing board to become a crucial part of the E.C. drive to stimulate industrial innovation. The ESPRIT program's major aim is to encourage E.C.-wide projects at the advanced "pre-competitive" phase of information technology research and development. Because there is no immediate commercial application, competitors in different member states can greatly reduce wasteful duplication of R&D costs through cooperation.

The aim is that the European Community's dramatically worsening position vis-à-vis its American and Japanese competitors in information technology should at very least be restored to parity by the early 1990s. The E.C. Commission believes urgent steps must be taken to improve market conditions for Europe's producers of information technology. The 10 E.C. member states must agree to liberalize their national markets and public procurement policies. In other words, the member Governments must provide companies in Europe with a new "market pull" that will complement the ESPRIT program's "technological push."

The essence of the ESPRIT program—the neat acronym in fact stands for European Strategic Program for Research and Development in Information Technology—is that R&D projects that qualify for the 50 percent or more Community funding on offer must have a strong cross-border character. At the same time, they will, it is hoped, help bring together the major European electronics groups and the hundreds of much smaller high technology companies, universities, and research laboratories that are so often the springboard for innovative new technologies.

To be considered, project partnerships for ESPRIT have to group at least two pure research facilities from different member states, and must also include at least one "commercially oriented" partner, preferably an E.C. industrial company. When the panels met in Brussels in the spring of this year to select the projects that would make up the one-year pilot phase, they found that only a third of the 200 proposals that had come in after 2,500 organizations had been contacted by the Commission were either of the right technical quality or met the ESPRIT cross-frontier partnerships criteria.



Integrated circuits on a continuous tape.

That apparently harsh selection process may reflect, though, the E.C. Commission's need to limit pilot projects to the budget ceiling of the scheme. In its pilot phase, ESPRIT will cost just $20 million, of which half is funded by the Community and the remaining half is provided in matching money by the participants. The total value of the 200 or so submissions was $500 million, requiring E.C. financing amounting to $250 million in all or $47 million for the first year.

The ESPRIT task force is now working on the "workplan" for the main phase, which during 1984-88 will require $640 million in Community funding and which by April or May of next year will result in a major new call for proposals by the Commission. The workplan's structure is that there are five areas for action within the ESPRIT program—three of these are crucial technologies and two are specific areas for application of these information technologies. The three important "enabling" technologies are micro-electronic, information processing, and software technology, while the two "markets" for their application are office automation and computer integrated manufacturing.

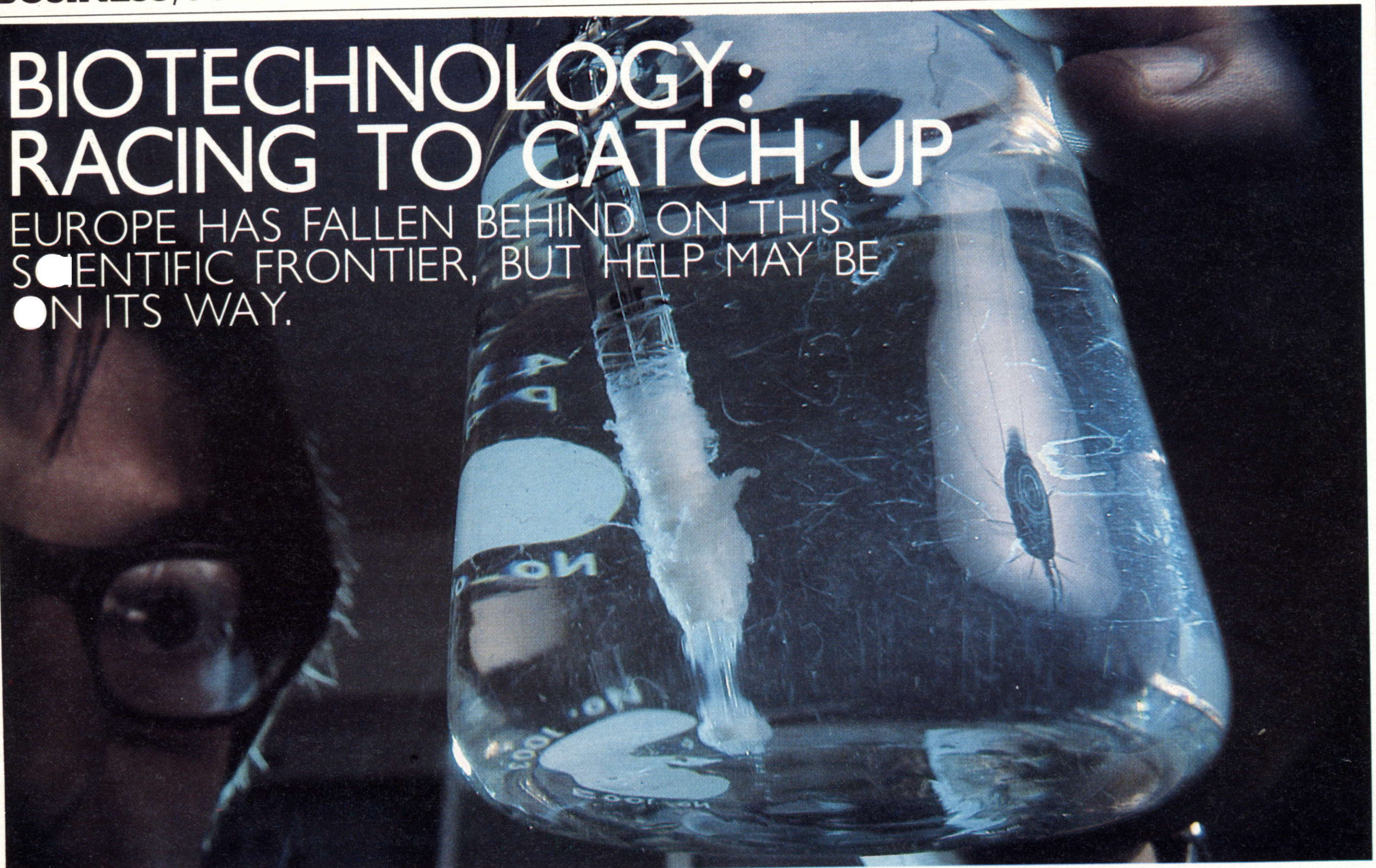
ESPRIT is still in its infancy, even though it is fair to say that since the 1980 start of discussions between the Commission and the major European companies, the program has moved with impressive speed. But Carpentier points out that one of the important aspects of ESPRIT is already that its projects are set to become an integral part of the major European information technology groups' R&D programs. In reply to the point that ESPRIT, for all its fanfare, represents only 6 percent of Community R&D spending on information technology, Carpentier points out that it also accounts during its first main phase for about 50 percent of all spending on pre-competitive research.

The hope is—perhaps one should say the intention is—that concentration on pre-competitive technologies will catapult Europe back into the forefront of the international information technology race. The need to do so is growing almost daily; the E.C.'s information technology companies have only 40 percent of their own home markets and 10 percent of the "third" markets around the world in which exporters compete evenly. That means the Community has just 15 percent of the almost $500 billion world market for information technology, yet its natural share should be 30 percent. €

Giles Merritt is the Brussels correspondent for London's *Sunday Times*.

BIOTECHNOLOGY: RACING TO CATCH UP

EUROPE HAS FALLEN BEHIND ON THIS SCIENTIFIC FRONTIER, BUT HELP MAY BE ON ITS WAY.



Long threads of DNA being spooled onto a glass rod for treatment with enzymes that will clip away all but one gene.

© Douglas Kirkland/Woodfin Camp & Assoc.

JAMES DAVID SPELLMAN

Biotechnology within the European Community may go the way of Europe's microelectronics industry, meaning that American and Japanese firms will dominate while European enterprises assume subsidiary positions in what is estimated to be a $50- to $100-billion market for biotech goods and services by the year 2000. This is the prophecy of the U.S. Congress' Office of Technology Assessment, some industry analysts, and an E.C. Commission report, assuming that present patterns of research development and commercialization continue.

Ten years ago, some assessments of Europe's biotech future were optimistic—and with good reason. The United Kingdom, for example, held 30 percent of the world's biotechnological patents between 1967 and 1971, and the country was considered a pioneer in several areas. The Federal Republic of Germany's Society for Biological Research at Braunschweig, established in the mid-1960s by the Volkswagen Foundation, was envied worldwide. But economic, scientific, political, and, to a lesser extent, social obstacles combined to cause European research to lag behind the dizzying pace set by the United States and Japan.

According to the studies mentioned above, research and development expenditures by European organizations—both public and private—were inadequately expanded. The lack of regional or state planning resulted in ad hoc allocations of grants, which meant that research duplication was at times supported and the country's strongest biotech capabilities were not continually funded. Dispersed, isolated centers of research lacked coordination to facilitate the systematic incorporation by the biotech community of the disparate accomplishments. National rivalries prevented cooperation among E.C. member Governments and private firms in both basic research and patent law development. Further, many European firms failed to move aggressively to commercialize their products and expertise.

E.C. member states, however, have not been idle, particularly since 1980. Government-industry commissions have been convened frequently in almost every E.C. country to analyze how their biotech enterprises ran aground and to plan state incentive programs and research priorities. The E.C. and the national Governments have bolstered their financial support. Meanwhile, American and Japanese firms, encouraged partly by the devaluation of European currencies, have been seeking out European firms for research partnerships, licensed production arrangements, and marketing assistance.

But are these efforts in Europe too little too late? Dr. John Walker, who selects the biotechnology investments for Technical Development Capital, a venture capital fund in the United Kingdom, asserted in *The Economist* that "the field is still open. It is not too late." He believes that 95 percent of the biotechnology expected to be needed in the 1990s has yet to be invented. But others voice pessimism. A white paper prepared in 1983 for the Office of Science and Technology Policy within the White House concluded: "The United States faces the stiffest challenge from Japan."

The term biotechnology, according to an Organization for Economic Cooperation and Development (OECD) report in 1982, refers to "the application of scientific and engineering principles to the processing of materials by biological agents to provide goods and services." Often the word "new" is used with biotechnology to differentiate between the traditional research efforts in the natural breeding of animal and plant species and the more recent efforts in both genetic manipulation and the immobilization of enzymes and cells.

The impact the breaking of the genetic code will have on post-industrial economies is expected to be as revolutionary as that of the computer and information processing industries. More than 40 percent of the manufacturing output in developed countries is biological in nature or origin. In the U.S. market, biotech-developed products will, by 1995, constitute 26.6 percent of the $70-billion health care products market and 21.5 percent of the $470-billion agricultural products market. This projection is according to Predicasts, a U.S. market research firm.

In medicine, only insulin and interferon are now commercially available and the marketing of a human growth hormone to treat dwarfism is anticipated shortly. By 1985, commercial production of the human serum albumin (a protein to replace blood plasma), amino acids (the building blocks of proteins which in turn are the basic structural and functional materials of cells), antibiotics, vitamins, and both therapeutic and diagnostic monoclonal antibodies is expected.

The trends in biotech research, as indicated by the patents granted in the United States between 1963 and 1982 show the greatest activity in enzymes (proteins which promote chemical change without being consumed in the reaction) and their production processes. Japan gained most of its patents in amino acids and the lowest amount in tissue cultures, the exact reverse of the American position. Ownership of U.S. patents by E.C.-based firms is more extensive in mutation/genetic engineering and enzymes than in tissue cultures, starch hydrolysates (processes, for example, to cause the enzymatic hydrolysis of starch to glucose), and amino acids. The patents that are held by the United Kingdom, the Federal Republic of Germany, and France constitute on average three-fourths of the total number of U.S. patents granted to E.C.-based firms. U.S. firms own half of the 3,381 biotech-related patents issued. This amount, however, may be exaggerated because the nationality of those patents which are filed by U.S. affiliates of foreign-owned corporations is classified as American.

The E.C. Commission was presented in January 1980 with a five-year—1981 to 1985—proposal for R&D in biomolecular engineering. Adopted by the E.C. Council of Ministers in December 1981, the $7-million program's goal over five years was initially to encourage innovations in agri-food products. Funds for research were made available through cost-sharing contracts with private and public organizations. The Commission subsequently approved in June 1983 a $6-million budget to pursue the program's second phase, that of expanding research and training to all industrial fields.

The Commission has been progressive in its thinking about what policies could be implemented to foster the commercial maturation of biotechnologies. Its report urges:

- a Community-wide program to plan R&D;
- patent laws to better protect European inventors, terming the existing system "embarrassing and far from satisfactory;"
- harmonizing members' regulations covering pharmaceuticals and chemicals; and
- ameliorating the negative effects of E.C. policies, such as the Common Agricultural Policy (CAP) which hampers market access by E.C.-based biotech firms selling agri-food products.

Prospects for the achievement of these goals seems dim now, given that E.C. member Governments at the Stuttgart European Council summit in June 1983, as a report in *European Trends*, a publication of The Economist Intelligence Unit, observed, "were especially suspicious of the Commission's attempts to move from research to development of a more positive industrial program." European states have been increasing their direct subsidies to biotech research, but total public R&D expenditure—estimated by the Commission to be in the range of $156 million to $300 million per year—is behind that of the United States at between $200 million and $500 million per year. The E.C. outspends the Japanese government at $50 million a year.

More essential to progress, however, than the comparative levels of public support will be the degree to which research and commercial applications are coordinated both within and among states. "One of the central challenges of biotechnology," the magazine *Biotechnology* wrote in August 1983, "is organizational: It is a boundary-crossing, multidisciplinary, statistician's nightmare." Within states, governments have been encouraging cooperation between universities and industries to commercially exploit research findings and map directions for research. But among states, despite the Commission's efforts, cooperation has been minimal. Whether the emergence of research and production collaboration now occurring among European firms will facilitate political coordination, the argument of the functional integrationists, it is too early to tell.

© J. Pavlousky/SYGMA

Recombinant DNA being applied to bacteria in a genetic engineering laboratory.

Several political and economic differences are apparent in a comparison between those European, American, and Japanese factors which have contributed to the emergence of biotechnology in each state. The market for venture capital is larger and more sophisticated in the United States than anywhere else and it has been a substantial means of support for American firms. There are more than 600 venture capital funds in the United States, although most are spending more money to support existing firms rather than to start new establishments. In Japan, the government has been particularly active in planning research. The United States industry, in contrast, has grown with little management by the Federal government. U.S. industries and universities have been more adept at fashioning collaborative arrangements than the Europeans. A large, well integrated market in the United States has provided a strong foundation essential to supporting the selling of biotech products.

Europe's success in biotechnology will depend on the level of coordination it achieves in R&D and commercial applications. This coordination will structure in part the pace of scientific developments required to facilitate the translation of research knowledge into useful products. Access to raw materials, as the OECD report makes clear, will also be critical in shaping the course of biotechnology's growth. What importance biological-based methods will have on the production of bulk chemicals will depend on the comparative cost of the petroleum-based processes which now predominate. For those states with small domestic markets, the Netherlands especially, their fate will rest with their ability to penetrate foreign markets. Added to these factors are the legal ones. Patent laws in Europe must be strengthened and regulatory codes harmonized. €

James David Spellman is a free lance writer in Washington D.C.

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BARBARA SLOAN

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Where would you get answers to these questions:

☐ What is the status of E.C. legislation on corporate accounting, pharmaceuticals, chemicals, automobiles, food additives, and so on?
☐ How much oil did Europe consume last year?
☐ Are there domestic-content rules for goods sold in Europe?
☐ What are unemployment rates in Europe?

These are just some of the 1,000 written and telephone inquiries answered each month by the public inquiries section of the Delegation of the Commission of the European Communities in Washington, D.C.

The public inquiries office was set up in the 1950s to answer questions in the United States about the European Coal and Steel Community (ECSC). The range of subjects covered was expanded in 1958 to include the policies, activities, and publications of the European Economic Community (EEC) and the European Atomic Energy Community (Euratom). The three Communities are referred to collectively as the European Community, or E.C., in this article. Today, the staff responds quickly, accurately, and thoroughly to both written and telephone inquiries for information and for free or sales publications of the E.C. In addition, the staff assists visitors to the E.C.'s library in Washington, D.C.

The office provides information in the form of E.C. legislation, publications, brochures, special studies, and statistics to the general public, the academic community, government officials, and the private business sector. The following are some examples of areas in which the section can help and which are of particular interest to businessmen.

Customs and Trade Regulation

Duty rates are only the tip of the iceberg. Some of the measures covered by E.C. customs rules are:

☐ tariff suspensions;
☐ generalized preferences for goods from developing countries;
☐ origin;
☐ valuation;
☐ temporary importation;
☐ special trade arrangements with members of the European Free Trade Association, countries in the Mediterranean, and the 63 developing countries in Africa, the Caribbean, and the Pacific grouped together under the Lomé Convention.

Antidumping and countervailing duty legislation, implementation of the Tokyo round of trade and tariff measures, general import regulations, the Multifiber Arrangement on textiles, and trade with Eastern bloc countries fall under E.C. jurisdiction. Among the office's resources on the E.C.'s foreign relations can be found extensive material on U.S.-E.C. relations—historical as well as current—covering areas of cooperation and of conflict.

Economic Analysis and Statistics

Each autumn, the E.C. publishes a major survey and short-term forecast on its overall economic situation that covers gross domestic product, balance of payments, prices and costs, monetary policy, budgetary policy, labor, capital markets, energy developments, and trade. Each spring there is a similar survey for each E.C. member state's economy. These are supplemented by updates on macroeconomic trends, business expectations, and consumer attitudes.

There is a panoply of statistical publications, many having consistent time series and harmonized data for each member state. Some of the subjects covered by these publications are:

☐ general economic indicators,
☐ merchandise trade,
☐ balance of payments,
☐ national accounts,
☐ regional development,
☐ industrial and agricultural production,
☐ wholesale prices for agricultural goods,
☐ retail sales indexes,
☐ employment,
☐ average hourly earnings in manufacturing,
☐ labor costs,
☐ population, and
☐ transportation.

The data is available in print, in microform, and on-line via private services under contract with the E.C. There are plans to offer magnetic tapes in the future.

Standards

To remove non-tariff barriers to intra-Community trade, the E.C. has been working on common standards for products. There are currently almost 300 E.C. standards proposed or in force for various products, including motor vehicles, agricultural machinery, measuring devices, electrical equipment, textiles, pressure vessels, chemicals, machine tools, fertilizers, pharmaceuticals, and cosmetics to name some examples. A list of the standards is available on request.

Antitrust

The treaties establishing the ECSC and EEC empower the European Community to regulate the terms of competition in trade between the member states. E.C. regulations and case law affect dealerships, patent licensing agreements, price agreements, parallel imports, and other concerted practices. A report issued each spring summarizes the cases and principal developments in the previous year.

Energy
In 1973, the E.C. imported 64 percent of its energy requirement. By 1982, its energy import dependence had fallen to 47 percent. While the member states have different energy resources and approaches to the problem, they have been working at the E.C. level to finance research into alternative energy, monitor prices of petroleum and other types of energy, stockpile oil reserves, finance exploration for oil, gas, and uranium, purchase nuclear fuels, and to aid the indigenous coal industry.

Agriculture
Under the Common Agricutural Policy, there is a myriad of regulations governing the production and trade in basic agricultural products. Less well known are the more specialized, consumer-oriented directives for processed foods sold in the E.C. They range from general labelling and packaging requirements to standards for food additives. There are regular and special reports on agriculture policy and structural developments.

Labor and Social Policy
The "Vredeling directive" on worker consultation by management has attracted attention in the United States in the last year. However, it is only one small part of a broader European-level cooperation on manpower and employment, vocational training, industrial health and safety, social security, and equal rights for women. Information on all of these is available from the office.

Environment
Pollution does not stop at a nation's border. Cooperation on environmental problems has led to a multilayered regulatory system of national, E.C., and pan-European requirements for air and water quality, noise abatement, and general nature conservation. In addition, there are E.C. directives on toxic-waste disposal, chemical registration, and a multi-annual research program for environmental protection. The E.C. directives and the results of its research program are available.

Although the public inquiries provides many services, it:
☐ cannot put businesses in direct contact with European customers, importers, joint venture partners, or sources of investment capital;
☐ cannot provide complete market surveys for either an individual country or a particular product;
☐ cannot supply texts of national or municipal legislation or decisions of national courts;
☐ cannot give customs classifications for products or legally binding interpretations of E.C. law;
☐ cannot furnish customs declaration forms or other documents required for shipping goods; and
☐ cannot act as a shipping agent or quote freight costs.

The E.C.'s public inquiries office in Washington has the largest, most complete library on Community affairs in the United States. It includes all Community publications, public documents, books about the Community and its activities, and publications of other European organizations. Books and pamphlets on international trade, monetary affairs, investment, company law, taxation, labor relations, and customs are also available for study. Its 40,000 titles are catalogued by author, issuing organization, title, and series and are cross-referenced by subject, commodity, and country.

The office maintains more than 1,000 vertical reference files on Community activities and related economic and political developments. A typical file covers the entire legislative process, with regulations and directives, draft proposals, opinions by advisory bodies and lobbies, press clippings, and speeches. The office is responsible for distributing the official publications, documents and studies of all the Community's institutions: the Commission, the Council, the European Parliament, the Court of Justice, the Economic and Social Committee, and the Court of Auditors. General information materials, published in Brussels or by the Washington Delegation, are also available. The office also acts as the Community's official sales office in the United States and supplies copies of all publications, general or technical, including those of the Statistical Office of the E.C. Subscriptions and standing orders can be placed through the Public Inquiries Section.

For further information, write to: Public Inquiries Section, European Community Delegation, 2100 M St. N.W., Suite 707, Washington, D.C. 20037. €

Barbara Sloan heads the public inquiries section at the E.C. Delegation in Washington.

CHINA

TRADE TAKES OFF AS THE PEOPLE'S REPUBLIC APPEARS TO FAVOR THE E.C.

DICK LEONARD

The Chinese politburo is a disciplined body and news of its decisions seldom leaks out unless there is an official attempt to publicize them. Nobody in the West knows, therefore, when or how it was determined to step up imports sharply from the E.C. Yet when sales were totaled up for the first six months of 1983, it was discovered that they had increased by no less than 63 percent over the equivalent period of 1982. This was far more than the overall expansion of Chinese imports, estimated at 7.3 percent, and left no doubt that a deliberate choice had been made to favor the E.C. as a supplier.

Equally, when the E.C. Commission's President, Gaston Thorn, visited China last November 1-6, his reception greatly exceeded his expectations. He had lengthy and cordial talks with Deng Xiaoping, as well as with the Prime Minister, the Foreign Affairs Minister, and the Foreign Trade Minister. The Community offered, and China accepted, a special aid package of 6 million European Currency Units (ECU), about $5.1 million, earmarked for technological assistance for agriculture and food processing. The E.C. also agreed to provide 3.5 million ECU toward establishing a center for management training in Peking, which will be linked to business schools in the United Kingdom, France, the Federal Republic of Germany, and Italy. The impression was certainly created that the Chinese felt that the time had come for a significant upgrading of their relations with the Community, and not only on trade matters.

From China's point of view, such an opening makes eminent sense. Despite the relative thaw in Sino-Soviet relations, the Chinese are light years away from the closeness of the ties before Mao Tse-tung's break with Soviet Premier Nikita Khrushchev in the late 1950s, and they have no desire at all to return to the dependent status against which they then rebelled. And the honeymoon with the United States, begun under President Richard Nixon, is long since over, having been replaced by a wary maneuvering in which self-interest is constantly juggled against national pride. With the E.C., however, there are no such problems. It is not a military superpower, it poses no conceivable threat to China, either directly or by proxy through Taiwan, and there are no important political issues outstanding.

This happy state of affairs might not continue indefinitely. If British Prime Minister Margaret Thatcher's tricky negotiations with the Chinese over the handing over of Hong Kong in 1998 were to go sour, or if the E.C. were to take as close an interest in human rights in China as it does in Soviet-bloc countries, a certain cooling off would be inevitable. Yet for the moment, at least, there is little sign of this and the barometer is set fair. In so far as any two important groupings may be said to have a trouble-free relationship, they are China and the E.C. Trouble-free perhaps, but still distant—and more than a little reminiscent of the relationship between the Roman and Chinese empires, between which flowed a trickle of trade, but which otherwise had virtually no impact on each other.

It has taken nearly a decade for even the present degree of contact to build up. The first formal step occurred in November 1974, when the Community sent a memorandum to the People's Republic, indicating its readiness to conclude a trade agreement. Six months later, in May 1975, Sir Christopher Soames, then Vice-President of the Commission with responsibility for external relations, visited China for talks with the then leader, the late Chou En-lai. Two months later negotiations began for a trade agreement, culminating in an official signing ceremony in April 1978. Meanwhile, in September 1975, the first Chinese Ambassador to the E.C. was appointed. His successor, today, heads a mission staffed by more than 20 diplomats—one of the larger representations in Brussels.

The 1978 trade agreement was for five years, but provided for a tacit annual renewal thereafter unless either side gave six months' notice of its intention to cancel the agreement. Under the agreement the two parties applied most-favored-nation treatment to each other's products, with China benefitting, since 1980, from the E.C. generalized system of preferences. China thus has been able to benefit from tariff-free entry for a wide range of goods. Altogether 90 percent of its export trade to the E.C. was liberalized.

The effect of the trade agreement was that trade expanded rapidly, quadrupling over 10 years. This was helped by a textile agreement, negotiated in 1979, which defines a framework for imports into the Community of Chinese textiles and clothing. In return for increased access to the Community market, the Chinese authorities undertake to maintain the present balance of trading in textiles between the two parties, to supply minimum guaranteed quantities of certain raw materials necessary for the European processing industry (pure silk, angora, cashmere), and to respect a price

TRADE BETWEEN CHINA AND THE E.C.

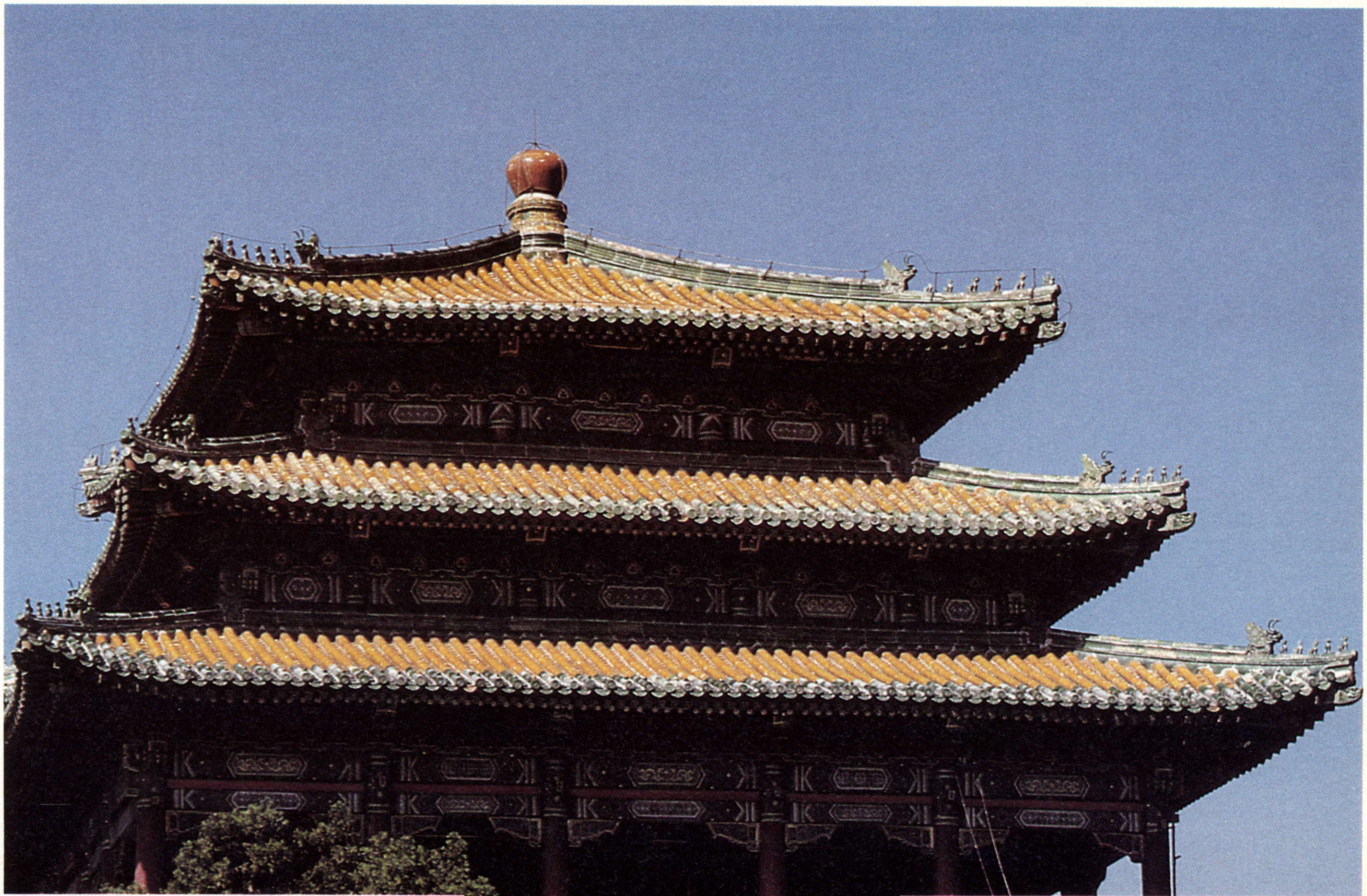
(in millions of European Currency Units—ECU)*

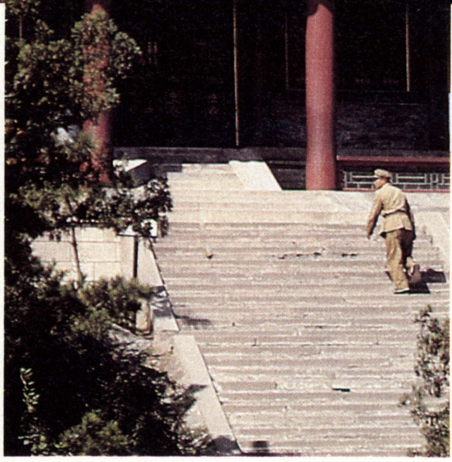
	1975	1977	1979	1980	1981	1982	1983**
E.C. Imports	668	865	1320	1907	2284	2334	2556
E.C. Exports	1154	801	2104	1734	1894	2045	2710
Balance	486	−64	784	−173	−390	−289	+154

Source: EUROSTAT

(*) The ECU/dollar exchange rate varies daily as the various E.C. currencies which make up the ECU vary against the dollar. One ECU was worth $1.24 in 1975, $1.37 in 1979 and $1.39 in 1980, $1.12 in 1981, and $0.98 in 1982. Recently it was worth about $0.85.

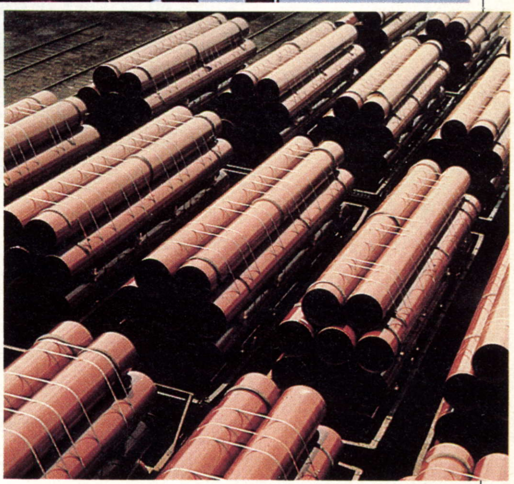
** On a yearly basis. First six months' figures only are available.





The Community's main imports from China are textiles, clothing, and vegetables.

The Chinese may have picked the E.C. as their most favored outside interlocutor. The Imperial Palace in Peking.



E.C. exports to China, such as steel, increased dramatically last year.

clause. Even so, trade remained tiny, compared to overall world levels. By 1981, China ranked only as the Community's 25th largest export market and 35th most important supplier. Moreover, after 1979 when China embarked on a program of retrenchment, there was a sudden cutback in Chinese purchases. This entailed a rash of cancellations of major capital projects, many of them undertaken by E.C. engineering groups.

Happily, however, this was but a passing phase, and from 1981 onward sales began to pick up, especially after the highly successful E.C.-China week in Brussels in July 1981 when 100 top Chinese decision-makers met with representatives of 427 leading European firms and banks. The Commission has since financed the visit of Chinese buyers' missions to Europe and has sent consultants to China to help evaluate future Chinese needs for modernizing factories.

This year's surge, however, in which Chinese purchases of machinery, steel, grain, and sugar all increased, was on an altogether different scale. Together with the increasing program of energy cooperation and the growth of educational and scientific exchanges, it could foreshadow a period when China and the E.C. become major trading partners. Regularly scheduled high-level talks such as those the E.C. conducts with the United States are scheduled to begin in February. Political cooperation, in which the Chinese are also currently showing a keen interest, is, as yet, in its infancy, but there seems little doubt that, for the time being at least, Deng Xiaoping and his colleagues have picked the E.C. as their most favored interlocutor in the outside world. €

Dick Leonard is a Brussels correspondent for *The Economist.*

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NEW ISSUE *This announcement appears as a matter of record only.* **October, 1983**

HELP FOR THE ARTS: HOW FAR SHOULD THE E.C. GO?

OFFICIALS GATHER FOR THE FIRST TIME TO URGE EUROPE-WIDE INITIATIVES.

LILLAN PURDOM

Last November 28, there was an important first as Ministers of Culture from the 10 E.C. member states met at Delphi in Greece for the first time. There was no lack of things to discuss. In October 1982, the E.C. Commission published a report setting up a schedule and outlining future action, based on four main points: the improvement of living and working conditions for artists, the free exchange of works of art, the conservation of Europe's architectural heritage, and efforts to popularize the arts.

From Athens to Edinburgh, Europe's cultural wealth is infinite. In view of its diversity, the Community cannot draw up a cultural "policy" or coordinate the cultural policies of the member states. The Community's role is to help the arts and not to pontificate on culture. In order to do this the Community will have to provide the economic and social means to facilitate their growth. The Treaty of Rome, which established the European Economic Community in 1958, is supposed to promote economic and social development; cultural factors cannot be ignored. The rules of the Common Market should apply to both goods and services in the arts. The Community therefore should try to improve the living and working conditions of artists and writers.

The E.C. is also committed to eliminating distortions of competition between member states, in order to establish a single unified market. In the cultural sector, that means harmonization of legislation on the value-added tax and the question of royalties. For example, royalties are due for 70 years in the Federal Republic of Germany and only 50 years in Belgium. Under these conditions, the Belgian writer operates at a disadvantage compared to other countries.

The Treaty of Rome gives the Community the means to act. In 1969, a summit meeting of heads of Government agreed for the first time on the need for action in the arts sector. The commitment was reiterated in Copenhagen in 1973, and was followed by an extensive debate in the European Parliament. The E.C. Commission acted in 1973 and established a special service, for which the President of the Commission, Gaston Thorn, has been personally responsible since the beginning of his term of office in 1981. In 1977, a first action program for the arts was sent to the E.C. Council of Ministers. Funding rose from 20,700 units of account in 1976 to 686,500 European Currency Units (ECU) in 1982. Today the Community spends about 1.6 million ECU (about $1.4 million) on the arts.

"Saying 'I like the arts,' is no use if one does not like artists," says Robert Grégoire, the head of the cultural service at the E.C. Commission. There is no doubt that the Community, in its action to support the arts, takes a social approach. The arts are created by men and women who, according to Grégoire, are often "real workers." Their living and working conditions need to be improved. Eighty percent of actors are unemployed, 95 percent of writers earn less than the minimum wage, and many composers earn almost nothing. The Community has acted in several areas, notably vocational training. The Community gives out about 50 grants a year for the conservation of Europe's architectural heritage, music, and dance. These go to the young dancers of Maurice Béjart's dance school in Brussels, young instrument makers in Cremona, Italy, young composers at the University of Surrey, young musicians in Dublin and Sienna, young painters in Venice, and trainee head gardeners in Munich. The European Community Youth Orchestra, founded in 1978 in London, allows young soloists to work within an orchestra often for the first time.

The Community is also making great efforts to create job opportunities, with festivals and exhibitions. Every year, the Wiltz Festival in Luxemburg welcomes actors, musicians, and dancers from dif-

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In one of the biggest roles of her career, Greece's Minister for Culture Melina Mercouri directed, produced and starred in the first-ever meeting of her E.C. counterparts.

ferent E.C. member states, while at the Castle Museum of Norwich, in England, the "European rooms" contain exhibits from various E.C. countries. In 1984-85, the Community will support a traveling exhibition entitled "Ten Masters, 100 Works", and, in 1985, the Community and the Council of Europe will support the European Year of Music, the aim of which will be to broaden the appeal of music, especially among young people.

As regards literature, the Community has given financial support to the translation of works that are representative of different member states. About 20 titles were translated in 1982. Finally, as regards the cinema, negotiations are underway for the creation of a European film festival at Lille, which would take place every year in September. The conservation of Europe's architectural heritage is another means of fighting unemployment. Each time work on a site is begun, jobs are created.

In 1980, the city of Edinburgh received about $85,000 for the restoration and conversion of a 19th-century building into an arts center. In 1982 the European Investment Bank lent money to the archeological museum of the Greek island of Milos and in 1983 the Community lent money for the restoration of the magnificent Giants' Staircase of the Doge's palace in Venice. The most spectacular operation has been the restoration work on the Parthenon. The operation will take 10 years, and last year about $425,000 of E.C. money went toward the work. The same amount will be given in 1984. After that, a European fund for historic monuments will take over.

Improving living and working conditions involves more effective protection of the artists themselves, or "cultural workers," as the Commission describes them. The Commission has carried out several studies on the Social Security situation of artists and on the negative impact of technical developments. Social Security for artists is far from satisfactory. It is often very difficult for self-employed artists to pay the employer's contribution over and above the normal contribution. Two member states, France and the Federal Republic of Germany, have found a solution, based on the concept of a "collective employer." The publishing houses and the art trade pay the employer's contribution for the whole profession. The Commission is going to ask other member states to adopt a similar solution.

The protection of artists is linked to the question of pushing through legislation on royalties and translation rights. A Commission proposal for a directive will try to harmonize the period during which royalties are due. After the royalty period, the Commission wants to introduce a "public paying period," within which the distributors would pay royalties to authors' societies, instead of getting the works for free. These societies then could extend their activities and contribute to the promotion of further works.

Finally, there are certain tax reforms which could help artists enormously. For example, artists have to pay the value-added tax everywhere, except in Denmark and in France. In other countries they are subject to the same taxes as people working in business or industry. Obviously artists do not have the organization at their disposal that is necessary to fight for reforms. The Commission has repeatedly asked the Council of Ministers to approve a directive aimed at reducing the tax on the sale of works of art and completely exempting artists from the tax in the case of direct sales.

Another means of fighting unemployment and developing culture is by expanding outlets and furthering the artists' reputation abroad. In order to do this, the Commission advocates the free circulation of works of art and artists' tools. The Council of Ministers has been presented with proposals for regulations which, once they are adopted, will lead to a considerable simplification of border red tape for artists.

The Commission also intends to appoint a group of experts to study the national provisions and practices which currently block the exchange of works of art. Article 36 of the Treaty of Rome in fact allows the member states to prohibit or restrict the exportation of "national treasures." However, this definition is open to interpretation. On the other hand, the reduction of the border controls must not be such as to encourage smuggling. The Commission has also proposed a European list of stolen works of art. There is no doubt that the Council of Ministers has plenty to do. But the first meeting of ministers at Delphi was an important step forward. €

Lillan Purdom, a free lance journalist in Brussels, formerly reported for *Nouvelles Economiques.*

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November 18, 1983

EDUCATION IN EUROPE: FROM REFORM TO MBAs

EUROPEAN OFFICIALS CONSIDER MORE JOB TRAINING TO PREPARE CHILDREN FOR WORKING LIFE.

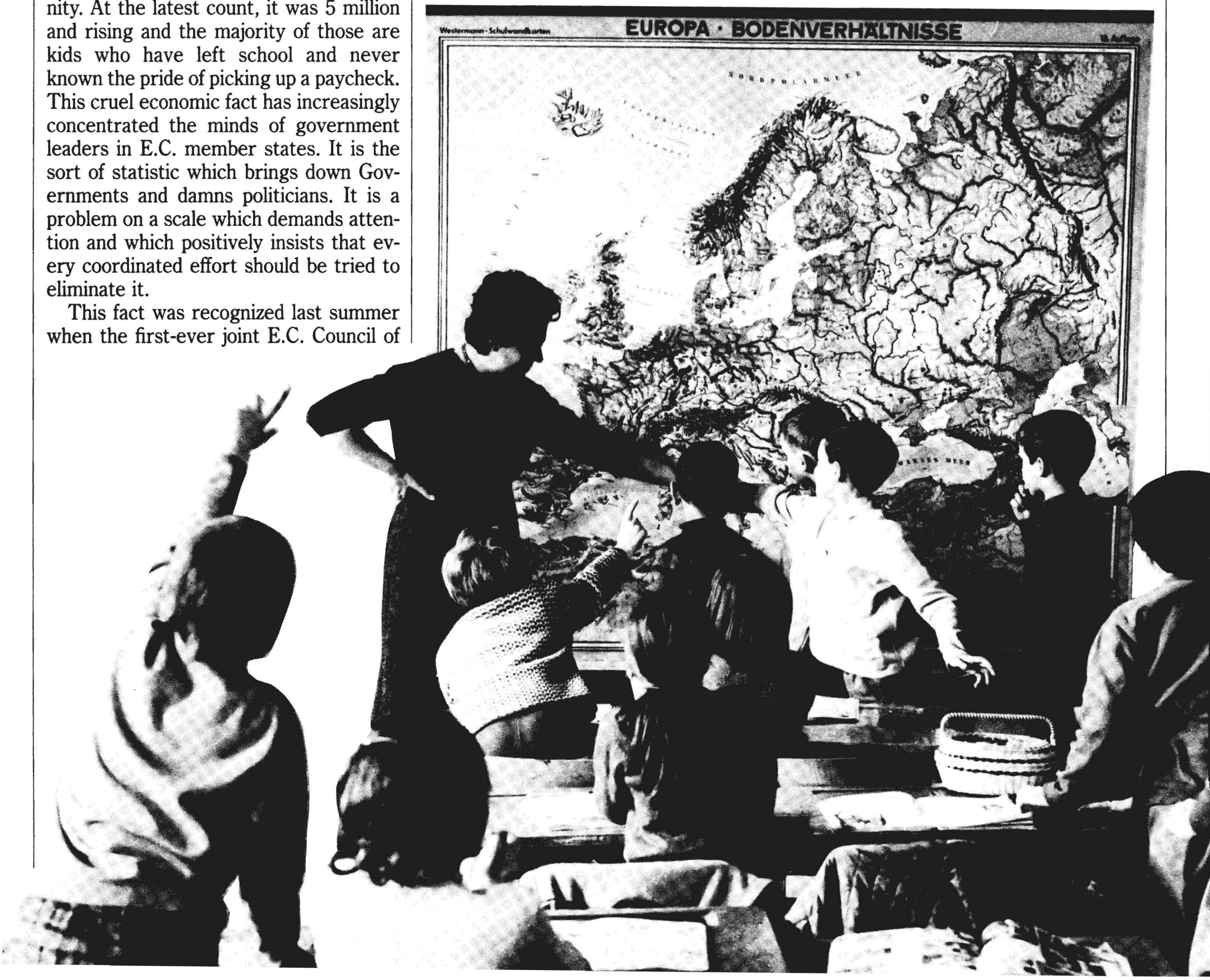
IAN MURRAY

Of all the many statistics which pour out of the services of the E.C. Commission, there is one which never fails to shock. It comes out every month and in recent years it has grown persistently. It is the figure which shows how many young people under the age of 25 are out of work in the Community. At the latest count, it was 5 million and rising and the majority of those are kids who have left school and never known the pride of picking up a paycheck. This cruel economic fact has increasingly concentrated the minds of government leaders in E.C. member states. It is the sort of statistic which brings down Governments and damns politicians. It is a problem on a scale which demands attention and which positively insists that every coordinated effort should be tried to eliminate it.

This fact was recognized last summer when the first-ever joint E.C. Council of Labor and Education Ministers met in Luxembourg to try to agree on ways in which schooling could fit a child for work rather than for the unemployment line. It was one of the more harmonious meetings that the troubled Community has ever known. With no hesitation at all the Ministers agreed that, in future, three quarters of the money available to the Community's job-creating Social Fund should be used specifically to help young people train for a real job.

Allocating the money was the easy part. More difficult was identifying just where the money should be spent in order to train people to do something which was economically useful. The one area where all agreed more must be done was in training for new technology. And so it is that it has now become formal policy within the Community to try to integrate new information technology into the school system. It is an idea which ought to have been approved years before, but the fact that it has been done at last ought to give Europe the chance of catching up in this area of the future.

The first feelers are going out now to pool the experience within E.C. member states on how to introduce new technology into schools. The aim is not only to use it in teaching, but for vocational and advanced training. The E.C. Commission is to give the whole project financial help and impetus by organizing exchange vis-



its, particularly for teacher training. The Community already has its own teaching coordinating computer network called Eurydice. This started work in 1980 and was given the task of underpinning the main education action programs of the Community.

Its four initial tasks show the priorities given by the Community to its education policy. These are: helping in the transition from school to working life; teaching and learning foreign languages; the education of migrant workers and their families; higher education policy. Eurydice has a fast growing data base which enables the policymakers in E.C. member states to compare notes on the different educational strategies in use elsewhere in the Community. By drawing on the wealth of European education experience, it is possible, for example, to tailor language courses to employers' needs.

Eurydice was the brainchild of E.C. Education Ministers during the more affluent and idealistic mid-1970s. Education formed no part as such of the Treaty of Rome establishing the E.C. and it was not until 1976, after 18 months of work, that a seven-point program for Community action in the education field was adopted. Much of that action program is still awaiting real action. Eurydice apart, there has been little more than token work to bring about the kind of coordination and cooperation envisaged as necessary to bring about greater European understanding.

The problem has been that the Community effort increasingly has had to be channelled into what was, in 1976, only the seventh listed point in the action program—preparing young people for a working life and giving school leavers a better chance of employment. The mere fact of falling on hard times has tended to make the members of the Community more nationalistic. Charity begins at home and there has been little money or time for the more generous exchange schemes and cooperation programs that were being considered a decade ago.

The nationalistic spirit has also made it more difficult to spread the essential language training which would be so important a part of increasing Community understanding. In turn this has slowed down efforts to obtain mutual recognition of certificates and diplomas—an essential prerequisite for the free movement of labor, which is meant to be one of the cornerstones of the Common Market. Lip service, at least, is still paid to the old idealism. In June, the European Council summit of heads of Government agreed on the text of what was called "a solemn declaration on European union." Among its many clauses were calls for "closer cooperation between establishments of higher education, including exchanges of teachers and students . . . and development of the teaching of languages of the member states." These are almost identical to two of the seven points for action agreed seven years earlier. The need to go on repeating them is a fair indicator that these ideas have yet to become normal practice. The good intentions are there without the means.

One place in which the Community has tried hardest to help with language teaching is in dealing with migrant workers. Some of them are refugees, like the 8,000 Vietnamese in Denmark who are currently being taught to speak Danish at the Community's expense. Some of them are Community nationals, like the Italians in Cologne, who are being given the opportunity to train for either Italian or German qualifications. These are just two of a number of pilot projects dealing with migrant workers which are being funded and studied by the Commission. From them it is expected much will be learned on how best to integrate migrant populations into new surroundings.

From its limited resources, the Commission has managed to find the money to set up joint study programs at around 400 universities and higher education colleges, while every year some 300 teachers or school administrators are awarded Community grants for short study visits to other countries. It is a drop in the huge E.C. ocean, but it does represent a start.

The Commission itself has its own test bed for a European-style education with the schools it runs basically for E.C. employees. The biggest of these is in Brussels, but there are others in Luxembourg, Italy, and the United Kingdom. The children at these schools are allocated to language streams usually according to their nationality. From a very early age they are taught a second E.C. language and from the second year of high school they begin to learn a third language. This polyglot background to learning spills over onto the playgrounds. National rivalry is often stronger than ever, but the children learn to insult each other and play with each other in more than one language. They follow parallel courses working up to the international baccalaureate at the end of their schooling.

On special occasions and on holidays, the school flies the 10 national flags. While all of Belgium takes a day off to mark Armistice Day on November 11, the European school kids have business as usual because they cannot commemorate the wars between the two most important founding members—France and the Federal Republic of Germany. (They get an extra day off at Halloween, but that is different). As the parent of two of this new generation of Eurokids, I feel a bit like the father of a guinea pig. They wonder at times where home is. I actually caught my son cheering France on against Wales in a rugby match. But when I think about it seriously, that fact alone makes me much more confident that there will be no future European Armistice Day to commemorate. €

Ian Murray reports from Brussels for *The Times of London.*

EUROPEAN BUSINESS SCHOOLS

A GUIDE TO SOME OF THE BETTER KNOWN PROGRAMS.

DAVID CLUTTERBUCK

Not many years ago, it was the custom for Europeans with a yen to gain formal managerial qualifications to look toward the prestigious U.S. business schools such as Harvard. Nowadays that flow has slowed. The European manager and his company look instead to home-grown institutions. At the same time, the European business schools are experiencing an unprecedented influx of U.S. students in their MBA courses. At the International Management Institute (IMI) in Geneva, for example, U.S. applicants are being turned away from the MBA course in droves. At one-fifth of the enrollment, they have reached the limit for admissions of any one nationality.

There are several influences behind this sudden reversal. One is that the European business schools have gradually come of age. Most of them have been started since World War II, often with the active help of major U.S. business schools. It has taken time for the top European business schools to achieve the same kind of status as their U.S. counterparts, even within their local confines. Even now, the number of MBAs graduating each year in Europe can be measured in hundreds, against an estimated 55,000 annually in the United States. While the number of Europeans registering for MBAs is growing—Switzerland's International Management Development Institute (IMEDE), has expanded its intake 40 percent in the past two years and government spending cuts do not seem to have slowed the growth in numbers in the United Kingdom—European companies still place far less value on an academic qualification as an indication of managerial competence.

Another reason is the growing importance to U.S. companies and especially to U.S.-based multinationals of managers who truly understand the realities of operating internationally. The top European business schools have proven to be far more international in their outlook than all but a handful of U.S. institutions. Indeed, they have had little choice if they are to reflect the complexity of day-to-day business within European companies. The MBA class at IMEDE, for example, has 25 different nationalities. INSEAD, in France, labels itself a European business school, while IMI stresses that it is a "non-American" institution. Inevitably, course content is concerned to a substantial degree with doing business across national borders and in different cultural environments.

The importance of the international element in their MBA programs is illustrated by the strengthening ties between the major European business schools. Seven of them—INSEAD, London Business School (LBS), Manchester Business School, Scuola di Direzione Aziendale in Italy, Institut Supérieur des Affaires in France, Instituto de Estudios Superiores de la Empresa (IESE) in Barcelona, Spain, and Holland's Interuniversitaire Interfaculteit Bedrijfskunde—have recently collaborated in defining the outline of a European standard MBA. Both INSEAD and IESE offer bilingual MBAs.

A third reason, suggests IMEDE's dean, Derek Abell, is that European business schools are "freer to move close to companies and understand what companies want." Unlike most U.S. business schools, the European institutions are generally not attached to a university. In many cases, they were founded by a company or group of companies, with whom they retain a close relationship. London Business School and the French INSEAD, in particular, have a small number of client companies for whom they provide a range of executive education services.

On the one hand this avoids the problem of so many U.S. business schools, where the faculty spend much of its time conducting and publishing irrelevant research and mass producing standard MBAs, Abell points out. "In dealing with real problems in today's world, Europe is probably ahead," he declares. On the other hand, however, the lack of university endowments means that most European business schools have to work for their living—there is always a danger that they will become mere teaching machines. Certainly, Europe still lags a long way behind the United States in the amount of time, money, and effort put into business school research.

The degree to which European business schools can become involved with corporate clients is illustrated by the Centre Européen d'Education Permanente (CEDEP), which shares a campus outside Fontainebleau with INSEAD. The 17 companies which make up the CEDEP club join with faculty in designing the courses to fit common management development needs. As needs change, they can rapidly be reflected in the course content.

There is one other important reason for the popularity among Americans of gaining an MBA in Europe, says LBS professor Dean Berry, a veteran of both INSEAD

> Business schools in Europe, with a more international outlook, are attracting an unprecedented number of American students.

and Harvard Business School. "While the Europeans are evolving indigenous and interesting forms of business education, most of the U.S. business schools are dull by comparison," he declares. The European schools place relatively little stress on the quantitative management techniques so popular in the United States. Instead they emphasize strategy and the human, interpersonal side of management.

"The European business environment is far more complex and diverse than in the United States," says Professor Pedro Nueno of Spain's IESE, explaining that most American MBAs would not have the faintest idea where to begin if faced by a works committee where most of the employee representatives are members of the Communist Party. As a result, adds IMEDE's Abell, "European MBAs may be less technically competent than their U.S. counterparts, but they are far less naive."

The kind of innovations to which Berry refers include, for example, the two-part program CEDEP has recently started. The first half of the program concentrates on events in the external environment likely to have a significant impact on European companies. In the second half, the students go back into their own companies and discuss with their own top management how best to meet those challenges.

The European business schools are also heavily committed to more flexible means of gaining an MBA. Although most institutions do offer the traditional two-year course found in the United States, there is a wide variety of part-time options. For example, Henley Management College in England and Strathclyde Business School in Scotland offer masters degrees by long-distance learning, through packages of printed materials and audio and video cassettes. The student studies at his own pace in his own home or office. Tutorial and counseling services are also available.

Established in 1983 as a new business school, the International Management Centre of Buckingham, England, carries the MBA course to the student. The course is designed around the student's own job and takes place partly on the firm's time and partly on his or her own time. Integral to the process is learning specific management skills by carrying out real assignments for the company. For example, one student in an office equipment company is examining different strategies for meeting potential Japanese competition.

This kind of approach implies that the course participant is already in a middle management position. The typical European MBA student tends to be considerably older than his U.S. counterpart. For him, the course is not a first step on the managerial ladder, but a practical means of coming to grips with the complexities of general management. At IMI, for example, the average age of participants is 35 and this is only partly due to the handful of older Indian and Japanese managers in the classes. Most American MBAs, by contrast, have to wait years before they can put the strategic and general management aspects of their degree into practice.

So it is not surprising to learn that the U.S. participants in European MBA programs are also predominantly older. Says IMI's Phyllis Isilin: "Their quality is high. They are mostly mid-career people who want to orient themselves to international activities." The problem for these Americans with European MBAs is that few U.S. employers understand the value of a lengthy period working and studying closely with managers of other cultures. "International experience all too often means a short spell running the company sales office in Hong Kong," points out Isilin.

The situation may gradually change as companies in the United States become more familiar with the concept of the mid-career MBA. They may be helped to do so by another reversal of tradition. Many of the larger U.S. business schools have become accustomed to holding internships or summer schools in Europe. Now, while Harvard is pulling its international program back from Europe to integrate it into its general courses in Boston, the European schools are starting to hold their own programs in the United States. IESE and INSEAD, for example, now offer an international development program in Miami. €

David Clutterbuck, formerly managing editor of *International Management,* writes on business topics from England.

STUDY SEMESTER IN EUROPE

A SPECIAL COURSE ON THE E.C.

ROSE DOYLE

The city of Brussels, the country of Belgium, indeed the whole of Europe in a sense, played host this autumn to a particular group of 30 young Americans. And a good show was put on—it was one of the mildest, most truly mellow of autumns on record. Town and country looked good and the citizenry were cheered. Meanwhile, the European Community threw up more than its usual amount of activity; debate was lively and crucial decisions were taken. All this was grist for the mill of the American group, in Europe to study European integration and politics and whose number bring to 550 the total to have taken Drew University's Semester on the European Community since it began some 18 years ago.

"Before I came, Europe just wasn't a reality to me; I almost expected to be transplanted back to the 18th century. I even expected a sort of mystique, but really it's the same old dog-eat-dog world. . . ." That is the European reality given an American perspective by Monique Gaudette, a 21-year-old Tufts University student from Massachusetts. Her fellow students know the feeling. Faced with reality, romantic preconceptions have fallen away—and the students have had more opportunity than most to come to terms with European life in all its aspects.

For all of them, students of economics, political science, history, and international relations, the semester promised the opportunity to broaden horizons and to see first hand the process of European integration. For each the reality has been startling, a culture shock in the real sense. They also agree it has been invaluable. History has a different meaning now and the world is not so simple a place. "In five days," Gaudette points out, "I passed through five countries, five cultures, three languages, five currencies. That's something people at home can't imagine; how could they?" Heads nod in agreement and oh, they sigh, if they could only bring more Americans to Europe, to really see the difference.

They arrived in early September and the long weeks of golden days made the living easy—and work very pleasant—in the elegant tree and shrubbery surrounded Institute of European Studies on Avenue Franklin Roosevelt in Brussels which accommodates the program. Most of the 15-week term involves a rigorous academic schedule at the institute. Two of these weeks are reserved for field work which moves participants at great speed around the Continent.

The semester, begun in 1965, was the academic brainchild of Drew's economics faculty. A little bit like Topsey, and a lot like the European Community, it has just "growed and growed." Donald Cole, Professor of Economics at Drew and, with nine terms as resident-director behind him, the man most involved over the years, explains: "In the mid-1960s we had no idea the European Community would come to have such an enormous impact on both its own citizens and the world at large." It has, and the program has increased in importance and prestige.

Study is intensive. It has to be if students are to get the most out of the three months. The basic structure consists of five courses created especially for Drew and given in English. The distinguished European faculty consists of a political scientist—Jerzy Lukaszewski, Rector of the College of Europe in Bruges—an honorary director-general of the E.C. Commission—Louis Janz—and three economists—Dirk Heremans and Alfred Steinherr of the Flemish and French campuses, respectively, of Louvain University, and Peter Praet of the University of Brussels.

The five required courses in the curriculum include one each on the economics, politics, and history of European integration, and a colloquium on major Community issues. In addition, each student undertakes an independent research project on some aspect of European integration. Research topics have ranged far and wide over the years, from various aspects of the E.C.'s Common Agricultural Policy, monetary union, the Lomé I and II trade and aid treaties with developing countries, to social policy, Community enlargement and, of course, U.S.-E.C. relations.

Professor Cole still has the enthusiasm of a first-year student: "The Drew program is one of a kind. No other university—in the United States or elsewhere—offers undergraduate students an opportunity to study European integration on a first hand basis. Obviously the best place to study European politics is Europe and Brussels is the best place to learn about European integration. And the E.C. Commission building, the Berlaymont, is the best place to learn about the E.C.'s Common Agricultural Policy."

Subject matter varies somewhat each year, but the format is similar to that followed this autumn. After a week's orientation early in September, the students went straight into research, seminars, and within weeks, into their first colloquium, on European industrial policy. This was looked at both from a U.S. and European perspective and included case studies of several E.C. member states.

With mid-term exams out of the way by mid-October, students went straight into a second colloquium on "Eastern Europe and West European Integration," which included a field trip to Berlin. Toward the end of October, they went off on a trip to the Court of Justice in Luxembourg, followed by a visit to the budget deliberations of the European Parliament in Strasbourg. In November it was back to regular classes, their third colloquium—"What is wrong with the European Communities?"—and work on research projects. Final examinations were over by mid-December.

"It's a serious and rigorous course," asserts Cole, a believer in the blend of the academic and the practical. He's generous in praise of the E.C. Commission's contribution, pointing out that hundreds of its officials have helped over the years. The student list reads like a broad geographic sweep across the United States—from Drew and others in the East (Trinity, Hamilton, George Washington) to the University of California-Davis to the University of Nebraska-Omaha. It even includes a Canadian from Smith and a Greek studying at Macalester. Admission to the program is highly selective. The cost is one semester's tuition at Drew plus a room and board charge. Financial aid is available.

John Christian, a 20-year-old Drew student from New Jersey, said he found Europeans "incredibly politically aware." His colleagues agreed, conversely pointing out that they felt knowledge of the E.C. was practically non-existent among average Americans in the United States. As for the group, now that they feel they've come to terms with, say, the Common Agricultural Policy or other economic and political aspects of the European plan for integration, they have begun to feel that many American economists and politicians don't truly comprehend European arguments. "They're skeptical about protectionism for instance," said Laura Merchant from the University of California-Davis. "They don't really believe it's for reasons of integration, or simply to make the economy work. They feel it's to protect special industries." Nor does she believe that Americans tend to share the optimism which many Europeans still express about future political unification. "We're on the outside looking in, really," says Monique Gaudette.

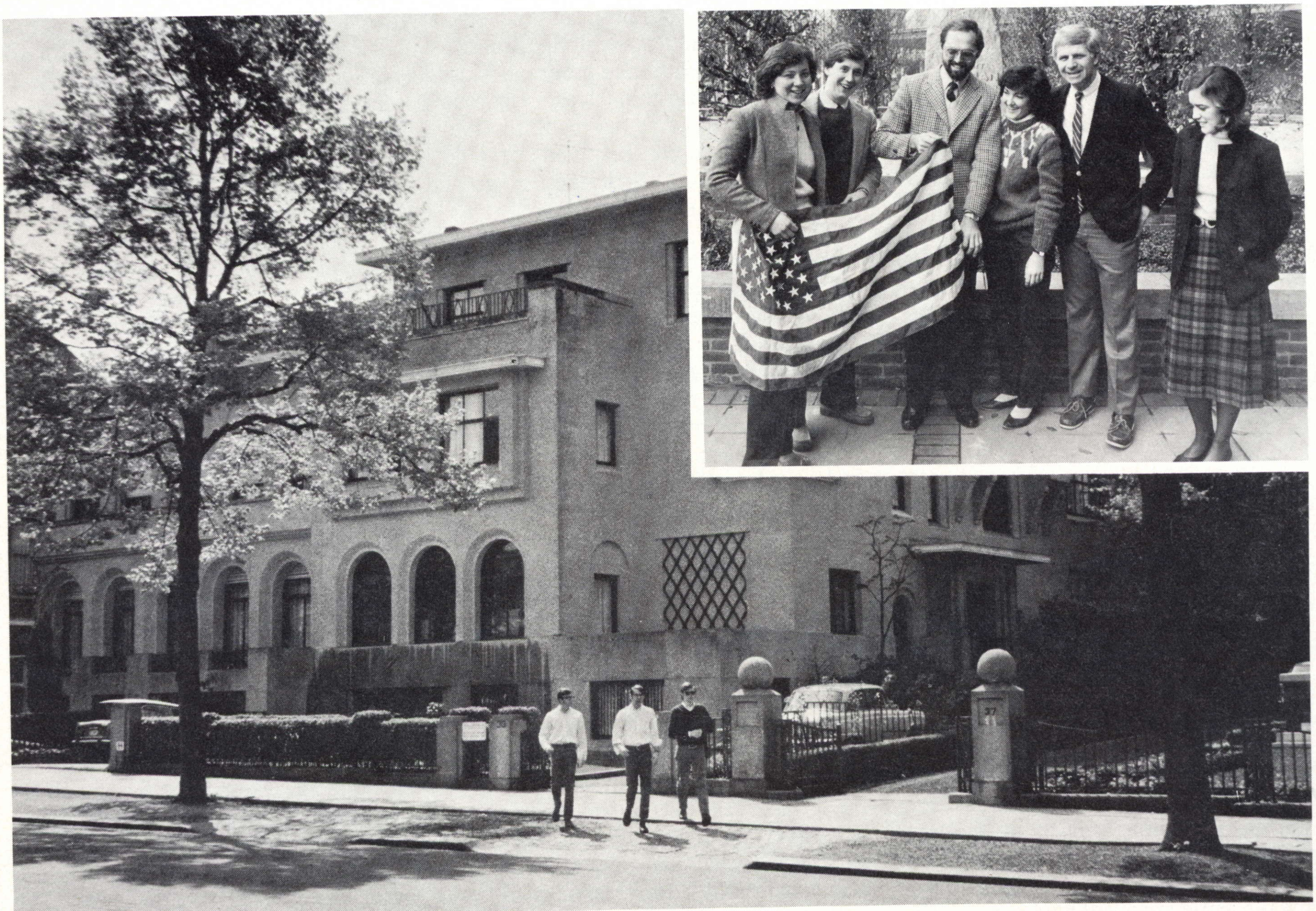
They all saw nationalism as the single most divisive element in the Community. "There is always the need to preserve identity and sovereignty and countries are unwilling to give that away," Gaudette said, while Christian observed that poorer regions such as southern Italy and prospective member Spain find the call for integration easier to make. "They start from a lower base and so can only gain. But the richer countries feel they are carrying the poorer ones."

Through field trips and courses with E.C. officials, students learn the process of European integration right at the source.

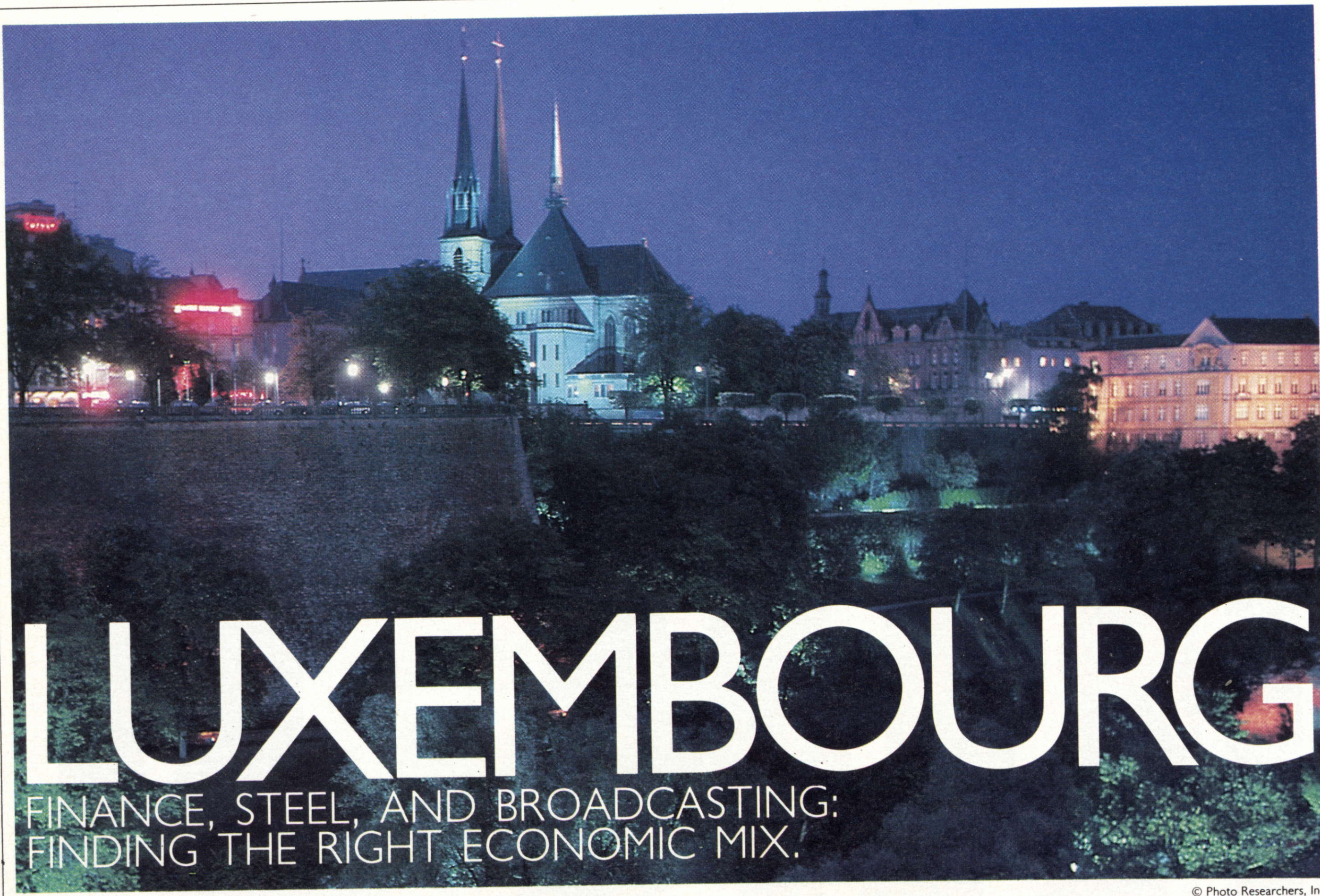
Still, everyone agreed the petty issues thrown up by nationalism and regional interests prevail in the United States as well. "But the United States gets more *done*," says Christian, with a small display of nationalism himself with some solid criticism: "Europe has gone past all the easy points, it's not really getting down to the necessary nitty gritty now." Europeans are different and Europe has its own special identity; the United States, the students feel, will have to face this fact more realistically. "It was good for us to come away," says Nan Alexander, "we tend to look on the United States as a country alone, separate." She reflects a viewpoint common among participants, that, in learning first-hand about Europe and its diversity, Americans are armed with a new awareness, both of others, and of themselves.

Further information on the Drew European Community Semester is available from the Off-Campus Programs Office, Drew University, Madison, New Jersey 07940. €

Rose Doyle writes from Brussels for the *Irish Times*.



The Institute of European Studies in Brussels, home of the Drew University study semester where undergraduates take courses on the development of the European Community.



LUXEMBOURG

FINANCE, STEEL, AND BROADCASTING: FINDING THE RIGHT ECONOMIC MIX.

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ALAN OSBORN

An American once remarked that there seemed to be more banks in Luxembourg than there were people and even while you laughed, you saw his point. If bankers ever got together to draw up their dream city, you feel it would look a lot like Luxembourg. Its stone battlements seem ideally planned to guard money. The dour honesty of its citizens almost compels you to deposit your savings with them. Contrary to some impressions, it's not impossible to misbehave in Luxembourg, but the temptations are of a relatively innocent kind. The worst crime here, you feel, would be to cook the books.

Yet to describe Luxembourg as just a kind of miniature Wall Street of Europe would be misleading. The industrial sinew of this tiny country is steel. A casual visitor to the city will not be aware of this. The spectacle is that of a pleasing, business-like establishment with splendid restaurants and unexpectedly good wines, surrounded by rolling wooded hills with lakes and golf courses. But go south to the border with France or west to the border with Belgium and the stench of blast furnaces and the thunder of strip mills will soon remind you of economic realities. The typical Luxembourger may look and behave like a banker, but the fact is that he produces more steel—if you average out statistics—than the citizen of any other country in the world.

This was once something to be proud of. Today it is more a cause for sorrow. Steel manufacturing has taken as heavy a pounding as any industry over the past 10 years. With its tiny home market, Luxembourg has been forced to rely on exports more than any other country and the recession has taken its due toll of employment and profits. At one time, nearly a third of all Luxembourg's workers were employed in making, processing, and selling steel. Today the proportion is about an eighth. One sometimes wonders whether to envy Luxembourg for the way its financial sector has stepped in to fill the economic gap or to sympathize with it for the drain on banking profits presented by the ailing steel companies.

In fact, for "companies" you should read "company" which is to say Arbed—an acronym for the huge, privately-owned company built up by the remarkable Emmanuel Tesch. It dominates steel production in Luxembourg to an extent that would raise the hackles of antimonopoly officials in any other country. Arbed is, on paper, the fourth largest steel company in Europe and among the top dozen in the world. If this seems incredible for a country no bigger than Maryland and with a total population no larger than, say, Albuquerque, you have to appreciate that Arbed's production is spread out over Belgium, the Federal Republic of Germany, Austria, and even Brazil. At the the same time, the company's plants in Luxembourg provide jobs for many neighbouring French, German, and Belgian workers.

Unlike many European steel producers, Arbed has sensed industrial realities and taken tough decisions. It has virtually halved its work force in the past 10 years. While it has to be said that Luxembourg's sophisticated retraining and reemployment policies have made this easier for the company than others, its approach to the recession is nevertheless bold. Not that this has spared the company from the rigors of the E.C. Commission's plans for cutting back the Community steel industry to a lean and potentially profit-making level by 1985. The Commission wants still further cuts. Luxembourg's claims that the steel industry is more important to it—on a per capita basis—

than in any other E.C. country, have not convinced the Commission.

Arbed is now seeking agreement with the big Belgian steel producer Cockerill Sambre for a joint retrenchment which would minimize the threat to both companies. The plan—involving technical switches in production in both countries—has aroused union protest and in any case will require the sanction of both Governments concerned. The end product could be a quasi-merger of the Belgian and Luxembourg steel industries, though no one who has followed the career of Tesch will be in much doubt as to who will triumph.

But if steel remains Luxembourg's biggest employer, the largest single taxpayer in recent years has been Radio Television Luxembourg (RTL). Many people, especially in the United Kingdom, probably only recognize Luxembourg as a place on the radio dial. Radio Luxembourg was for many years the only commercial broadcasting station that could be heard in Britain and many wonder whether "pops and ads" would ever have broken the British Broadcasting Corporation's monopoly had it not been for wavelength "208"—Radio Luxembourg. In parts of France and Belgium today, a large number of television viewers would say that RTL provides their only worthwhile entertainment.

But RTL's vibrations have been felt keenly in recent years by the Governments of countries close to its home base. This arises from the company's decision to launch a satellite-beamed commercial television service openly aimed at capturing audiences in most of northern Europe, and most notably, in France and the Federal Republic of Germany. The officially sanctioned networks of those countries have not been amused by the idea. Possibly in an effort to head off the Luxembourg threat, the French Government introduced plans to establish its own satellite broadcasting system and offered RTL the option of a single channel broadcasting frequency which would limit, however, the Luxembourg company's ability to send out programs in German or English. Luxembourg declined and has announced a scheme for its own satellite telecommunications plan which would include, besides television, such services as telephone and computer data links.

France is not pleased at this move by Luxembourg. The two countries have long quarrelled over RTL, which is a private company largely owned by French, German, and Belgian shareholders. If Luxembourg goes ahead with its plans, it would place itself in direct competition with the French satellite service. Broadcasting is not like other business. Open competition is not liked by Governments, whatever their political complexion. RTL has involved heads of Government in its plans before now and everything suggests that more of the same is to come.

The RTL performance suggests an audacity in the Luxembourg character that surfaces elsewhere. The country maintains an international airline, for instance. It is even a relatively profitable one. Of course, Luxair isn't in the same league with Pan Am or British Airways, but its recent accounts could bear comparison with any others. Luxair was born in unpromising circumstances. The idea, some 20 years ago, was merely to improve communications between Luxembourg and other E.C. capitals, hardly a commercial proposition. But traffic patterns persuaded the airline's managers to seek alternative markets and the result was a highly developed holiday charter business. After that came a move into air freight which was so successful that Cargolux claims to be the biggest freight carrier in Europe, with a turnover that well outstrips that of its parent company. Luxembourg has lost some of its appeal as a stopover for Americans and others on cut-rate transatlantic flights and Luxair is facing important decisions about its fleet and routes, but the airline's rate of growth in recent years suggests a flexibility and imagination that should sustain its profitability for some time to come.

This spirit of enterprise often seems at odds with the image that many have of the Luxembourgers as a somewhat dull and aging people. The unfortunate fact is that on top of their eminence in banking, steel, broadcasting, and other activities, the Luxembourgers are older than almost any other nationality. Excluding foreign residents, a fifth of Luxembourgers are over 60. More worrying perhaps is the extraordinarily low birthrate of 1.23 percent of the native population—again the lowest in the world. Set this against the growing "migrant" population and you come up with the prospect that by the year 2000 more than a third of the residents in Luxembourg could be foreign.

The economists might argue that this is irrelevant, but for those concerned about Luxembourg's national identity the matter is crucial. History may have tossed Luxembourg around like a cork in the sea, but this doesn't stop her sons and daughters from wanting a sense of national identity to be passed on to their own progeny. How to do so is not clear. The notion of controlling immigration is not feasible. Even if the country's tolerant character would permit it, any halt to the inflow of foreign workers would sooner or later bring Luxembourg's industry to a standstill. The official response, which frankly seems the only feasible one, is to try to boost the birthrate among nationals by expanding help for mothers, increasing family allowances, and possibly cutting retirement benefits. But all this involves extra strain on a social security system already laboring under financial pressure. The instincts of the present Christian Socialist-Liberal coalition under the leadership of Pierre Werner are to resist extra state aid.

The next elections in Luxembourg will be in June and the main lines of the campaign have already been drawn. Colette Flesch, leader of the Liberal Party and Minister for the National Economy, said recently that "the traditional industries [steel], with no promise of a future, should not crystallize our efforts and our means too much. It is not by transforming our dying industries with disguised employment programs that we will be able to assure the industrial and economic renewal of our country."

The Socialists find such sentiments distasteful and there seems little doubt that the campaign will be waged largely over the issue of aid for the steel industry. There are no public opinion polls in Luxembourg, but informed observers are suggesting that the Government's austere policies—which include a limitation of the historical automatic increase in wages—have cost it a large measure of public support. Luxembourg is not a country that is much troubled by unemployment, but the fact of reduced purchasing power and limited overtime working has increased worker resentment against the present coalition. The Socialists may regain power in June, but the pundits see no basic change in the general approach by government to the social and economic problems facing the Grand Duchy. €

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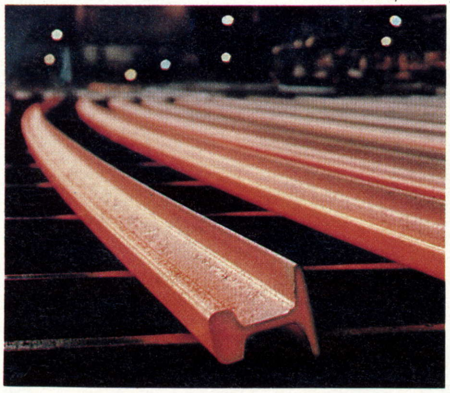

The heart of Luxembourg's industry: making, processing, and selling steel.

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

COULD LUXEMBOURG BECOME A "EUROPEAN DISTRICT?"

THE EUROPEAN PARLIAMENT, THE COURT OF JUSTICE, AND OTHERS.

ALAN OSBORN

Could Luxembourg become the sole seat of the E.C. institutions—a kind of "Community space?" There is a certain logic in its case, even for those without vested interests. Geographically, for instance, the country is perfectly placed. Stick a pin in the middle of a map of Europe and it would surely land on or near Luxembourg. Politically, its claims are equally valid. The country's entire population is no more than that of a medium-sized provincial city in any other E.C. member country. Culturally, one might argue that Luxembourg is as cosmopolitan a country as one will find in Europe. It already has the relatively largest non-national population in the Community and by the year 2000, according to some demographic trends, over a third of the inhabitants could be foreigners.

Thus, is there not an argument for making the city into a kind of "District of Columbia" for Europe, a politically neutral territory where all the E.C. institutions are located and all the political, administrative, and regulatory business is done? Many in Luxembourg would probably answer "Yes," though it has to be said that there is no great groundswell of popular demand for it at present. Nevertheless one of the more interesting ideas proposed (in vain) at the recent Community summit meeting in Athens was a suggestion by the Grand Duchy for the creation of a "European district."

Luxembourg's memorandum was not meant to launch a drive for turning the city into the E.C.'s formal political and administrative capital—it was more an attempt to dramatize the need for a solution to the long and bitter wrangling over the site of the E.C. institutions. Nevertheless, the claim was seen by some as the start of a possible campaign by the Government to win for Luxembourg the undisputed title of "capital of Europe."

Certainly the present situation is highly unsatisfactory to all concerned—except possibly transportation operators. The past 30 years have seen highly uneven development of the Community's main administrative center, with both Brussels and Strasbourg rising at the expense of Luxembourg. In 1952, Luxembourg was picked as the headquarters of the European Coal and Steel Community, the original institution, and hopes must have run high that this would lead to far more glorious things. But Brussels was chosen as the seat (admittedly "provisional") of the E.C. Commission—the "executive" limb of the E.C.—while the European Parliament was to be shared between Luxembourg and Strasbourg.

A handful of institutions, to be sure, have made Luxembourg their home. They include the European Court of Justice, the European Investment Bank (EIB) and the E.C.'s Statistical Office. But the big prize of the Council of Ministers—the decision-taking body—for the most part eluded the Grand Duchy's reach. One says "for the most part" since the agreement provided that in three months of the year (April, June, and October), the Council met in Luxembourg. But for the rest of the time Brussels was the site and that is inevitably where the secretariat and administrative back-up have flourished.

The one big gain for Luxembourg was to be established as the site of the secretariat for the European Parliament, however, and this has since grown to become the biggest single employer of Community officials in the city. But the aim, throughout the 1970s, was to win for Luxembourg the right to become the sole seat of the Parliament itself, in which it was in competition with Strasbourg. The competition between the two cities intensified with the drive to establish a directly elected European Parliament. The new Parliament was to have twice as many members and most of them would be full-time. It was a tempting prize, but history will probably show that Luxembourg leaped at it too quickly and enthusiastically, only to be felled by its own ambition.

The point is that the Government and the city launched plans for a grandiose Europroject in the late 1970s—a massive, futuristic complex of debating chambers, conference rooms, offices, apartments, hotels, and leisure facilities. The projected cost was astronomical and so too was the outrage felt by much of the public. A ferocious campaign against the project was mounted by environmentalists and it eventually succeeded in felling the plan. By then it was too late for the city to dream up an alternative in time for the start of the directly elected Parliament in 1979. Strasbourg had timed it much better. It had its enlarged building ready and waiting and the new Parlia-

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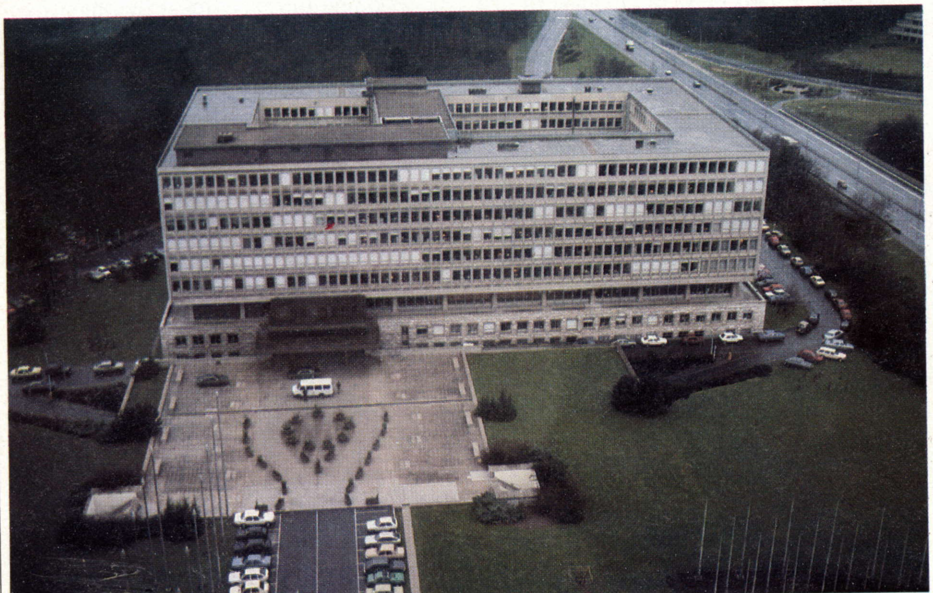


The European Parliament's secretariat is housed in this modern building.

ment simply had no choice but to meet in the Alsatian city.

Even more galling for Luxembourg was that its alternative plan (costing about a tenth as much as the original) was by then too far advanced to be halted. At the time of its completion, the Grand Duchy reclaimed its long-standing right to share equally the parliamentary sitting with Strasbourg, but its case had gone by default. In 1981, the members of Parliament themselves voted to hold all their sittings in Strasbourg, which lobbied hard for the privilege.

An angry Luxembourg Government complained to the E.C.'s Court of Justice that this violated E.C. law which decreed that the site should be agreed by member Governments, but it lost its case. The court said that, in view of the failure of the Governments to settle the matter, the members had the right to choose the site themselves. So, with a $50-million assembly chamber standing empty, Luxembourg is stepping up again its campaign to be recognized as a European seat. The legal claim is still alive according to Government officials, but the drive is spurred more by Luxembourg's sense of moral outrage. "It is true that the presence of the E.C. institutions has brought a great deal of money into the country, but we see it more in terms of prestige and political significance," says a city official.

Yet even as the country mounts its campaign, its grip on what it already has appears to be slipping. The new threat is the loss of the Parliament's secretariat, employing 2,600. Increasingly the tendency is for the administrative activities of the Parliament to be located in Brussels, which is already the site for virtually all committee meetings and the center for the political groups of members. Even Strasbourg has lodged a claim for a share of the secretariat. There is even now a real danger that the Luxembourg authorities will act too late. The secretariat desperately needs more office space and the city has launched plans for a new building to provide it. But inexplicable delays in procedure have tested the secretariat's patience and there are now fears that the muddle will give it the excuse to move large sections of the work force to Brussels and Strasbourg.

At their peak, the E.C. institutions in Luxembourg were estimated to have contributed about 10 percent of the country's entire gross national product. No one expects them all to pack up and go. Indeed the growth of other institutions will probably compensate for any loss in the Parliament secretariat. Yet any prudent financial planner in Luxembourg would have to recognize that the years of rapid growth in E.C. institutional activity in the city are probably over, though maybe not forever.

As agitation mounts for all the major E.C. institutions to be located in the same city, the charm of Luxembourg might well be renewed. "Look at it this way," says a Government official: "Brussels won the Commission because the E.C. planners could not afford to offend either France or the Federal Republic of Germany by picking one of their capitals. Might not the same happen between Belgium and France over the Parliament—and might not that mean a Luxembourg solution?"

Maybe. But at present, the view is that Luxembourg's future may lie largely in the growth of the financial institutions located here. These include, besides the EIB, the administrative body for the European Monetary System. If the E.C. ever moves to a common currency, then Luxembourg would be a compelling and logical choice to be the seat of its central bank. This might sound rather fanciful at present, but the past 30 years have shown how little events in Luxembourg conform to expectations. €

BANKING: BACKBONE OF THE ECONOMY

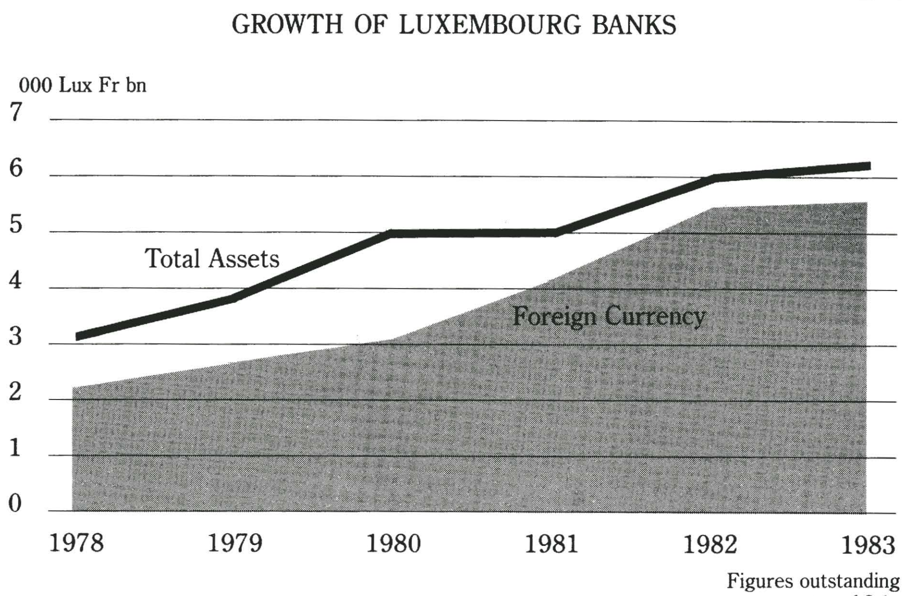
SEARCHING FOR NEW ROLES AS GROWTH FADES IN TRADITIONAL ACTIVITIES.

ALAN OSBORN

Banking in Luxembourg, which has paid such valuable and faithful service to the economy for the past 15 or so years, is looking for a new role. The traditional activities continue to thrive, but the scope for explosive growth is gone. For over a decade Luxembourg has been almost synonymous with the recondite art of Eurolending. This is essentially the processing and servicing of U.S. dollars deposited and held abroad and recycled to provide financing for European and other industry. The techniques and crafts of such an activity are mysterious to most of the public, but the knowledge that Luxembourg possesses them in abundance is commonly accepted.

Unhappily for the Grand Duchy, they are no longer enough to sustain an activity that has put Luxembourg among the leaders of international finance. Competition from other centers is growing at the same time that economic recession is taking its toll on business. The sophisticated arts that Luxembourg offers international lenders and borrowers are being increasingly challenged elsewhere, and often backed up by better tax and regulatory concessions. No one is predicting a massive switch in Euromarket activity away from Luxembourg, but even the country's most loyal supporters concede that the period of thrusting growth which characterized the 1970s has ended.

On the face of it, this is a serious problem for a country as intimately linked to banking as Luxembourg. The figures are compelling. The banks employ some 8,600 people in Luxembourg, representing about 5.5 percent of all jobs in the country. They are responsible for the creation of more than 20 percent of the country's gross national product. Even more important is that they paid about two-fifths of all direct taxes in 1981, 60 percent of all corporate tax, and were responsible for nearly a fifth of the country's total tax income. It is not unfair to suggest that banking has maintained Luxembourg's relative prosperity at a time when the collapse of the steel industry threatened to undo the country's solvency.



Source: Luxembourg Monetary Institute

Any threat to this activity must send tremors throughout the country and so it has happened. The Government, no less than the banking sector itself, worries about the future of Luxembourg as a financial center. "We have reached a plateau, certainly," said a Government official recently. "The growth we have experienced in the past 10 years will not be repeated. But there is no reason to expect that we cannot keep the business we have. And we will look in other areas for new opportunities."

In particular the country seems likely to turn toward the private customer for business. This is not to say that Luxembourg banks will take television spots to promote their services, still less that they will start offering sets of pots and pans to people opening new accounts. The accent will be on wooing the *rich* private depositor, which basically means people with $100,000 or more to entrust. There is a surprisingly large number of them, scattered throughout the Federal Republic of Germany, France, and Belgium. They are people with lots of loose cash at hand. They are concerned that the deposit of their fortunes with local national banks could invite the attention of the tax authorities. They seek a guarded, safe, and private refuge for their money and until now, the only answer has been Switzerland. Luxembourg may be about to offer them an alternative.

The basic problem is that Luxembourg is a member of the European Community. It cannot offer deals to depositors and investors that other members may not. "Our enterprise is sound and, we think, well-judged," says a Luxembourg banker. "We think we can match the services provided by any other financial center." But he agrees that E.C. regulations could eventually halt the rise of Luxembourg as the financial center of the E.C. "We are a member of the Community and we accept their rules."

Luxembourg has done much in recent years to make itself more attractive to investors. It has firmed up its bank secrecy arrangements. Money deposited here is now as secret and safe as in Switzerland, according to the bankers. They also agree that Luxembourg is cheaper and more efficient. "Luxembourg does not have the sophistication of Zurich, but she has real talent in the use and purpose of money," says an E.C. banking official. €

THE EUROPEAN CURRENCY UNIT

USE INCREASES FOR BOND ISSUES.

YVES LE PORTZ

The role of the European Currency Unit (ECU) has reached a stage where there is a need for information and reflection on the present situation, coupled with discussions on its prospects, if we wish to maintain the remarkable momentum which has characterized this market since its inception. Swift growth, termed a "boom" by some, has seen ECU deposits soar, possibly to as much as 10 billion ECU, although little precise information is available. Meanwhile, ECU-denominated bond issues launched in 1982 totaled 1.8 billion ECU, hoisting the ECU to third place on the list of currencies in which Eurobonds were issued.

The ECU possesses two salient features: It serves as a unit of definition and is used in two different circles. As regards a unit of definition, there is only one ECU, defined by the E.C. Council as the sum of fixed amounts of the currencies of nine E.C. member states—termed a "basket of currencies" in financial jargon. These amounts may be reviewed periodically. This ECU constitutes the linchpin of the European Monetary System.

As for its use in two different circles, it should be stressed that these circles are now completely separate from one another. The first switches ECUs between central banks as a means of settlement in conjunction with the European Monetary System and may be called the official ECU circuit or, a more convenient expression, the "official ECU." The second focuses on ECU transactions carried out through banks and financial institutions other than central banks and the use of ECUs by undertakings and private individuals. This is known as the "private ECU circuit."

The term private ECU circuit, although convenient, is somewhat imprecise. It involves contributions and borrowings by governments, European institutions, and other borrowers and lenders in both the public and private sectors. E.C. institutions' deposits have been at the root of the opening of accounts in European Units of Account, and subsequently in ECUs, and continue to supply the market. At the same time, governments and European institutions have made calls on the ECU market when launching bond issues. The upturn in 1982 was attributable chiefly to issues launched by the Italian government which alone reached 1.2 billion ECU. European and national authorities have also provided support for the ECU market in the sphere of regulations, notably by recognizing the ECU as a currency.


Yves Le Portz

Nonetheless, the success of a currency cannot be dictated: Although it was the E.C. governments and Community institutions which defined the ECU and contributed toward its success, expansion of the private ECU circuit can be ascribed mainly to bankers. They recognized the attraction of this formula for investment purposes and for financing transactions, they proved their skills in creating suitable technical mechanisms, they organized the requisite financial infrastructure, and they proposed terms and conditions designed to draw support for ECU operations. The pattern of ECU transactions in recent years is comparable, albeit on a smaller scale but over a shorter period of time, with the development of the Eurocurrencies in the 1960s.

Today, almost the entire range of banking services applicable to any Eurocurrency can be offered in ECUs:

☐ Banks open accounts in ECUs, accept both sight deposits and term deposits varying from 48 hours to one year, and grant loans for various terms, while even offering the possibility of ECU-denominated savings accounts.

☐ ECU financing of foreign trade is expanding significantly in tandem with invoicing in ECUs.

☐ The ECU interbank market has taken shape and now boasts a series of specific instruments thanks to the efforts of a small number of true "market makers."

☐ ECU-denominated loan issues, as we have already seen, are enjoying outstanding success.

Thus, the private ECU is no longer a simple accounting currency. It alone, and not the official ECU, has become an instrument for settlement and saving with all the key attributes of a currency or at least a Eurocurrency. The ECU's independence is borne out by the fact that exchange and interest rates on the money market, which, in the case of the ECU, were originally established by simple addition of the rates for the component currencies, are now fixed independently. Adequate supply and demand are now on tap and the law of supply and demand can now operate. Exchange and interest rates move above or below the average, within bounds similar to those previously observed on the foreign exchange markets under the "gold points" system. Today, on both the money and capital markets, the ECU market determines the price of the ECU.

The ECU market is in fact continuously evolving and constantly faced with fresh openings or new problems. The amount of operations carried out in ECUs, although substantial compared with the situation just four years ago, is still very modest when contrasted with the volume of transactions in Eurodollars. The private ECU is indeed alive and developing strongly, but it is still in its infancy and has yet to reach adulthood. Several of the existing problems surrounding its growth are well known; some are of a legal nature or concern regulations. The main problem is recognition of the ECU's status as a currency in all E.C. countries, particularly the Federal Republic of Germany.

Two measures, however, which would guarantee more widespread use of the ECU as an instrument for saving are equally important for supplying the market: relaxation of exchange controls, where these exist, in respect of ECU transactions with notably the possibility of residents subscribing to ECU-denominated bonds; and authorizations enabling institutional investors subject to government regulations to invest funds in ECUs. From the political angle, these measures would enhance the position of the ECU, the common European currency, and enable it to progress beyond its present status as a Eurocurrency. €

Yves Le Portz is president of the European Investment Bank.

CHOCOLATE!

EUROPEAN MANUFACTURERS ARE INVADING THE U.S. MARKET.

JAMES DAVID SPELLMAN

Luscious chocolate truffles flown in weekly from Teuscher's Swiss factory, Perugina's Baci—delicate treats of a mousse-and-hazelnut filling covered with bittersweet or milk chocolate—and raspberry-filled chocolate bars from Lindt are just some of the dozens of European deluxe chocolates being imported to appease the cravings of America's "chocoscenti." Nestled with an American traveler's memories of Europe's cathedrals, galleries, beaches, trains, and McDonald's, are his recollections of chocolate and champagne picnics. The European *chocolatiers* are quietly courting the American palate in posh boutiques where their chocolates, selling for $20 to $30 a pound, are displayed like diamond and ruby brooches.

Americans consume more than 13 million pounds of chocolate—worth approximately $25 million—from the E.C. countries and Switzerland. The Europeans supply about half of the volume of all imported chocolates. Although sales of European chocolates constitute less than 1 percent of the United States' $3.5-billion market for cocoa confections, their share is steadily growing. Domestic and imported chocolates together account for about 60 percent of the total quantity and more than 70 percent of the total value of all confectionary goods sold in the United States. Americans' passion for chocolate—average consumption is 9.1 pounds a year—is timid when compared to the Swiss (22.3 pounds), English (14.6), Belgians (14.6), and the Germans (13.9), but the average American eats more chocolate than his French counterpart (8.2).

The chocolate business so far has remained free of allegations of unfair trade practices. No formal or informal complaints have been lodged by U.S. producers against the Europeans, said Wallie Praeger, an official at the U.S. Trade Representative's office. Chocolate demand in the United States is growing fast enough to accommodate the growth in European imports without hurting American sales, according to a spokesman for the U.S. Chocolate Manufacturers Association.

During the 19th century, chocolate manufacturers proliferated throughout Europe. Van Houten and Zoon in the Netherlands; Cailler, Suchard and Kohler in Switzerland; Meunier in France; Cadbury and Rowntree & Co., Ltd. in England; and David Hildebrand and Stollwerck in Germany—all were launching factories and making pioneering changes in the production and use of chocolate. In 1828, C. J. van Houten patented a method for making "chocolate powder" by pressing cocoa butter from the paste-like substance called "liquor," which resulted after the cocoa beans had been ground. He later discovered a method to alkalize the cocoa bean, a process which made the cocoa less acidic, more soluble in liquids, and more mellow in flavor. In 1847, the English firm Fry and Sons combined cocoa butter, chocolate liquor, and sugar to produce eating chocolate. A Swiss, Daniel Peter, was the first to add milk to chocolate liquor.

Another Swiss, Rodolphe Lindt, invented the process of "conching." A mixture of chocolate liquor, cocoa butter, sugar, flavorings, and milk is churned in a rectangular container with a shell-shaped bottom until the concoction's grainy texture becomes silken and the flavor and aroma more pronounced. Lindt and Sprüngli in 1973 introduced the "limoba" process to improve the manufacture of liquor-filled chocolate. An extremely fine coating of sugar lines the inside of the chocolate shell and seals the alcohol filling.

Europeans have despised, forbidden, and exalted chocolate. Catholics debated whether to forbid monks to consume it, since some alleged that its consumption inflamed their passions and caused them to break their sacred vows. Pope Pius V tasted it, deemed it foul, and ruled in 1569 that it did not constitute a break of the fast. Frederick the Great forbid its public sale in Prussia. A chocolate-flavored drink was so popular in England in the 1700s that ale houses sought restrictions on its manufacture. One English manufacturer, Dunn and Hewett, promoted a mixture of cocoa and Icelandic moss as a medicine. Napolean carried chocolate to the battlefields. One expedition to find the North Pole was supplied with several thousand pounds of Cadbury's chocolate confections. Two Swiss employees of a chocolate manufacturer were arrested in 1980 for trying to sell 40 chocolate recipes to the Chinese and Russians.

Mention a favored European chocolate and inevitable a debate ensues. Some dream about Côte d'Or's Double Diable, a cream-filled chocolate bar, while others insist that the company's peach- and apricot-filled, bittersweet chocolate bar is unrivalled. Conservative aficionados say the classic simplicity of chocolate's taste is epitomized in Suchard's milk chocolate confections. An argument for Gianduiotti, Perugina's confection of ground hazelnuts mixed with chocolate, seems based as much on the chocolate's excellence as advocate's desire to flaunt his or her mastery of Italian.

Cooks laud van Houten's cocoa to make the fudgiest chocolate cakes. Cadbury's Bournville, an earthy, bittersweet intoxicant, has its devotees. And there is Galler's Bresilia, a creamy coffee fondant swathed in bittersweet chocolate. And its rival, Moreau's coffee truffles. And the raspberry creams of Whittamer in Brussels. And, of course, the Rigoni Aldo truffles at Alba, Italy, to be nibbled with a demitasse of espresso. Anything made by the Federal Republic of Germany's Sarotti is considered nonpareil. *Time* reports that "passionate pilgrims trek all the way to 42 cours Franklin Roosevelt, Lyon, in central France, to sample the exquisite specialities of Bernachon, which are sold nowhere else." And there is always that tiny shop hidden along some lane untouched by time's passage which you may happen upon one day only to discover the *best* chocolates ever.

© Melloul/SYGMA

European chocolate makers are courting Americans with posh boutiques and jewel-like displays.

A BAEDEKER FOR "CHOCOSCENTI"

The easiest way, perhaps, to learn the secrets of Europe's great *chocolatiers* is to take a tour. The "Chocolate Lovers' Tour of Switzerland" leaves twice a year—on March 24, 1984, to return April 1; and on October 20, 1984, to return the 28th. The tour visits the Lindt and Sprüngli factory outside Zurich, the Tobler and Suchard plants at Bern, and the Nestlé factory which produces Cailler chocolates at Broc. The "Chocolate Lovers' Tour of Belgium and Holland" includes tours to the Calleharst, Neuhaus, Côte d'Or, and Corné Toison d'Or factories in Brussels and the Fennema and Schulta plants in Amsterdam. The tour leaves in mid-September. Each costs $1,725 per person. For more information, contact Journey World International, 155 E. 55th St., New York, NY 10022. Telephone number: (212) 752-8308.

Some factories which are known to offer tours are:

BELGIUM

Godiva Chocolatier
rue de l'Armistice 5
Wapenstilstandstraat-B
Brussels

Côte d'Or Societé
Anonyme
rue Bara 40
Brussels

H. Corné de la Toison
d'Or
12, av. de la Toison
D'Or
Brussels

Neuhaus
1 Crockaertstraat 21
Zellik

SWITZERLAND

Nestle, S.A.
Broc 1636

Suchard
2003 Neuchatel

Chocolat Tobler Ltd.
Bern

ITALY

P. Ferrero & Co., S.p.A.
Alba

Pernigotti
Stefano Pernigotti &
Figlia, S.p.A.
Viale della
Rimembranza, 100
Nov Ligure

Perugina
Perugia

DENMARK

Toms/Anton Berg
DK 2750 Ballerup
Copenhagen

THE NETHERLANDS

Van Houten
P. O. B. 120,
6921 GM Vaals
Beemderlaan 8

Droste
P. O. B. 9
Harmenjansweg 129
2031 WN Haarlem

UNITED KINGDOM

Cadbury, Lt.
P. O. B. 12
Bournville Lane
Bournville, Birmingham
B30 2LU

Bendicks (Mayfair) Ltd.
Moorside Rd.
Winnall, Winchester,
Hants, SO23 7SA

FRANCE

Poulain, S.A.
6, avenue Gambetta
B.P. 727
41007 Blois CEDEX

Lenôtre
40 rue Pierre Curie
Z. I. Hameau des
Gatines
78370 Plaisir

© G. Rancinan/SYGMA

RUNNERS FLOCK ACROSS THE ATLANTIC

NEW YORK CITY MARATHON ATTRACTS MANY EUROPEANS.

RORY WATSON

The New York City marathon occupies a special place in the current running boom and, for that reason alone, participants from all over the world ignore the costs involved and try to enter the Big Apple's annual autumn race. Ask any of this year's 4,500 overseas entrants why they were prepared to invest time and money in pushing their complaining bodies over the 26 mile 385 yard course through the city's five boroughs and you will probably receive as many different answers.

Surprisingly, the event, which has grown from strength to strength since 1970, is not the world's largest. That title rests with London, which after a mere three years boasts a couple of thousand more starters and finishers than New York. But New York blazoned the way. Without its inspiration, it is highly doubtful that London and the hundreds of other popular marathons that now grace the world would ever have gotten off the ground or been so successful. Former British Olympic Gold medalist Christopher Brasher, the mastermind behind London, openly acknowledges his debt to New York. Thousands of other people have become similarly committed at the intoxicating sight of the densely packed runners streaming across the Verrazano Narrows bridge seconds after the start of the race.

The more successful marathons have followed New York's example in taking runners through the scenic and seamier sides of their cities, involving the inhabitants in the event and the participants in the day-to-day lives of their citizens. London has the same formula, with runners spending a large part of the race amid the relative poverty of the East End, where the crowd support is the most genuine, enthusiastic, and encouraging. They then pass the Tower of London—where last year one participant suffering from cramps had his legs massaged by a Beefeater—Buckingham Palace and they finish behind the Houses of Parliament. In West Berlin, the course passes by Checkpoint Charlie, while in Munich participants run the 1972 Olympic course, starting and finishing in the stadium constructed for the games.

New York, however, is unique in any number of ways. Who else would mark the route in patented blue paint, used only once a year, or lay down carpets to protect runners' feet on the metal studded bridges? Few others would delay the start by 15 minutes for the benefits of coast-to-coast television.

Then there are the many hundreds of minute details which have to be taken care of, if the operation is to run smoothly. These include a last minute survey of the route the day before to check that no roadworks or potholes have suddenly appeared; "No Parking" signs in Yiddish for Brooklyn's Hassidic Jews; aerobics sessions to keep competitors warm before the start; and a run through of the seven different devices that monitor runners' times and enable all 15,000 finishers to read their times and places in the following day's paper.

Unlike other marathons, New York is no one-day wonder. The hustle and bustle of the city obviously helps to pump the adrenalin, but the organizers lay on a vast range of activities ranging from introspective running teach-ins, to pre-race pasta parties and post-marathon discos.

American runners could plan a vacation or business trip to Europe around one of these major marathons:

Rotterdam	April 14
Rome	April 18
Munich	May 6
Amsterdam	May 12
Frankfurt	May 13
Paris	May 12
London	May 13
Geneva	May 27
Stockholm	June 2
Brussels	September
Berlin	September 30
Athens	October 14
Dublin	October 29

© Andy Levin/Black Star

From 5th Avenue to the Bronx, New York marathoners see it all on race day.

Certain sports shops, hotels and restaurants offer special discounts for the week and exhibitions of painting and sculpture with running themes are organized.

This all helps to involve New Yorkers themselves in the event. A British friend in love with the city says: "It unites people and for a day or so banishes the normal feeling of apprehension and suspicion between strangers. Because they have something in common, people are not afraid to talk to each other." This prompts unexpected acts of generosity, making the marathon all the more memorable, particularly when experienced during one of the toughest parts of the day: getting home after the race when no cab or bus is to be seen. One British friend, hearing English accents, begged the occupants of the car for a lift and was promptly driven home by the British consul to New York. Another hailed a cab already occupied. The passenger promptly got out and yielded her place.

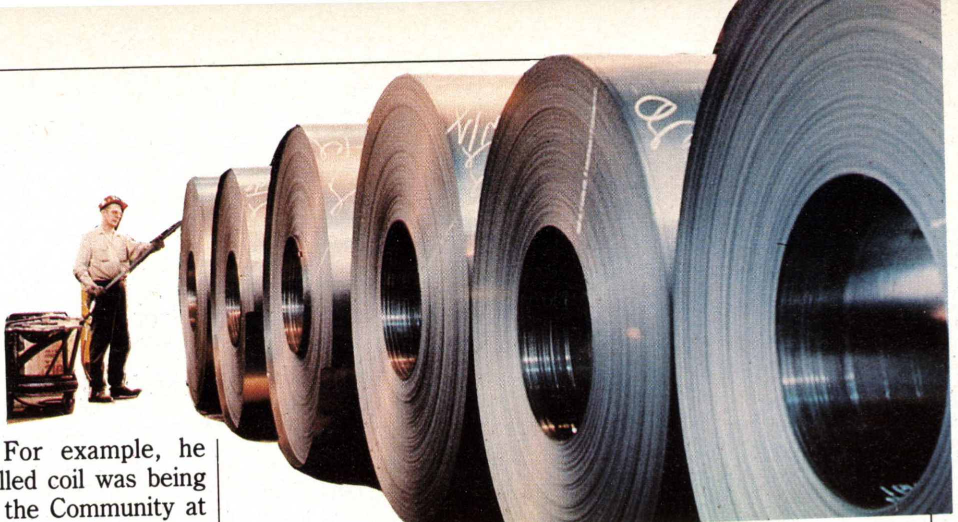
The crowds are supportive, yelling encouragement in whatever tone or language is considered the most appropriate and effective. But Londoners appear to be more musical, with a wider range of bands lining the routes and broader repertoire of songs, ranging from "It's a long way to Tipperary" to Harry Lauder's "Keep right on to the end of the road." Londoners are also more prepared to inject color and fantasy into the event. Last year, the British capital saw running through its streets a father and son team disguised as a horse and jockey, two "convicts" handcuffed and weighed down by a ball and chain, Gurkhas in full uniform running in step, and a clarinetist playing a medley at frequent intervals.

These, however, are minor observations which cannot detract from the sheer scale of New York that last year attracted participants from every American state and 68 countries. The United Kingdom, with 911 runners, provided the largest contingent, while 872 runners came from France. They also came from every other European Community country: Belgium (39), Denmark (48), Greece (3), Ireland (116), Italy (104), Luxembourg (18), the Netherlands (232), and the Federal Republic of Germany (337). Among the Belgians were nine runners from the French speaking town of Charleroi, an area badly hit by the economic recession and the collapse of the steel industry. They hoped their presence would bring some much needed publicity to the changes now taking place in the town.

The very international nature of the New York marathon is marked by the symbolic run for overseas participants from the United Nations headquarters to the Tavern on the Green in Central Park, where free breakfast awaits everyone the day before the big event. As marathons enjoy growing success in Europe and increasingly become a fact of life for many of the Continent's citizens, perhaps more Americans will be tempted to add a European experience to their list of running achievements. €

Rory Watson is the European correspondent of the daily newspaper *The Scotsman.* He completed the marathon in 2 hours and 56 minutes, finishing 1,288th out of 15,000 runners.

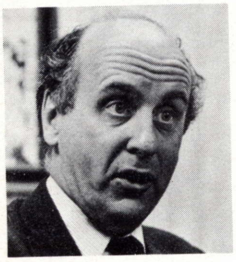
NEWS OF THE E.C.



E.C. COMMISSION ACTS ON STEEL PRICES

The E.C. Commission has announced plans to introduce mandatory minimum prices for key steel products in an effort to halt steep price declines that are threatening E.C. efforts to restructure the European steel industry. In addition to the mandatory minimum prices for so-called flat steel products, which the Commission hopes to implement before the start of 1984, the Commission also proposed a system of guarantees to ensure that minimum prices and production quotas are respected.

The new measures were announced by E.C. Commission Vice President Etienne Davignon, who is responsible for industry. He told the press that



Commission Vice President Etienne Davignon.

the deterioration in steel prices that had taken place in the second half of 1983 appeared to be part of a vicious cycle. He said the price declines had tempted E.C. steelmakers to compensate for shrinking profit margins by producing more steel, thus putting further downward pressure on prices.

Several important steel products were trading in the E.C. at prices well below the guide price levels agreed upon last year by the E.C.'s Council of Ministers, according to Davignon. For example, he said, hot-rolled coil was being sold within the Community at about $238 per ton, about $85 less than the guide price for that product.

The new system of steel price controls sought by the Commission would require steelmakers to post a security deposit of about $38 per ton against their steel sales within the E.C. Each steel maker would pay the guarantee bond to the E.C. member state where its steel was produced. The bond would be returned if the steelmaker complied with production quotas and minimum price requirements. However, a portion of the guarantee bond could be frozen at the Commission's request if the steelmaker appeared to have violated those requirements.

Although the E.C. Commission has sufficient authority to establish minimum steel prices, its proposal to require guarantee bonds would need the approval of the Council of Ministers. The Commission also called on the Council to act as quickly as possible to extend E.C. steel production quotas into 1985. The E.C. has been using production quotas since 1980 as a means of sharing the burden of job losses and plant closures resulting from E.C. efforts to cut surplus steel production capacity and return the European steel industry to profitability.

U.S.-E.C. SPECIALTY STEEL TALKS EXTENDED

The E.C. Council of Ministers agreed on November 29 to extend until January 14 the deadline for reaching agreement with the United States on a formula whereby the E.C. would receive compensation for U.S. restrictions on imports of specialty steel products. However, the Council also agreed to an undisclosed list of actions the E.C. would take against U.S. products should the compensation negotiations fail to reach a satisfactory conclusion before the new deadline.

The E.C. has been seeking compensation from the United States under the terms of the General Agreement on Tariffs and Trade (GATT) for the specialty steel sales to the United States it says it will lose as a result of the American import restrictions. Those restrictions take the form of increases in import tariffs and new import quotas on a variety of specialty steel products. The restrictions, introduced in July, are designed to afford the U.S. domestic steel industry four years of protection from competition from foreign specialty steel manufacturers.

The compensation negotiations were to have ended in November, but were extended after the E.C. Commission confirmed receiving a new compensation offer from American negotiators just before the talks were to have expired. In a statement issued after its decision to extend the talks into January, the Council of Ministers noted that there had been progress in the negotiations, but that the U.S. compensation offer needed "real improvements and clarifications."

Under GATT rules, the E.C. has a right to be compensated for the trade losses caused by the U.S. import curbs or to pursue retaliatory actions against U.S. exports to the Community. Retaliatory measures taken under GATT rules often involve raising import tariffs on selected products. The United States has agreed in principle that the E.C. should be compensated for the American import curbs, but has failed to agree with the E.C. on the amount of compensation to which the Community should be entitled.

SPAIN'S E.C. ENTRY TAKES A STEP FORWARD

Spain's membership in the European Community came a step closer to reality in October as the E.C.'s present member states reached a long-sought agreement on how to modify E.C. price-support programs for Mediterranean products such as fruits, vegetables, and olive oil to prepare for Spain's entry into the Community. The breakthrough agreement, concluded by E.C. Agriculture Ministers at a meeting in Luxembourg, could mark a turning point in the lengthy and arduous accession negotiations that began in July 1977 with Spain's formal application to join the Community.

The E.C.'s present members have repeatedly expressed their desire to welcome both Spain and neighboring Portugal into the Community for political reasons. However, their enthusiasm for Spanish and Portuguese accession has been somewhat muted by practical considerations, such as the projected drain on the E.C.'s already hard-pressed Common Agricultural Policy from Spain and Portugal's membership. France, in particular, had insisted that a lengthy transition period be provided for Europe to absorb the citrus fruit, vegetables, wine, and olive oil that account for nearly one-third of Spain's agricultural output and 74 percent of its farm exports. Spain and Portugal's entry into the E.C. will increase the Common Market's production of vegetables by 25 percent, of fruit by 48 percent, and of olive oil by 59 percent.

E.C. farm ministers hope the new set of agreements on Mediterranean products will enable them eventually to incorporate Spanish and Portuguese farmers into E.C. farm programs without bankrupting fruit, vegetable, and olive growers in the present 10-nation Community or creating massive surpluses of these products. At present, Spanish and Portuguese producers generally receive less for these products than the Community's farmers do. The framework agreement on agriculture will enable the E.C. to start serious negotiations with Spain and Portugal on the agricultural aspects of their projected E.C. membership. Although both Spain and Portugal produce significant quantities of Mediterranean products, agriculture has more economic significance for Spain than for Portugal.

EUROPEAN PARLIAMENT CALLS FOR ARMS EXPORT CONTROLS

The European Parliament recently called on E.C. member countries to put controls on arm sales in an effort to prevent European-made weapons from being used for political repression or to fuel regional instability in already tense corners of the globe. The Parliament's resolution was based on a report drawn up on behalf of the assembly's Political Affairs

Committee by British Conservative member Adam Fergusson.

The report warned of the dangers of national arms sales policies that permit weapons to be sold to Third World countries and others without regard to the broader political repercussions of such sales. The report said the result of divergent arm sales policies among E.C. member states was most notable in areas of endemic tension such as the Middle East, the Persian Gulf, Southern Africa, and Central America. "In these sectors, antagonists may frequently be found to have arms supplied by different [E.C.] member states; while, on occasion, one member state may be discovered to have supplied both sides," the report said.

The arm sales issue has created continuing controversy in Europe. France, Italy, the United Kingdom, and the Federal Republic of Germany are respectively the third, fourth, fifth, and sixth largest arms exporters in the world. The largest exporters are the United States and the Soviet Union.

An estimated 76.5 percent of French and Italian arms exports, 81.7 percent of British exports, and 37.6 percent of German exports go to developing countries. Nearly half of all Third World arms imports are destined for the Middle East, 17 percent for the Far East, 9.2 percent for North Africa, 9 percent each for southern Africa and South America, and 6.4 percent for southern Asia.

The Parliament's report cited the 1982 Falkland Islands war between the United Kingdom and Argentina as an example, with Argentina being armed by at least six E.C. member states. The Argentine forces inflicted losses on the British with a variety of European-made arms including aircraft and helicopters from France, Italy, and the United Kingdom, missiles from France and Britain, two submarines from the Federal Republic of Germany, two destroyers from the United Kingdom, and an aircraft carrier from the Netherlands. These were in addition to weapons manufactured in the United States, Switzerland, and Israel, the report said.

The report rejected claims that a reduction in arms sales to the Third World would cost an unacceptable number of European jobs. The armaments industry represents only 2.72 percent of manufacturing jobs in France, 2.26 percent in the United Kingdom, 1.33 percent in Italy, and 0.43 percent in the Federal Republic of Germany, it said.

E.C. SURVEY UNCOVERS PROBLEMS AND VALUES OF YOUNG EUROPEANS

Aged 15 to 24, they are most at ease with their own age group and they are not in a hurry to leave home. Mostly optimistic, they would prefer to be happy than to have more. Their biggest problem? Unemployment. So say the results of the E.C. Commission's recent study of "Young Europeans." The survey, which has just been published, is a mine of information about the 41 million young people currently living in the E.C. countries. At 15, nine out of 10 young Europeans are still at school. At 24

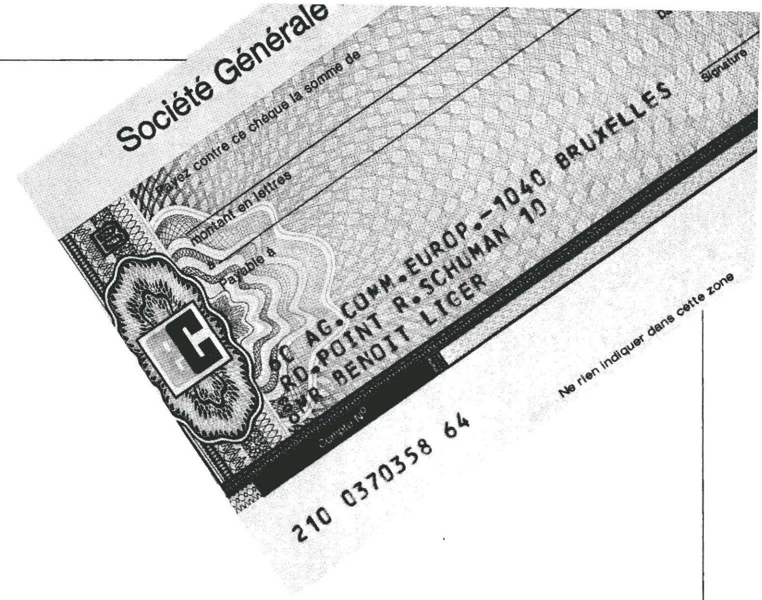
they are almost all either working or looking for a job. The study looks at the transition from adolescence to adult life. Apparently it's a relatively painless process.

People around them are an important factor. Eighty-six percent of the 3,867 young people questioned said that their friends were important. Seventy-eight percent of them also got on well with their parents. Parent-child relationships were best in the Netherlands and worst in the Federal Republic of Germany. If the generation gap still exists, it didn't show up much in the survey. Seventy percent of young Europeans still live with their parents. Boys tend to leave home later than girls. In the 23-24 age group, 42 percent of boys and only 21 percent of girls still lived at home.

Fifteen to sixteen year-olds remain the most discreet about their love life. Everybody agrees that it's very important. The most sentimentally satisfied are the Belgians. The most frustrated are young people in Italy and Ireland. With age, interests change. Younger adolescents are more concerned with family life. By the age of 23, they're more interested in their love life and their jobs. In material terms, 78 percent of young people questioned thought that they had "enough to get by." Sixteen percent said that they found it difficult toward the end of the month and could only afford the basic necessities.

As far as job prospects are concerned, the degree of optimism is inversely proportional to the level of unemployment in the country concerned. In Italy, where there is 17 percent unemployment, 23 percent of those questioned were pessimistic about their chances of finding a job. Last year a Eurostat survey showed that nearly 4 million young people were unemployed in nine of the 10 E.C. countries (excluding Greece).

Nearly 30 percent of them had been without a job for over a year. Forty-six percent got financial help from their parents, 46 percent got unemployment benefits, and 13 percent were in the underground economy. They gave two main reasons for being unemployed. Forty-five percent of them said that there were no jobs available in their area and that they could not move. Others said that there were no jobs available that corresponded with their training. Unemployment in the 15-24 age group is currently running at over 11 percent and for most young Europeans is "a very real risk," according to the survey.



EUROCHECKING GETS NOD FROM E.C. COMMISSION

The E.C. Commission recently announced plans to waive antitrust rules to permit E.C. banks to continue applying a single set of terms for clearing international currency transactions made through the "Eurocheque" system. Eurocheque is an international payment system set up in 1968 by European financial institutions. Its members include banks and other credit institutions in some 40 European and Mediterranean countries, including the 10 member states of the European Community.

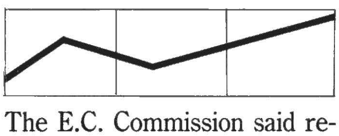
"Active" member banks in the system issue the so-called Eurocheques. These checks, which look much like regular bank checks, may be cashed by bank customers at any of the system's member banks. They also are often accepted as payment for hotel and restaurant bills and for purchases at shops and gas stations. Eurocheque customers are issued plastic "guarantee cards" which assure merchants and others who accept Eurocheques that the check will be honored by the bank it is drawn on.

The centralized clearing system set up to process Eurocheques used in international transactions allows a Eurocheque customer to write checks denominated in a foreign currency and to have his checking account debited for the transactions in his own national currency. That clearing system required a special approval from the E.C. Commission because it was based on agreements between Eurocheque member banks that otherwise would have violated E.C. rules designed to prevent collusion and other types of restrictive commercial practices. The Commission, in late October, announced it would exempt the Eurocheque system from these antitrust rules, but said it would propose requiring institutions that issue Eurocheques to provide customers with detailed information on the cost of using these checks abroad.

The interbank agreement on the international use of Eurocheques, which came into force in May 1981, is generally considered a boon for European tourists and business travelers. Under the agreement, a British tourist traveling in the Federal Republic of Germany, for example, can use a Eurocheque to pay his hotel bill in Deutsche marks. The check writer's account in the United Kingdom is subsequently debited by an amount reflecting the exchange rate between the mark and sterling, plus a commission of at least 1.25 percent on the amount of the transaction.

While the 1.25 percent commission goes to the foreign bank that cashes the Eurocheque, in some countries the customer may also be charged a supplementary commission to cover the processing costs for the bank that clears the check. The primary advantage of the international use of Eurochequing is convenience to the check writer. Within the E.C., the rate of commission charged by Eurocheque clearing centers ranges from 1.25 percent in Luxembourg and the Netherlands to 2.25 percent in Belgium. There is no such clearing charge in some participating countries.

E.C. COMMISSION SEES MODEST ECONOMIC GROWTH FOR 1984



The E.C. Commission said recently it expects a modest increase in economic growth in the Community this year, but indicated that the limited growth prospects would not halt the rise in unemployment. In its annual economic report, released in late October, the Commission said the E.C.'s economy would grow by an average of 1.5 percent in 1984, up from the feeble 0.5 percent growth rate the Community is expected to have registered in 1983.

At the same time, the report said the E.C.'s member states will share unevenly in the slow and fragile economic recovery. Projected changes in the size of gross domestic product (GDP) among E.C. member states in 1984 range from a 1-percent drop in Luxembourg to 2.2-percent growth in the United Kingdom. These growth rates compare to expected GDP gains in 1984 of 4.3 percent for the United States and 3.6 percent in Japan. GDP in the United States and Japan increased by 3.5 percent and 2.8 percent, respectively, in 1983.

Unemployment is expected to continue its advance next year in the E.C., reaching an average of 10.9 percent of the work force, compared with last year's rate of 10.4 percent and with 7.8 percent in 1981. Although this represents somewhat of an improvement from the Commission's previous 1984 unemployment forecast, the Commission attributed most of the improvement to government-sponsored job training programs that will only temporarily remove some young people from the job market.

The Commission projected a somewhat rosier picture for inflation in 1984. The E.C.'s average inflation rate will fall further to about 5.1 percent in 1984, compared with 5.8 percent last year. This compares with anticipated 1984 inflation averages of 5.0 percent in the United States and 1.7 percent in Japan.

Although economic growth in the 10-nation E.C. will be weak in 1984, the growth should be spread out more broadly across various sectors of the economy, the Commission said. While the rate of growth in private consumption in the E.C. is expected to remain weak, real investment should rise by over 2 percent this year with investment in construction and equipment growing by a larger amount.

The Commission said that the main risks to its fall economic forecasts were on the upward side as the Community recovers from recession. The latest Community business surveys have pointed to a renewed rise in industrial confidence, as well as in the confidence in the economy among consumers. However, the Commission warned that such factors as the recovery in world trade, high interest rates, and the debt problems facing third world countries could still jeopardize the E.C.'s economic performance.

E.C., ANDEAN PACT SIGN COOPERATION AGREEMENT

Representatives of the E.C. and the Andean Pact recently concluded three years of negotiations with the unveiling of a cooperation agreement designed to promote closer trade and economic ties between the E.C. and Andean Pact countries. The Andean Pact is an association of five countries—Bolivia, Colombia, Ecuador, Peru and Venezuela—who have agreed to encourage regional economic development in Latin America by merging their economies. The new E.C.-Andean Pact agreement will provide a framework for industrial, scientific and technical cooperation between the two parties. The five-year accord, the first of its kind between the E.C. and a Latin American economic group, creates a joint committee to explore opportunities for economic cooperation between the E.C. and the Andean Pact.

Under the new agreement, the E.C. and the Andean Pact nations have agreed to accord each other most-favored-nation status and to diversify their trade. The Andean Pact's trade with the E.C. has mushroomed over the past several years. Community imports from the five rose from a little over $2 billion in 1976 to $4.85 billion in 1982. The principal beneficiary of this growth in trade was Venezuela, whose main export to the E.C. is oil. Colombia and Ecuador mainly export coffee to the E.C., while Peru exports coffee, lead and zinc and Bolivia exports tin, lead and zinc. The Community's exports to the Andean Pact countries grew at a somewhat slower pace than their exports to the E.C. Community exports to the five Andean countries were valued at $2.2 billion in 1976, but had risen to $4.3 billion by 1982. The Community had a trade surplus with the Andean Pact countries in 1979, since which time it has had a deficit.

Contacts between the five Andean Pact countries and the E.C. Commission began in 1970, the year the agreement creating the Andean group was signed. In July 1979, then President of Colombia, Julio Cesar Turbay Ayala, visiting the Commission as a spokesman for the Andean group, proposed that the two sides conclude a cooperation agreement. In February 1980 the Commission proposed the opening of formal negotiations toward such an agreement to the E.C. Council of Ministers. The negotiations began that year, but were halted twice. The first interruption came as a result of a coup d'état in Bolivia. The negotiations were interrupted a second time in the wake of the Falkland Islands war.

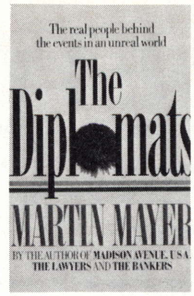
E.C. TO PROVIDE GRANT FOR BEIRUT WATER SUPPLY

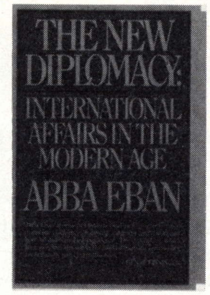
The E.C. has signed an agreement with Lebanon to provide a $17-million reconstruction aid grant to Beirut for a project designed to increase the war-torn city's water supply. The agreement was signed in Brussels by E.C. Commissioner Edgard Pisani, who is responsible for development, and Samir El Khoury, the Lebanese Ambassador to the European Community.

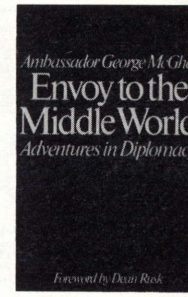
The aim of the project is to pump and pipe water from wells in the regions of Damour, Naameh, and Mechref up the Lebanese coast to Beirut. The Community grant will be used to finance equipment, construction of pumping stations and reservoirs, and the laying of pipe.

At the signing ceremony, Pisani stressed the political significance of the Community's decision to co-finance the project. Pisani said that decision demonstrated not only Europe's confidence in Lebanon's ability to carry out the project, but also Europe's support for the Lebanese Government itself. The idea for the project was first discussed less than a year ago when Pisani visited Lebanon for talks with Lebanese officials about reconstruction aid. The Community approved the project in addition to aid it had already given or promised to give Lebanon under the financial protocols of an E.C.-Lebanon cooperation agreement and in addition to the emergency and food aid given to Lebanon since the outbreak of the Lebanese civil war. €

BOOKS IN REVIEW







The Diplomats, by Martin Mayer, Doubleday, 417 pages, $17.95.
The New Diplomacy: International Affairs in the Modern Age, by Abba Eban, Random House, 427 pages, $19.95.
Envoy to the Middle World, by George McGhee, Harper & Row, 457 pages, $26.00.

MICHAEL D. MOSETTIG

Sometimes, authors, and publishers are lucky. At a moment when diplomacy appears to be functioning precariously, if at all—at the Geneva arms talks, in Lebanon, and in the Caribbean and Central America—three books appear, shedding light on a subject often shrouded in either myth or deliberate obfuscation.

In its own way, each of these books illuminates the time warp in which modern diplomacy tries to operate. In an era of instantaneous communications, diplomacy continues with many of the forms and procedures adopted at the end of the Napoleonic wars. In an increasingly specialized world, many of its practitioners remain generalists or amateurs, an enduring elite at a moment when that word is frequently employed as an epithet. Diplomacy is a reflection and exercise of power in an age when military power can be suicidally dangerous to use and when economic power is spread more widely than ever before.

Abba Eban, the former Foreign Minister of Israel, deals with the grand sweep of history and themes. In a heftier form, his work is a modern sequel to Harold Nicholson's classic, *Diplomacy.* Martin Mayer, a New York author, provides a more functional approach and a minutely detailed guide to the operations of the U.S. State Department and some other foreign offices and international organizations. George McGhee, a former Assistant Secretary of State and Ambassador, offers a memoir. Aside from the minutiae of day-to-day events, it gives an insider's look at a moment (the late 1940s) when the United States was inheriting and assuming its global role.

In previous books, Mayer has chronicled such institutions as Wall Street and American schools. In contrast to the diplomacy of the Western world, they are more self-contained topics. His book probably will be required reading for incoming Foreign Service officers; for nonspecialists the detail may prove overwhelming. But within it are some nuggets, especially the study of the development of the Foreign Agricultural Service. The inspired work of a few farm boys 20 years ago promoting agricultural exports now stands as the major barrier to a complete balance-of-trade disaster for the United States.

Mayer is an enthusiast of the European experiment and sees it as a model for other democracies to coordinate their policies with the Communist world and the developing world. Unfortunately, his portrayal of the E.C. must have made his editor a little drowzy. On page 288, he notes that "lots of countries have excellent reasons to keep a careful eye on the Community and seek to influence its actions" and proceeds to an explanation of the E.C.'s Lomé trade and aid agreements with developing countries. The next paragraph begins, "Just about everybody has ambassadors in Brussels."

Running through Mayer's book is a respect for the craft of diplomacy and the professionalism of its practitioners. And like most of the professionals, Mayer believes diplomacy would be better left in their hands. This includes the predictable recommendations of expanding the Secretary of State's authority and diminishing that of the National Security Adviser.

Unfortunately, Mayer does not go further to address a question raised by former Assistant to the President for National Security Affairs Zbigniew Brzezinski, among others: In an era of jet aircraft and instant communications, is the vast apparatus of diplomatic representation still necessary? In fact, he barely mentions one of the most dramatic developments in modern diplomacy—how the growth of international television technology, such as satellites, has turned many crises and summits into media events. As a result, public relations becomes an ever larger component of diplomacy.

Mayer does discuss other developments that have dramatically changed the role of the Foreign Service officer. Modern communications diminish negotiating latitude. Reports home get lost in growing mountains of paperwork. The women's movement and inflation have turned the role of the diplomatic wife into an anomaly, if not an anachronism. All this, along with terrorism, has made the overseas life far less than glamorous. Foreign Service officers are spending longer stretches of their careers in Washington than abroad. Perhaps the next commission that studies the State Department will recommend changing the Foreign Service in a way that reflects these developments.

As Israel's ambassador to the United States and to the United Nations, and as Foreign Minister, Abba Eban was the first foreign diplomat to become a household word to American television viewers. In the opposition since 1977, Eban has been turning out volumes of memoirs and histories and now this primer on modern diplomacy.

Eban concentrates more on grand themes than mechanics, but still manages more effectively than Mayer to get to the heart of changes that technology has forced on diplomacy. Perhaps because he is an elected official (a member of the Israeli parliament) as well as a diplomat, he accepts rather than deplores the role of the press and news media in modern diplomacy. He also sees some usefulness in that development most lamented by professionals—the summit conference. In contrast to most of his former colleagues in foreign offices around the world, Eban thinks summit conferences are often useful.

While accepting modern developments in diplomacy, Eban makes a strong plea for retaining the professional overseas, asserting that there is no substitute "for the exercise of trained professional minds, accustomed to the alleviation of international conflicts and afflicted with a 'dangerous' tendency to understand the reactions and attitudes of foreign nations."

A common theme running through Eban's and McGhee's books is the re-

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CITY ____________ STATE ________ ZIP ________ placement of European hegemony in the Middle East with nationalism and superpower rivalries.

Eban's comments about the evolution of present-day Europe and the E.C. are surprisingly sympathetic, especially to anyone who heard his scathing comments about European policies during the 1973 war and again during the E.C.'s 1980 Venice initiative on the Middle East. He does criticize the "strange narrowness of spirit" in the churlish European response to the Camp David accords. He also notes that the European nations that promised to "guarantee" a Middle Eastern peace in their Venice declaration probably had fewer aircraft and tanks than the countries they were vowing to protect.

Eban's comments about Europe today bear no rancor, quite the contrary. He suggests Western Europe would have a less tortured relationship with the United States if it aimed at two security goals—more independence and more reliance on conventional defense. "The neglect of European conventional preparedness is one of the psychological mysteries of the postwar age," he writes. Deploring current nihilistic and anti-establishment trends of European youth, he concludes Europe "is in dire need of an elevating adventure." On a working level, if not on a political plane, Europe is closer to the goals of integration than its leaders or citizens realize.

Eban chronicles the emergence of the modern Middle East not as the conflict between Israel and its Arab neighbors but as the emergence of nearly all of them from European control. McGhee's memoir picks up at this point, coincident with his appointment in 1949 as Assistant Secretary of State for Near Eastern, South Asian, and African Affairs. His domain extended from Senegal and Morocco in the west to India and Pakistan in the east, from Iran and the Mediterranean on the north to Ethiopia and Somalia on the south. This area, with the assistance of an imaginative cartographer, becomes McGhee's Middle World.

McGhee, an independent oil man, followed fellow Texan Will Clayton into the State Department in 1948. They were part of a group assembled by Dean Acheson, and their talents found a calling in the emergence of the United States as the post-war superpower. McGhee became Assistant Secretary in 1949 and served for two years in that post until he was named Ambassador to Turkey. His term as Assistant Secretary included many stirrings in the Middle East and Africa, but followed the 1948 war and preceded such explosions as the 1953 CIA coup to restore the Shah in Iran.

This book suffers some of the perils of the diplomatic memoir, a literary genre that would be much improved in its modern form by deleting all references to airport arrivals. More of a historical context and fewer of the comings and goings, meetings, and dinners would have provided a feeling of the zest that accompanied the growing American role in that part of the world.

Despite the sometimes narrow scope, two themes—almost poignant—do emerge. One is the British retreat, whether from the Indian subcontinent, the Middle East, or Africa. The other is the continuity of problems and disputes. The chapter headings could have come from the late 1970s as easily as from the late 1940s—Middle East refugees, India-Pakistan, Middle East oil, South African apartheid, African statehood, Afghanistan, and Iran. This book should be installed permanently on a State Department reference shelf, handily available for the "transition team" of the next new Administration, which inevitably will believe that all its foreign policy problems are solely the result of the mistakes of the outgoing Administration.

The words of this seasoned diplomat—he served also in the State Department under President John Kennedy and as Ambassador to the Federal Republic of Germany—provide other cautionary tales, especially set against the optimism of the Truman Doctrine era. While basically defending the policy of shoring up the Middle World against Communist penetration, McGhee acknowledges that the Americans were overly optimistic about drawing those countries into closer diplomatic cooperation or to emulation of American society and governmental forms. When McGhee was in office, the assumption was that power in the Middle World was flowing from the British and French to the Americans. This book is a humble acknowledgment that no matter how dominant American influence appeared then, U.S. power never quite matched its appearance.

McGhee says the fate of the Middle World is beyond the ability of the United States to control. But the instincts of his era in Government do return despite such disclaimers. His hopes for the future of the Middle World rest in major new efforts at economic development, with much more American aid than is being provided now. Finally, he calls for a "free world community," a concept that appears, unfortunately, with little elaboration in the next-to-last paragraph of the book. €

Michael D. Mosettig is a producer on the *MacNeil-Lehrer NewsHour.*

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An assessment study whose purpose is to provide a context for the whole range of R&D activities in the field of solar heating and cooling being carried out in Europe.

Plants as Solar Collectors: Optimizing Productivity for Energy. *Solar Energy R&D in the European Community: Series E, Vol. 4. EUR 8575.* Edited by J. Coombs et al. D. Reidel Publishing Co., Boston, 1983. 210 pp. $32.50.

A study assessing the problems associated with the production of plants for biofuels.

Mathematical and Statistical Methods in Nuclear Safeguards. *EUR 8332.* Edited by F. Argentesi et al. Harwood Academic Publishers, New York, 1983. 446 pp. $87.50.

Lectures from a course held at the Joint Research Center, Ispra, Italy. November 30-December 4, 1981.

Environmental Effects of Organic and Inorganic Contaminants in Sewage Sludge. *EUR 8022.* Edited by R. D. David et al. D. Reidel Publishing Co., Boston, 1983. 257 pp. $36.95.

Proceedings of a workshop held at the Water Research Center, Stevenage, U.K., May 25-26, 1982.

Energy Conservation in Buildings—Heating, Ventilation and Insulation. *EUR 8463.* Edited by H. Ehringer et al. D. Reidel Publishing Co., Boston, 1983. 494 pp. $63.00.

Proceedings of the contractors' meetings held in Brussels on December 14-15, 1981, May 6-7, September 24, 28, and 30, and October 21, 1982.

Photochemical, Photoelectrical and Photobiological Processes. *Solar Energy R&D in the European Community: Series D., Vol. 2. EUR 8474.* Edited by D. O. Hall, W. Palz, and D. Pirrwitz. D. Reidel Publishing Co., Boston, 1983. 494 pp. $63.00.

Proceedings of the E.C. contractors' meeting held in Brussels, December 6-8, 1982.

National Energy Planning and Management in Developing Countries. *EUR 8498.* Edited by H. Neu and D. Bain. D. Reidel Publishing Co., Boston, 1983. 442 pp. $61.00.

Lectures delivered at a management training seminar held at the Joint Research Center, Ispra, Italy, May 3-14, 1982.

Fruit Flies of Economic Importance. *EUR 8364.* Edited by Ralph Cavalloro. A. A. Balkema Publishers, Rotterdam, 1983. 642 pp.

Proceedings of the CEC/IOBC International Symposium, Athens, Greece, November 16-19, 1982.

Agriculture: The Triumph and the Shame. By Richard Body. Maurice Temple Smith Ltd., London, 1982. 139 pp. $5.25

A case study of British agriculture. Evaluates the cost to both British consumers and the developing world of government policies that divert resources such as land and capital to agriculture and away from other industries. Explores free trade as an alternative to the E.C.'s Common Agricultural Policy.

EURATOM: L'approvisionnement en Question. Editions de l'Université de Bruxelles, Brussels, 1982. 86 pp. 295 BF.

A collection of papers from a colloquium held by the Institut d'Etudes Européennes on June 21, 1980. Focused on various issues dealing with the supply of nuclear fuels to the E.C. under the Euratom treaty of 1958.

Political Geography of Community Europe. By Geoffrey Parker. Butterworth Publishers, Woburn, MA, 1983. 141 pp. $34.95.

An examination of the political geography of the European Community, this book traces both the territorial and political expansion of the E.C. from its inception in the 1950s to the present. Analyzes both the E.C.'s internal geopolitical structure and its role as a geopolitical entity in the international arena. Includes tables and maps.

The Arab Policy of the E.E.C. By Colette Cova, Bureau d'Informations Européennes S.P.R.L., Brussels, 1983. 167 pp.

An extensive analysis of the relationship between the E.C. and the Arab world. Gives a historical overview of E.C.-Arab relations, discusses changes in relations after the oil crisis, and assesses the effects that the proposed second enlargement will have on E.C.-Arab ties.

Exchange Rate Regimes and Policy Interdependence. Edited A. W. Hooke. International Monetary Fund, Washington, D.C., 1983. 222 pp. $12.00.

The proceedings of the National Bureau of Economic Research/International Monetary Fund conference held on August 31, 1982. The conference focused on the role played by exchange rates in the world economy and what policies governments can and should adopt to influence them.

A Conversation with Jacques de Larosière: On the Current Fiscal Disequilibrium. American Enterprise Institute for Public Policy Research, Washington, D.C., 1983. 26 pp. $2.95.

Publication of an address given by Jacques de Larosière, managing director of the International Monetary Fund, to the American Enterprise Institute on March 16, 1982. Topics featured are factors leading to current fiscal disequilibrium, consequences of high fiscal deficits, and potential corrective actions.

Comparative Women's Rights and Political Participation in Europe. By Gisbert H. Flanz. Transnational Publishers, Dobbs Ferry, 1983. 542 pp. $45.00.

A study of the evolution of the status of women in 34 European countries. Looks at developments in women's rights and movements during three periods in history, namely, pre-World War I, 1918-1945, and Post-World War II. Also addresses the role of international organizations in the advancement of women's rights and includes an appendix of legislation enacted by both these organizations and many European countries.

The Unionization of Professional and Managerial Staff in Western Europe. By the European Trade Union Institute, Brussels, 1982. 152 pp.

A review of the trade union organization of professional and managerial staff in seven E.C. countries and Sweden. Country profiles include discussions of developments and problems of professional and managerial staff unionization, trade-union structures, and issues on which trade-union activity has concentrated.

Migrant Workers and Civil Liberties. EUI Working Paper, No. 45. By Alexis Pauly and René Diederich. European University Institute, Florence, Italy, 1983. 102 pp.

A comparative study of the legal responses of West European countries to the status problem of alien workers. Addresses both individual liberties, particularly the right of residence, and collective civil liberties. Also discusses the influence of international and E.C. law on national legislation pertaining to migrant workers.

Nuclear Power Struggles: Industrial Competition and Proliferation Control. By William Walker and Måns Lönnroth. George Allen & Unwin, London, 1983. 204 pp. $19.95.

An assessment of current economic strains within the nuclear power industry as a threat to international security. Explores the danger of relieving slumps in domestic demand for nuclear power by exporting to regions with little regard for nonproliferation agreements. Discusses policy differences between major nulcear suppliers and implications of the United States' declining influence in nuclear energy markets.

Fonction publique européenne. By Dieter Rogalla. Editions Labor, Brussels, 1983. 351 pp.

A detailed overview of the framework of personnel legislation applicable to civil servants and other agents employed by the E.C. In addition to outlining E.C. personnel laws affecting individuals, the study also examines the E.C.'s institutional composition, the rights of E.C. employees to organize, and prospects for personnel reform within the E.C.

The Export Trading Company Act. Practising Law Institute (PLI), New York, 1983. 408 pp. $35.00.

A collection of papers prepared for use as a course handbook at PLI's program on the Export Trading Company Act, held in January and February of 1983. Includes sections on the role of banks, on tax and antitrust considerations, and on applicable legislation.

The United States and the European Community: New Administrations and Continuing Problems. Edited by Michael Smith. University Association for Contemporary European Studies (UACES), London, 1981. 65 pp. £1.80

A collection of papers presented at a UACES conference held on May 5th and 6th, 1981. Among the issues treated are the need for U.S.-E.C. policy coordination in the face of possible oil embargoes in the future and the Third World as an arena of growing U.S.-E.C. conflict.

Legal Problems of Capital Investment and Secured Lending in the ASEAN countries. Practising Law Institute (PLI), New York, 1983. 256 pp. $35.00.

A series of papers presented at a PLI conference held on February 17th and 18th, 1983. Topics addressed include U.S. government export credit and investment insurance programs, foreign investment and exchange control regulations, secured lending, and lease financing in the ASEAN countries.

ASEAN-EEC Economic Relations. Edited by Narongchai Akrasanee and Hans Christoph Rieger. Gower Publishing Co., Brookfield, VT, 1982. 387 pp. $25.00.

Proceedings from a conference organized by the Institute of Southeast Asian Studies in August, 1981. Presents an overview of E.C.-Association of Southeast Asian Nations (ASEAN) economic relations and explores the potential for increases both in trade between the two regions and in E.C. investment in ASEAN countries.

Government Budgeting and Expenditure Controls: Theory and Practice. By A. Premchand. International Monetary Fund, Washington, D.C., 1983. 530 pp. $18.00.

An analysis of fiscal policies and their implications for budgeting and expenditure controls. Discusses the techniques, procedures, and processes of budgeting and examines the interplay between budgeting's economic and administrative aspects. Assesses developments and recent reforms in budgeting and expenditure controls in both developing and industrialized countries.

IN THE COMMON INTEREST

It is certainly no secret that the severe recession of the past three years has created new tensions in U.S.-European economic relations. Slumping global demand coupled with increasing competition from developing countries has demonstrated to the Western democracies the vulnerability of their economies to changing global market conditions. Even if the current recovery endures, the scars of recession will not heal soon. The interrelated systems of trade and monetary rules that have bolstered the world economy throughout the postwar era are now passing through the most difficult period since the 1930s.

The United States and Europe should focus a great deal more effort on areas of common interest. Such areas of cooperation include liberalization of international trade in services, free trade in high-technology goods, and securing the international financial system. We should cooperate for our mutual economic betterment and not become stuck on a handful of sectorial issues where our interests diverge.

On both sides of the Atlantic, the economic downturn has fostered a strong sense of frustration among policy-makers and the public. Europeans criticize high interest rates in the United States which cause a drain on capital and discourage investment. Americans, on the other hand, voice their displeasure over the E.C.'s Common Agricultural Policy and unfair trade practices, notably export subsidies. The frustrations of each are understandable but as the disputes grow in number and intensity, the voices of reason are drowned out by demands for economic nationalism.

Steelworkers in Liège and Gary, vintners in southern France and California, all are clamoring for import relief. It is difficult, especially when elections are approaching for beleaguered Governments to resist the temptation of taking aim at their foreign trading partners. As a long-term student of the American political scene, I am increasingly alarmed over current discussions of trade policy in Washington. These discussions now center on voluntary export quotas, reciprocity, and domestic content. In my own party, candidates for President emphasize their eagerness to get tough with our allies on trade issues. At the same time, the Reagan Administration seems unable to establish fruitful discussions on topics of either trade or foreign policy. Certainly, some corrective measures are needed, but I fear that it has become respectable to be protectionist or neomercantilist. An overall positive strategy has not been developed.

The current disagreements should not make us forget that Europe and the United States have similar economic structures and are faced with similar problems. One of the most pressing is structural adjustment and the dilemma of aging industries that will never again operate at full capability. What will we do with the hundreds of thousands of displaced workers? The rate of structural unemployment has been rising steadily. What will be the long-term social costs? The Common Market already has a mechanism for coordinating cutbacks in declining industries, but has difficulty enforcing them. This set of problems cannot be resolved satisfactorily without extensive cooperation between Europe and the United States.

One area in which the American and European economies still retain strength, vitality, and a dominant global position is the service sector. According to UNCTAD, in 1981, services accounted for 58 percent of gross domestic product in the developing countries. As for service exports, the European Community is the world's largest provider of services and, together with the United States and other West European countries, accounts for more than two-thirds of world exports. Now that the European Community has endorsed a GATT initiative to liberalize trade in services, the door has been opened for cooperation on this critical area. At a time when we are suffering from trade stagnation, we should do all we can to open up trade in services and I hope that significant strides will be made toward this goal at the next GATT ministerial in November, 1984.

An unexplored area for cooperation is trade in high-technology goods. Europe is extremely competitive in the production of various goods incorporating advanced technologies. It should, therefore, provide fertile ground for cooperation. As with the service sector, the United States and Europe have an interest in liberalizing trade in high technology goods so that they can reap the benefits of their economic and technological advantages. Until now, the European Community has refused to commence discussions in this area. At a minimum, the potential for cooperation should be explored through intensive bilateral discussions.

Weaknesses in the international financial system pose an equal threat to the banking systems of Europe and the United States. This is an area already marked by extensive cooperation. However, we should explore the systematic flaws that led to the current predicament, and jointly consider institutional change in multilateral banking institutions and national banking regulations to avert similar crises in the future.

The three areas for cooperation discussed above are merely illustrative. There are numerous other areas in which we should work together. In some instances we have already made important strides, while in others we have not yet found the common ground. Furthermore, as we work more intensively on areas of common interest, we should also expand discussions on topics of recurrent tension.

In sum, the United States and Europe should consciously identify topics for intensive bilateral discussion and cooperation. Each party should designate trade policy experts to work together on these matters. Both management and labor from the private sector should be deeply involved in such deliberations. These issues must be dealt with regularly in addition to receiving attention at the highest levels of government. The drift toward protectionism and economic nationalism can only be stopped by identifying and cooperating on areas of common interest, while we demonstrate progress on issues of disagreement. €

Robert S. Strauss, a partner with Akin, Gump, Strauss, Hauer, & Feld in Washington D.C., was Special Representative for Trade Negotiations from 1977-1979.

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