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COMMON MARKET • COAL AND STEEL COMMUNITY • EURATOM

gold (gōld; *see note below*), *n.* [AS. *gold;* akin to D. *goud,* OS. & G. *gold,* ON. *gull,* Goth. *gulth,* OSlav. *zlato,* Skr. *hiranya* gold, *hari* yellow, and E. YELLOW. Cf. GILD.] **1.** A metallic element of characteristic yellow color, the most precious metal used as a common commercial medium of exchange. Symbol, *Au;* at. no., 79; at. wt., 197.2. It is the most malleable and ductile of all the metals, and very heavy (sp. gr., 19.3). It is quite unalterable by heat, moisture, and most corrosive agents, and therefore well suited for its use in coin and jewelry. Gold is also used in gilding (see GOLD LEAF), in photography (as the chloride), in dentistry, etc. Melting point, 1063° C. (1945° F.). Gold is found combined with tellurium, as in sylvanite, but occurs chiefly in the free state. Native gold contains usually eight to ten per cent of silver, but often much more. See ELECTRUM. Gold is very widely disseminated, but in very small quantity. It usually occurs in quartz veins (gold quartz), in slate and metamorphic rocks, in sheeted zones in igneous rocks, and disseminated in ancient conglomerates (South Africa), or in sand and alluvial soil, resulting from the disintegration of such rocks. It also occurs associated with other metallic substances, as in auriferous pyrites. Alluvial gold is usually separated by washing; auriferous rock is usually ground and treated by amalgamation or cyaniding (see CYANIDE PROCESS). Pure gold is too soft for ordinary use, and is hardened by alloying with silver or copper, the latter giving a characteristic reddish tinge (see CARAT, FINENESS). ***Green gold*** is 14–18-carat gold greenish in color, employing either silver or silver plus cadmium or zinc as the alloying metal. ***White gold*** is usually 18-carat gold with the remainder nickel plus zinc. Gold is the chief legal monetary standard of nations. The fixed value of pure or 24-carat gold, $20.67 per fine troy ounce from 1837 through 1933, was set by legislation, January 31, 1934, at $35 per fine ounce. Market quotations are for metal of standard fineness, i. e., 900 in New York and Paris, and 916.6 in London. Chemically, gold is comparatively inactive. It is not attacked by the common acids singly, but it combines with chlorine and hence is dissolved by aqua regia. It is univalent (*aurous* compounds, as AuCl) and trivalent (*auric* compounds, as $AuCl_3$).

2. The metal as used for money; gold coin; hence, riches; wealth; anything of great value.

3. Gilding, gold thread, gold leaf, etc.; also, fabric embroidered with, or having in it, gold or gold thread. *Obs.*

4. The color of the metal, yellowish red-yellow in hue, of medium saturation and medium brilliance. Cf. COLOR.

5. *Archery.* The gilded or golden bull's-eye of a target; also, a hit of it; as, to make a *gold.*

☞ "It is much to be regretted that the second sound (gōōld) of this word is grown much more frequent than the first (gōld)." *Walker* (1791). Gōōld is the older pron.

CONTENTS

The views expressed by contributors do not necessarily reflect the policies of the European Community.

Can the world's monetary crisis be solved? To a very large extent the answer lies in the hands of the two great economic entities: the United States and the Common Market. The United States by its own admission now stands on the front line in the defense of the dollar. However, the European Community can, and has offered to, help the Americans with their balance-of-payments problems to the extent that it is able to do so.

This issue of the EUROPEAN COMMUNITY focuses on two major facets of the monetary crisis, *Jean Lecerf* discusses current alternatives for world monetary reform, and *Anthony Thomas* summarizes the Community's moves to alleviate the U.S. payment deficit and to preserve the international strength of the dollar. *Johannes Jansen,* in the last of three articles on harmonizing the Community's tax system, examines the Commission's proposals for modernizing the structure of direct taxes in the Community. The first two articles dealt with the proposed Community tax on value added.

In a more salutary vein, E. S. Turner treats Europe's thriving spas.

COVER: A gold crystal and the definition of 'gold' from Webster's New International Dictionary of the English Language, Second Edition, Unabridged, Vol. I, G & C Merriam Company, Springfield, Mass., 1952.

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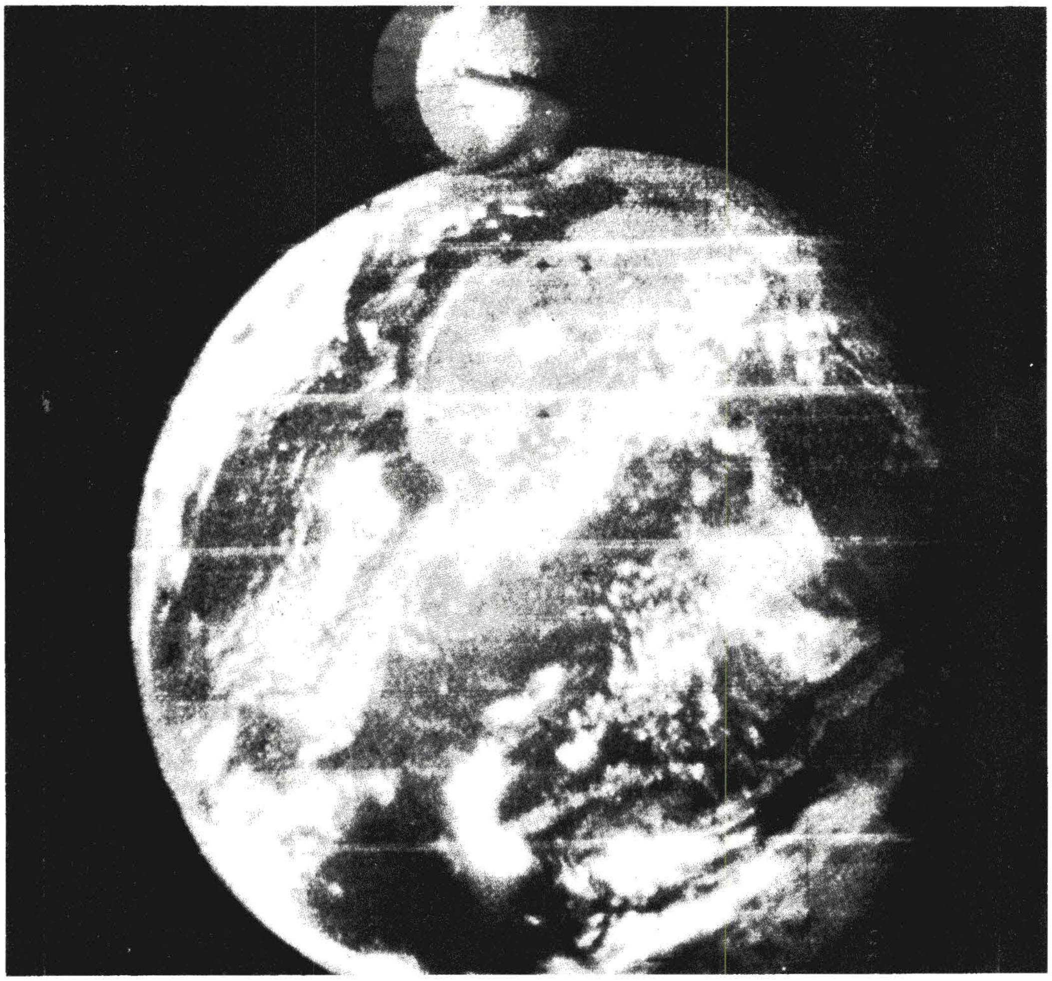


Some problems are too wide even for the United States or the Communities of the Six. PHOTO: *Courtesy of U.S. Department of Defense.*

New Dimensions, New Patterns

PROGRESS AND PROCESS are distinct aspects of the life of the European Communities. Progress is the passage to specific milestone events and accomplishments such as the establishment on July 1 of this year of a customs union by the Six. Process is less readily pin-pointed in time, more imperceptible. It is the emergence and organic growth of new institutional patterns for decision-making. Examples in the life of the Communities have been the gradual shift of responsibility for decisions on agricultural affairs from national governments to the European Commission and the acceptance of common criteria for medium-term economic policy programming.

This issue contains articles and news covering latest progress and process aspects of the Common Market. Both indicate the imperative of finding new institutional frameworks for making decisions on issues which are the common interest of Europe and the United States.

Some people believe that the so-called "Atlantic dialogue" is fading and that each side has become preoccupied with its own problems. Yet the recent Stockholm accord on special drawing rights, the Kennedy Round agreement, and the tariff acceleration offer announced in Geneva in May by retiring General Agreement on Tariff and Trade chief Eric Wyndam-White belie this pessimism. Rather it appears that certain common problems seek a new dimension for their resolution. For the contemporary situation existing in the inseparable fields of trade and commerce and of economic and monetary affairs in the United States and Europe demands a broader framework for decision-making.

Professor Robert Triffin, in writing about today's economic crises, has said:

"The international spread of business cycles demonstrated long before the atomic bomb, the inability of national states to ignore the impact of their nationally "sovereign" decisions upon other states, and to make themselves independent from the sovereign decisions of others. . . . The task that confronts us is not to choose between alternative forums for collective decisions, but rather to delineate the minimum jurisdiction that needs and can be assigned to broader and broader collective groups, and the maximum jurisdiction that may be safely left to similar collectivities, and to the individual himself."*

The process underway in the European Communities is one that could spill over to broader decision-making groups for those problems whose scope and nature are too wide even for the United States or the Communities of the Six.

* Triffin, Robert. "The World Money Maze." Yale University Press, New Haven and London, 1966, page 5.

The Community and the U.S. Payments Deficit

by ANTHONY THOMAS

THE CONDITIONAL ACCELERATION of the Kennedy Round tariff cuts agreed to by the Common Market's Economics Ministers on April 9 in Luxembourg promises to have a favorable impact on the U.S. balance of payments. Although important, the decision will probably contribute less than the effects of the six member countries' general economic policies. Since these policies are expansionary, they should give the United States an opportunity to increase substantially its exports to Europe.

Last year the growth rate of the Community's gross product was only 2.5 per cent, the lowest figure since the Treaty of Rome came into effect. The slowdown was not uniform but was felt in most member states. Germany actually experienced a decline in absolute terms in its gross national product.

This year the member countries are pursuing expansionary policies, and the Commission has estimated that the Community's growth rate may reach 4.5 per cent or slightly more. Some economists feel that in making this forecast the Commission has erred on the side of caution.

The Community economy began to pick up in the middle of last year, aided by various governmental measures in which France and Belgium joined earlier this year. At the beginning of March, the six ministers of finance or economics agreed that the improved trend should be further encouraged in the coming months, according to each country's particular needs, but stressed that stimulation of investment and consumption should be on a selective basis in order to avoid excessive price increases. The ministers also agreed that the international situation required a firm hand on interest rates, even at some cost to the balance of payments. Raymond Barre, Commission member responsible for economic affairs, had earlier specifically suggested that, if necessary, the Community members' reserves should be reduced this year in order to help international trade.

Renewed Trade Deficit Expected

By reflating at a time when the United Kingdom is making great efforts to reap the competitive benefits of devaluation and the United States is introducing corrective measures to reduce its gaping balance of payments deficit, it is expected that the Common Market's visible trade balance will decline substantially from the surplus position of $870 million last year—the first surplus since 1960. Over the two years 1968 and 1969, the increase in imports is expected to total about $2.5 billion. The effect of expansion in the Community on invisible items might be greater still, depending on the efficacy of U.S. measures to limit investment and tourism abroad.

The United States, therefore, clearly has a great opportunity to increase its exports to the expanding Common Market. Whether or not it takes advantage of this depends partly on the response of the Congress to President Johnson's effort to reduce inflationary pressures at home. Even in 1967, a year in which Common Market exports grew substantially while its imports expanded hardly at all, the United States maintained a favorable balance in trade with the Six. The United States sold $5.86 billion worth of goods to the Common Market in 1967 and imported $4.42 billion in return, which gave it a net surplus in trade with the Six of over $1.44 billion.

Mr. Thomas is economic correspondent of The Scotsman, *Edinburgh.*

The devaluation of the pound sterling, the Spanish peseta and the Danish krone and the future of international liquidities, are other factors of uncertainty which make it difficult to put a figure on the potential increase in American exports to the Common Market.

Speeding Tariff Cuts

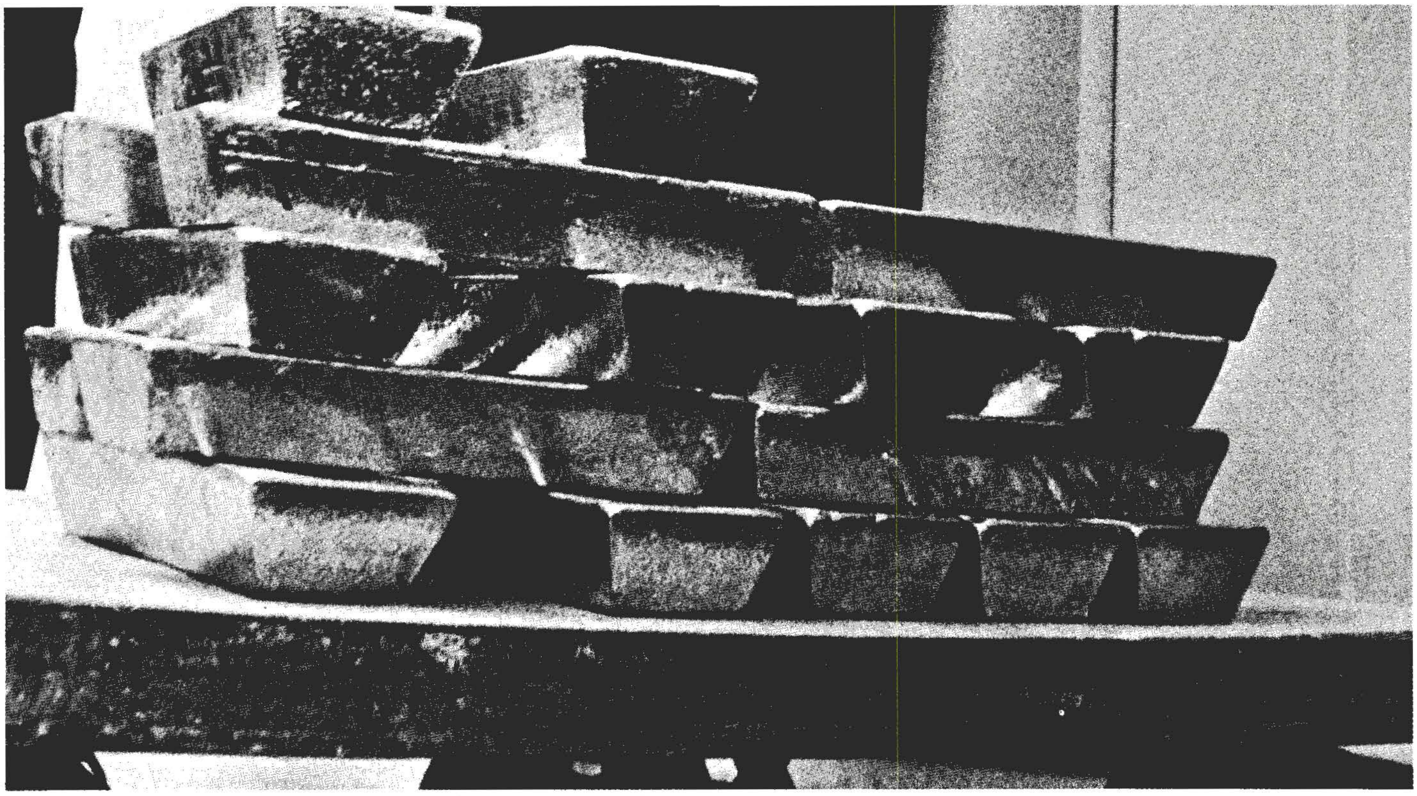
The decision of the economics ministers' meeting in Luxembourg—to move forward by a year to January 1, 1969, the one-fifth Kennedy Round tariff cut scheduled for the beginning of 1970 and to allow the United States to postpone for a year a similar tariff reduction due on January 1, 1969—brings a concrete and calculable, if relatively small, advantage to America's payments position. The Community estimates that it will improve the American balance of payments by $150 million: helping U.S. exports by $80 million, and reducing U.S. imports by $70 million. If the European Free Trade Association, Japan, and Canada follow the Common Market's example, the U.S. position could be improved by $300 million.

The offer is conditional on the United States abolishing the American Selling Price system for chemical products by January 1, 1969, and refraining from introducing any further protectionist measures in the trade field. The Council of Ministers will meet towards the end of this year to decide whether the conditions have been fulfilled; if they are satisfied with the American response, the related acceleration-deceleration program will be put into effect.

The U.S. Administration may find it difficult to fulfill the conditions at a time of pressure in Congress for the introduction of export rebates and border taxes on imports to cushion American industry against foreign competition. Against this, it is becoming increasingly apparent that the economies of Western industrial countries are interdependent, a truism which was emphatically underlined when the slow growth of world trade contributed to sterling's downfall and when the effects of the recession in Germany were felt throughout Western Europe. It is difficult to see how the long-term economic and political interests of the United States will be aided by protectionism. Clearly the Americans have to do something to reduce their balance-of-payments deficit, but on the international trading level this can best be done in cooperation with their trading partners rather than in isolation. Protectionism tends to have a domino effect and could, in the end, be self-defeating.

Last year the international payments of the United States exceeded receipts from abroad for the tenth consecutive year, and the resulting deficit was the seventeenth in eighteen years. Preliminary estimates placed the deficit at $3.6 billion, the highest since the $3.9 billion deficit in 1960, and substantially higher than deficits of the $1.3 to $1.4 billion of 1695 and 1966. What is particularly worrying Washington is that the surplus on goods and services shrank to $4.8 billion in 1967, compared with $8.5 billion as recently as 1964. It now looks as if the surplus may be still lower this year.

The American balance-of-payments outlook, however, is not altogether bleak. The deficit is tiny when measured against the country's direct foreign exchange spending of $2 billion. An expanding market in Europe, together with the Kennedy Round cuts, provides a valuable chance for United States businessmen to increase their exports.



Gold bullion. PHOTO: *Courtesy the German Information Service, New York.*

Cash v. Credit

WORLD MONETARY PROBLEMS FOR THE LAYMAN

by **JEAN LECERF**

The gold crisis after the devaluation of the pound sterling last November and recent pressures on the U.S. dollar have taken international monetary problems out of the "business sections" of major newspapers and put them on the front page. Jean Lecerf, reporter for the French newspaper Le Figaro, *examines an American and a European view on the subject.*

AN AMERICAN PROFESSOR of Belgian origin, Robert Triffin, posed the problem of world currency for the public in the early 1950's. International trade, he said, is constantly growing. Each country has to hold reserves equal to the value of several months of imports, perhaps for from four to six months, against possible fluctuations in receipts. Thus, as the volume of international trade increases, the need for international reserve currency also increases. Meanwhile, gold production, the foundation of the world monetary system, is not developing at the same rate; thus we are moving towards a shortage of international currency. When there is a shortage of money, interest rates rise. Countries in balance-of-payments difficulties take restrictive measures. In this way, little by little, a world crisis could start.

For Robert Triffin, the remedy was to make the International Monetary Fund function like a bank of issue. It would supply liquidity in the form of credits which could be pegged to gold and bear interest, thus supplying the liquidity the world needed. Many counter-proposals have been made to the Triffin plan, but all provided for the issue of international currency in some form.

The Triffin Antithesis

At the other extreme was Jacques Rueff who caused a scandal when he announced that the world was rapidly heading for a crisis comparable with the one in 1930. The price of gold is artificially low, he said. Since 1934, prices for all merchandise but gold have at least doubled; the gold price alone has not changed.

In addition to gold, greater and greater use has been made of pounds sterling and dollars, currencies supplied by the constant deficits of Great Britain and the United States. Because, originally, both of these great currencies could be converted into gold on demand, the system was called the "gold exchange standard." The difficulty, according to Rueff, has been that the amounts thus convertible into gold have grown more than the debtor countries' ability to pay in gold. When payment is sought for unredeemable credit, bankruptcy and crisis usually ensue.

For Rueff, the gold shortage results not from the fact that there is not enough gold, but that its price is unrealistically low. The price of gold should not fluctuate with other prices, since it is the foundation stone of currencies and the basis for some degree of universal stability; but it should have been revalued after each war—that is, after periods when it has been impossible to allow gold to play its proper role.

From 1961 on, the Americans launched an expansionary policy with tax reductions that seriously disturbed their balance of payments. They lost gold rapidly and saw their debts abroad increase considerably. Of course, these debts corresponded to their large investments throughout the world, but the American government could not decide, at any given moment, that these private holdings should be sold to obtain necessary foreign exchange.

French President Charles de Gaulle, at a press conference on February 4, 1965, warmly eulogized gold "which does not change and which is eternally and universally held for its unchangeable value." He denounced the international monetary system and American deficits as the cause of unwarranted purchases of companies in European countries.

Since then French policy has denounced the evils of the international monetary system and demanded that the key currency countries (Britain and the United States) be obliged, like other countries, to balance their accounts. Critics of the French attitude stress the risks of crisis that this would involve. French Foreign Minister Maurice Couve de Murville replies that if the

Robert Triffin, Professor of Economics, Yale University, adviser to the European Communities Commission, and author of "Our International Monetary System: Yesterday, Today, and Tomorrow" (1968).

French warnings had been heeded five or ten years ago, the current situation would be less serious.

The monetary problem is thus a double one: the risk of not having enough liquidity to finance international commerce and the existence of an excessive international liquidity based on credit that is unredeemable in the present state of affairs.

Sterling Balances

And what do the famous "sterling balances" represent, that have caused Great Britain so much concern ever since the war? They represent the cost of war, which was financed through debts to Commonwealth countries. These debts form the nucleus of the sterling balances.

With an efficient banking system, the English succeeded in keeping this floating money in London for a long time, at the price, however, of unstable monetary and financial policies, frequent crises, and more limited economic growth than other European countries. Heavy borrowing to avoid debt repayment leads inevitably to higher interest rates: Britain's have almost always been higher than any other country's. The higher interest rates are raised, the more expensive investments become so that there is a tendency to build less.

Was the question of sterling balances originally just an excuse to delay Great Britain's entry into the Common Market? Some people think so, but study shows that these balances are a serious problem. With such a large volume of debts that are often unstable, it would be difficult to play the Common Market game fully. While this question did not play a role in England's first request for admission to the Common Market, it did play an essential role in the second request.

On the other hand, Great Britain's approach to investment and research policy has been a daring and good one, but added to many other factors, it seems to have contributed to the deterioration of its balance of payments. Also, the irritation of the Arab States, particularly the petroleum princes after the Israeli-Egyptian war, led to a transfer of sterling balances to other countries. A loss of confidence in the pound sterling spread in professional circles and, despite intensive international cooperation to support Britain's currency, the Bank of England found that it could not maintain the price of the pound. The English had to devalue but gained a respite in so doing. The future will tell if the stabilization measures taken will suffice.

The persistent deficit in the American balance of payments seems harder and harder to finance, despite the untiring ingenuity of the experts in finding ways to delay due dates, and prevent creditors of the United States from cashing in for gold the dollars they were receiving. "Roosa bonds," for example, which consolidated short-term debts between central banks, supplied very large sums. The Euro-dollar market, by permitting holders of credit accounts in American banks to draw part of their holdings, made dollar holdings more attractive.

The Dollar's Difficulties

All these expedients, more imaginative and numerous than Jacques Rueff had foreseen, delayed for several years the deterioration of the situation. Still the deficit mounted, yearly. Though it shrank in 1966, it grew again in 1967, by almost $4 billion.

Part of the dollar deficit was financed by the usual expedients, but part returned to the gold market where people who lacked confidence in the dollar took refuge—people who thought it would all end with a devaluation of the dollar in relation to gold, that is to say, a large increase in the price of gold.

The Viet Nam war is in a large way responsible for the situation. At the same time, space research and "Great Society" programs, the American war-on-poverty, have continued. But the budget deficit also continues, and is growing at an alarming rate. The gold rush last December gave the warning. It cost the United States nearly $1 billion and reduced American gold reserves to almost $12 billion.

On January 1, President Lyndon B. Johnson announced a program of restrictions to save the dollar: a cut-off of American investments abroad, a tax on tourism, a 10 per cent tax surcharge, and other measures. This program made an excellent impression and relaxed the atmosphere. Special envoys of the President explained it in all the capitals, and it was, for the most part, accepted.

However, the Congress had difficulties enacting the 10 per cent tax surcharge, and the tourist tax was also badly received. It is an election year. The Viet Cong "Tet" offensive in Viet Nam and demands for reinforcements there weigh heavily on the outlook for the budget. In the international markets, there are intense pressures on the dollar with its heavy deficits to finance.

Special Drawing Rights

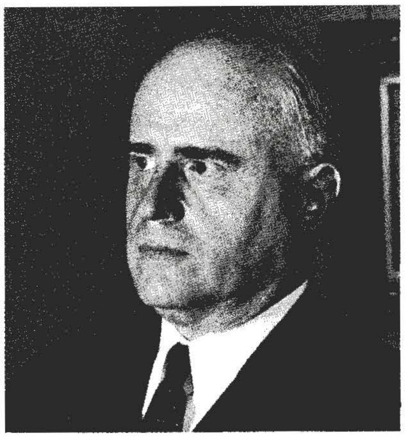
The International Monetary Fund (IMF) is the body in charge of all monetary matters. For a long time, it helped finance the deficits of the European countries. Since the English and the Americans have paid the largest quota-subscriptions, they have controlling influence in the Fund.

The Fund accords automatic drawing facilities for small balance-of-payments setbacks; in the event of serious difficulties, it examines the situation and draws up plans to correct them. Ever since the English and the Americans ran into monetary problems, they have tried to avoid the Fund's supervision which amounts to participation by other countries in their internal affairs. They tried to obtain the IMF's help without this supervision—or get along without it. The English were not able to avoid it completely and were a little disturbed by it. The Americans kept standby credits open in the Fund.

Meanwhile, study continues on the possibility of creating a kind of world currency, issued by the IMF or controlled by the Group of Ten principle financial powers (which makes decisions by unanimity, not by majority as in the Fund).

The English and the Americans are impatiently awaiting this event, thinking that an excess of international liquidity would give them more leeway and eliminate their difficulties to the extent that they think they arise abnormally from the faulty structure of the international monetary system. "Special drawing rights" was the name given this plan for world fiduciary currency. These would consist of new credit granted by the IMF to the principal countries by a simple accounting exercise.

France was among the leaders of the opposition to these projects. The French consider that when certain countries are permament debtors, the creation of international money



Jacques Rueff, French economist and proponent of a return to a strictly applied gold standard. He was a member of the European Communities Court of Justice from 1952-1962.

amounts to a grant of new credits to these debtors, which would enable them to continue accumulating deficits without any obligation to settle them. This course endangers long-term world balance. That is why France would like to agree only to credits that are credits, that are neither automatic nor transferable like ordinary currency, and that are repayable within a reasonable time period. On the other hand, most other countries tend to want something closer to the world currency that U.S. Secretary of the Treasury Henry H. Fowler called paper gold.

The current plans outlined in London last July, did not reconcile this difference of views.

Gold: A Relic of Barbarity

"Gold is a relic of barbarity," said John Maynard Keynes. Is it? What then is money but the promise to pay a certain value, of currency or of something else, to the bearer of the bill. When the bill holder is told that in exchange for a currency, he may have anything he wants with one exception, the thing denied him immediately takes on enormous value. In this case, gold is being denied, a metal that since time immemorial has served the special function of being accepted by the whole world in payment for debts. To the extent that people perceive that the dollar may not be exchangeable for gold any longer, the dollar loses value.

Gold has been worth $35 dollars an ounce since 1934. Where did it get such price stability? From the fact that the U.S. Treasury has agreed to buy and sell gold at that price. Since 1961, a gold "pool" has been in operation whereby nine countries (the Federal Republic of Germany, Belgium, the United States, France, Italy, the Netherlands, the United Kingdom, Sweden, Switzerland) have supplied and bought gold at this price. The system worked well as long as private demand remained below world production. Since it was necessary to go through the gold pool to dispose of part of the gold offered, the pool continued to set its price.

For about two years now, demand for non-monetary gold—for use not by central banks but by private individuals—has exceeded supply. As a result, the gold pool has found itself constantly selling, and not buying. The monetary reserves of the various countries began to shrink.

The fact that part of the gold that was placed in pounds sterling and freed by devaluation ended up on the gold market aggravated the situation. The decrease in American gold reserves made it predictable that one day or another the Americans would be induced to stop selling gold at $35 an ounce: obviously, the law of supply and demand would let gold be sold for more and would cut off the opportunities for speculation.

An increase in the price of gold in terms of dollars would amount to a devaluation of the dollar. If instead of being worth 888 mg. of gold the same number of dollars were worth 600 or 500 mg. there would be less gold to the dollar. Even if other world currencies followed suit, and they probably would, there would still be a partial devaluation. The Americans don't want this and have strongly repeated that they would never do it.

A declaration by Senator Jacob K. Javits (R-N.Y.) recently dropped the match into the powder keg. He declared that it was not in the United States' interests to sell gold to speculators at such a low price. All during the month of March, speculation mounted to a crescendo in London, Paris, Zurich, and Beirut.

On Thursday, March 14, pressures became stronger until, at the request of the Americans, the Queen of England was awakened in the middle of the night to hold a privy council to decree the closing the next day of the gold market and gold exchange. The gold pool survived. The next day, the Paris market quoted $42 an ounce.

The governors of the pool countries' central banks spent Saturday and Sunday in Washington (France, which had already retired from the pool, had not been invited) and decided to stop selling gold on the free market in London. Only balance-of-payments surpluses achieved in other ways than by selling gold on the free market would be convertible by the governments. The double market began with a drop in the price of gold in Paris, connected with Great Britain's announcement of a strict budget.

On March 20, General de Gaulle took a stand against the Washington Agreements which he said would delay the necessary adjustments. He expressed the desire for effective Community action.

Theme of Cooperation Among the Six

The surplus countries hold the key to the solution of an important part of the problems, but not all of them. It is largely the deficit countries' responsibility for putting their houses in order, provided that surplus countries do not adopt deflationary policies, (which does not appear likely). In these monetary questions, the six Community members have a special responsibility, as the main creditor countries.

The Six are trying to act together. Countless times, they have compared their points of view before attending meetings of the Group of Ten and on some points have reached common positions, though not on all. In Rome last February, they tried to find in what way they could work together to keep the restrictive effect of measures to strengthen the dollar from upsetting the economy of Europe and the world, and pushing unemployment across national frontiers. They had no desire to prevent the strengthening of the dollar. Their cooperative endeavor has crystallized in particular around interest rates.

The most important danger would be an increase in interest rates that would affect business enterprises, Raymond Barre, Vice President of the Commission of the European Communities told the European Parliament in January. The American balance-of-payments program will probably exert further upward pressures: the monetary policy that the Community countries adopt in the next few months will thus be of great importance. European interest rates should be maintained at their present level so that the incentive to invest will not be compromised. This could involve capital outflows, which the Community countries would have to accept.

It is also possible to act by coordinating rates of economic expansion. The Americans are asking the Europeans to accelerate their growth to slow down the accumulation rate of their balance-of-payments surpluses, thereby reestablishing balance in world accounts.

Our era is in the process of rediscovering the role of currency and its effects on all aspects of trade, production, employment, national budgets, defense, and international cooperation.

Monarchs' Maladies to Managers' Diseases: EUROPE'S SPAS STILL THRIVE

by **E. S. TURNER**

NEW MIRACLE DRUGS are launched every month, but the spas of Europe go on, apparently forever. Water—cold, hot, pure, medicated, gaseous, or holy—still holds its ancient promise of healing and rejuvenation. So does radioactive black mud, the blacker the better. Even sea-bathing has been worked up into a cult and called thalasotherapy.

Rest and relaxation, some claim, are 99 per cent of the spa cure. Sceptics, who acuse the over-fed Western *bourgeoisie* of spa addiction, should take a look at the Crimean spas where the tsarist palaces that Lenin seized now serve to recondition millions of workers. The resort of Sochi claims 2,155 physicians in attendance. Can Vichy top that?

Bank managers walk barefoot in the dew-treading meadows of Wörishofen. Industrialists' wives swelter in Italian sweat grottos. Victims of "manager's disease" relax in artificial waves at Deauville. They are all heirs to a spa tradition that dates to the Aesculapian sanctuaries of ancient Greece, where in paradisiacal settings the ailing exercised, bathed, fasted, and dieted, with the aid of priestly mumbo-jumbo. The Romans had their water cures, hot and cold, but the moral relaxation at resorts like Baiae offset the physical toning-up.

The early Christians despised public baths as haunts of wickedness, but they could not turn off nature's hot and cold taps. With the Renaissance the spa cult revived. At Baden in the Alps (not Baden-Baden), clerics frolicked with their flocks in the sulphur waters, and behavior was permissive to a degree. The barren queens of France and England traveled from spring to spring seeking waters to restore their fertility. Montaigne toured the spas of France, Germany, and Italy looking for waters capable of dissolving his kidney stones. To the wealthy invalid, frontiers presented no obstacles; men dragged their gout the length of Europe and back.

Monks and Nuns, Kings and Queens

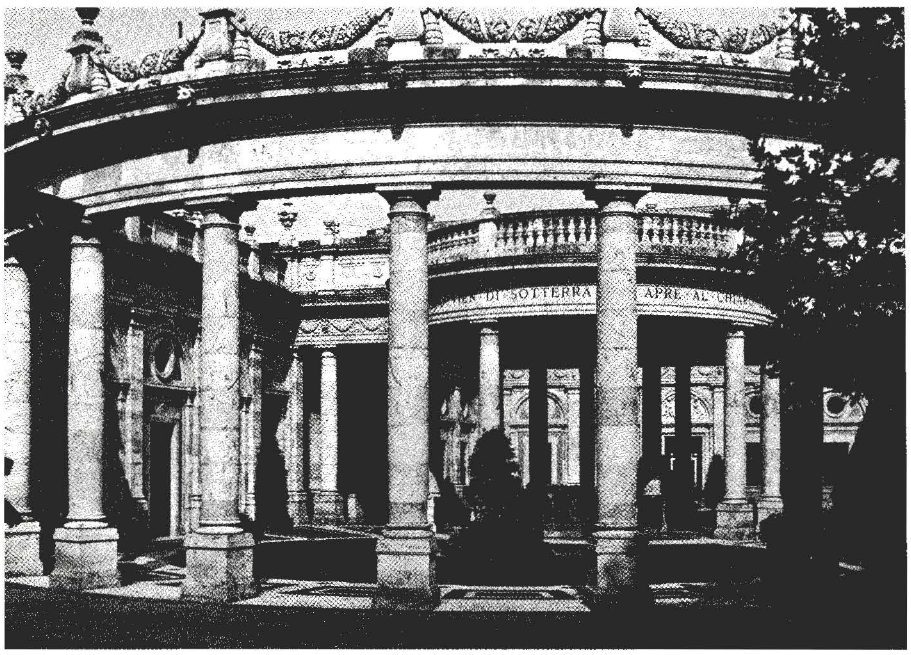
Among iron waters the most in favor were those of Spa in the Ardennes, where the name spa originated. Besides sterile wives, they attracted large numbers of monks and nuns suffering from the ills of a sedentary life, masses of "hypochondriacs," (overworked and unstrung scholars, morose and often suicidal), and some troubled not by overwork but overeating.

Among the spas of France was Forges-les-Eaux, where Louis XIII and Anne of Austria arrived in quest of a dauphin, though Forges cannot claim the credit for the birth of Louis XIV. The *Grand Monarque* once tried Forges waters for a *maladie d'amour*. The poet Scarron had no luck with the waters of Bourbon l'Archambault, so he tried a neck-high bath of tripe, steaming from the slaughterhouse, in Paris. That did not work either.

Steam Baths for Rheumatics

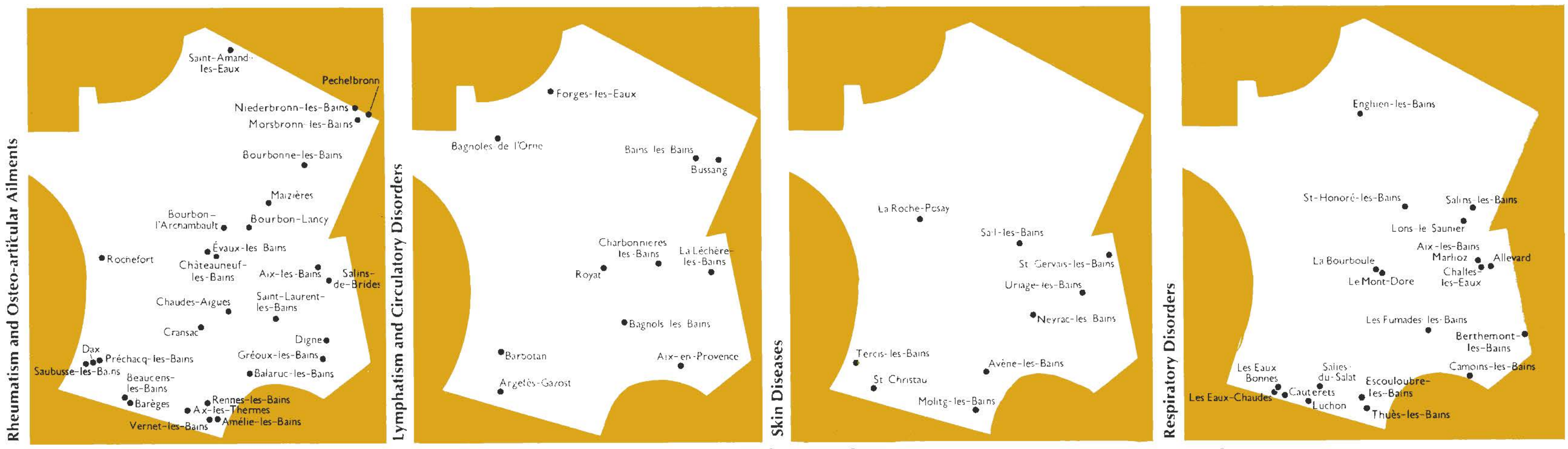
For the great armies of rheumatics there were spas with steam baths. At Vichy, Madame de Sévigné, standing nude, was hosed

The "Tettuccio" Spring, Montecatini Baths, Pistoia, Italy. PHOTO: *Courtesy of the Italian Government Travel Office, New York.*



Two secretaries drink mineral water from a well in Wiesbaden, Germany. PHOTO: *Courtesy of the German Information Center.*

E. S. Turner has written several books on byways of social history, ranging in subject from courtship to the servant problem and doctors. His latest, "Taking the Cure," is a history of spas, Turkish baths, nature cures, and off-beat therapies. He is the author of three comic novels and a frequent contributor to Punch *magazine.*



These maps show the best French spas for specific ailments. MAPS: *Courtesy of the French Government Tourist Office, New York.*

down with near-scalding water, while a solicitous physician half-concealed nearby tried to sustain her morale. The patient described the treatment as "a good rehearsal for purgatory." Steam baths were a speciality of Aix-la-Chapelle (Aachen), where Charlemagne once held court in a great hot bath, complete with bodyguard of soldiers. Near Naples the ancient volcanic caverns formed natural stews in which the dissipated tried to sweat away their ills. At Bath the gouty *élite* waded in warm, stinking sulphur water, as servants and spectators watched. Little trays of smelling salts and cosmetics floated by the women. Satirists professed to find the spectacle of mixed bathing disgusting, both physically and morally.

Resorts like Bath and Spa, frequented by gamblers and rakes, became famous for intriguing; beside the waters wives shed marital restraints, and German and Swiss brides made sure their marriage contracts contained a clause authorizing regular visits to their favorite spas. In our own times, husbands have been suspected, no doubt wrongly, of packing their wives off to spas in order to benefit by their absence.

In the nineteenth century, many spas—among them Aachen, Baden-Baden, Wiesbaden and Homburg—were as much noted for gambling as for healing. Turgenev's novel *Smoke* describes the decadent society of Baden-Baden, then the focus of bored Russian *émigrés*. The casino used gold and silver chips; today it quotes Marlene Dietrich as saying that it is "undoubtedly the finest gambling establishment in the world."

Royalty continued to give spa life a fillip. Napoleon III popularized Plombières and Vichy; Kaiser Wilhelm II was fond of Homburg; and Edward VII was the cynosure of Europe's politicians, tailors, and adventuresses when he traveled to Marienbad (Marianske Lazny). Every year the furniture he used in the Hotel Weimar was sold off for twice its value.

A threat to spa life last century was hydropathy, the heroic cold water cure introduced by an Austrian peasant at Gräfenberg, now Jesenik. Vincenz Priessnitz cocooned his patients (princes, generals, and even doctors) in cold wet sheets and left them to sweat, and encouraged them to stand under high cold showers which sometimes knocked them flat. For overwrought patients with hardy constitutions the treatment often succeeded. Hydropathic establishments sprang up all over Europe.

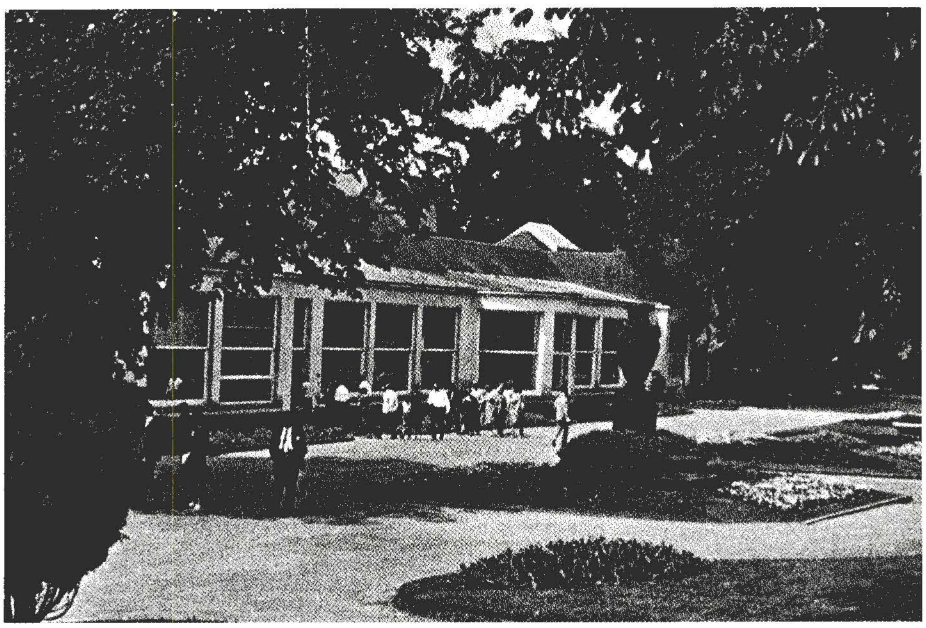
Walking Barefoot

Hydropathy collapsed because it failed to live up to its sweeping claims, but many spas borrowed the more sensible of the hydropathic treatments.

Water, fasting, and rest, after all, cure many conditions. None knew this better than the Bavarian pastor, Father Sebastian Kneipp, who, in the late years of the last century, propagated the notion that many ills were curable by walking barefoot in wet grass. His teaching spread from Wörishofen to New York, where people went barefoot in Central Park. Today a sophisticated version of the Kneipp Cure is still administered at Baden-Baden and even in those lordly nature-cure establishments in Britain where patients pay up to $220.00 a week to live the simple life.

Treatments at modern spas range from water drinking (sometimes called crounotherapy) and immersion, to massage (above and below water), manipulative exercises, inhalations

Mondorf thermal baths, Luxembourg. PHOTO: *Courtesy of the Embassy of Luxembourg.*



The gambling casino (left) and the baths (right) in Spa, Belgium, the city that gave its name to thermal baths. PHOTO: *Courtesy of the Belgian Information Service, New York.*

Mineral water fountains at the Mont Doré Thermal Baths, France. PHOTO: *Courtesy of the French Government Tourist Office, New York.*

of steam, electric treatments, light treatments, Turkish baths, and much else.

France has more than fifty principal spas and about 1200 officially recognized springs, neatly catalogued according to the ills they claim to benefit. Brochures show a Rheumatic Map of France, a Kidney and Urinary Map, a Faulty Nutrition Map (overeating?) and so on. Germany has more than 200 spas, many of them splendidly laid out, with out-patient clinics, lounges, and gardens. At Bad Orb patients strolling outdoors inhale saline vapors from huge brine-soaked structures. "The heart capital of the world," Bad Nauheim has a system of carbonated baths that is now available at most major spas.

Many resorts offer not only to cure "manager's disease"—the result of overwork, overeating, and oversmoking—but also to prevent it, by toning up the system in a worry-free atmosphere. In France the national concern over the liver keeps the spa pilgrimage very much alive; so does the need to lose weight. Lately spas like Vichy have been trying hard to attract younger clients by widening the opportunities for sport.

Spas and Social Security

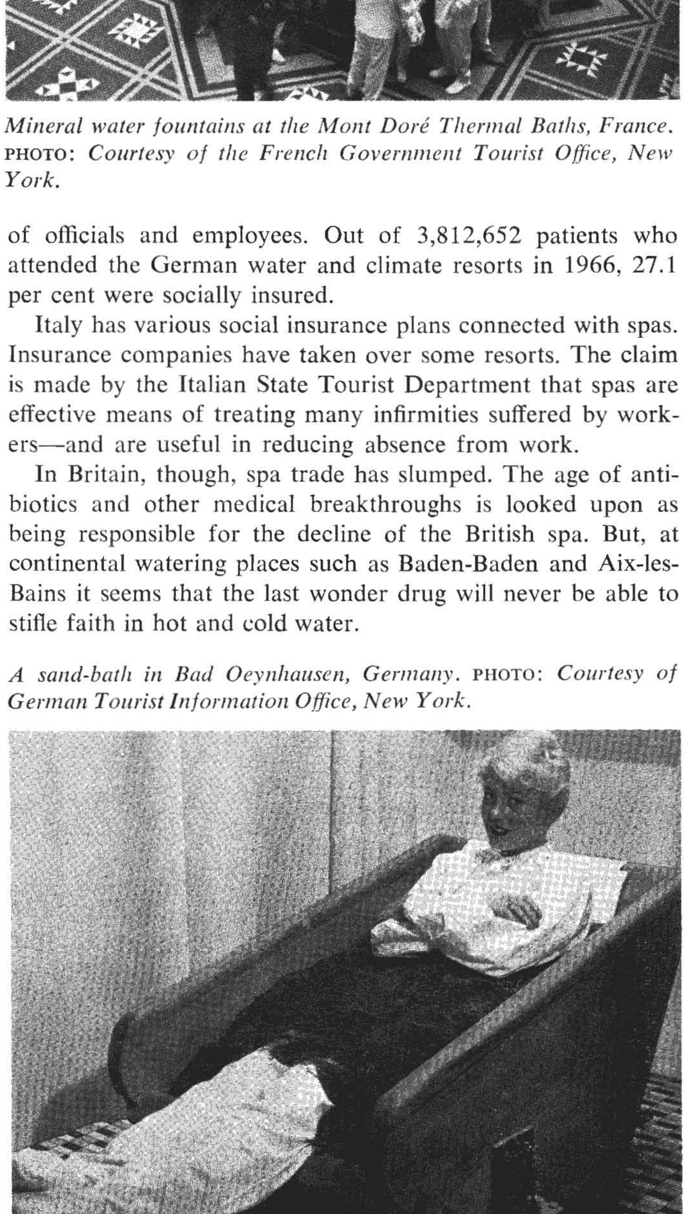
Several European governments subsidize the cost of water treatment, if prescribed by a doctor.

The French social security fund may underwrite the main cost, and if need is proved, the expenses of travel and part of the medical fees. In Germany the percentage of social insurance patients varies from spa to spa; more than 50 per cent of the beds at some are occupied by the state-insured, but at Baden-Baden only 700 out of 4500 hotel beds are available for the socially insured. By no means do all insured patients belong to lower income groups; the cure is open to the higher ranks of officials and employees. Out of 3,812,652 patients who attended the German water and climate resorts in 1966, 27.1 per cent were socially insured.

Italy has various social insurance plans connected with spas. Insurance companies have taken over some resorts. The claim is made by the Italian State Tourist Department that spas are effective means of treating many infirmities suffered by workers—and are useful in reducing absence from work.

In Britain, though, spa trade has slumped. The age of antibiotics and other medical breakthroughs is looked upon as being responsible for the decline of the British spa. But, at continental watering places such as Baden-Baden and Aix-les-Bains it seems that the last wonder drug will never be able to stifle faith in hot and cold water.

A sand-bath in Bad Oeynhausen, Germany. PHOTO: *Courtesy of German Tourist Information Office, New York.*



Direct Taxation—
Reforming for the Seventies

by JOHANNES JANSEN

MODERNIZING THE STRUCTURE of direct taxes to meet the social and economic needs of the seventies is at least as important a part of the European Community's direct tax program as harmonization of the six Community members' tax systems. In a memorandum to the Council of Ministers last year, the Commission explained its reasons for suggesting tax reforms that will mainly affect company profits and dividends on stocks.

The program pending in Council was designed to:

- eliminate taxation as a cause of differences in production costs and returns on capital investment in the different member countries
- remove taxation as a determining factor in investment site selection and in capital movements
- eliminate tax obstacles to mergers, the creation of European-sized companies, and adjustment of firms to Common Market size.
- coordinate the member countries' fiscal policies with Community policies, especially the use of taxes to influence the economy and living conditions.

The Commission stressed the importance of incorporating modern fiscal knowledge and techniques in the program, and of relating each type of tax to the overall tax system. Too many modifications of taxes for "special cases" could distort taxation. The Commission did, however, recognize that the member states would need enough discretionary power in taxation to control the behavior of the national economies, according to Community needs and common policies. Without a corresponding harmonization of inspection, verification, and collection methods, tax harmonization would be useless. Eventually, the Community members should rely on three main sources of revenue, in the Commission's opinion:

- the added-value turnover tax and a limited number of harmonized excise duties.
- a general tax on company profits with the same structure and similar rates in every member country
- a personal income tax which could differ according to the situation in each member country.

Short-term Program

Some tax problems demand almost immediate solution to promote industrial concentration, prevent distortions of competition arising from depreciation rules on capital investments, and to secure free movement of capital. The Commission's short-term program contains proposals for each of these areas.

INDUSTRIAL CONCENTRATION: The fiscal cost of corporate mergers usually rules out these transactions, and tax rules applicable to parent companies and their subsidiaries often impede stock participation of one company in another. To permit industrial and commercial firms to grow, and to reorganize their systems of production and distribution, fiscal obstacles must be removed.

This is the third and last article in the series on taxation by Mr. Jansen, head of the European Communities Commission's Indirect Taxation Division. European Community *published the first two in March and April.*

Depreciation rules for expensive machinery and plants will be harmonized, since they are important elements in determining a company's profit tax liability.

DEPRECIATION OF FIXED ASSETS: The basic rules must be harmonized since they are an important element in determining a company's profit-tax liability. The Commission's proposal would require prior consultations with it and the other member states before one member state enacts special depreciation provisions that could act like investment incentives. National investment incentives outside the general policy objectives, as defined by Community institutions, would be undesirable.

A harmonized definition and method of calculating profit-tax liability must be adopted eventually. The Commission's proposals for depreciation rules will then have to be supplemented with common provisions for the appreciation of fixed assets, the valuation of stock, and carry-overs for losses and tax-exempt reserves.

Reforming Capital Transfer and Investment Taxes

The most extensive part of the short-term program deals with reforms of taxes on capital transfers and investment income, to induce the six national capital markets to fuse into a single, free Community capital market. To do this, international and economic double taxation of dividends must be eliminated, together with fiscal factors likely to cause "abnormal" capital movements, i.e. those triggered by factors outside of the traditional economic or financial considerations.

To avoid international double taxation, the Commission suggests the extension and improvement of the existing network of bilateral conventions on interest and dividend taxes. The conclusion of a multilateral convention between the six Community members would be the final target.

Economic double taxation occurs when taxes are levied first on company profits, and again on the same money, when reported as personal income by stockholders. To rectify this situation, the Commission proposes the establishment of single method for relief.

Two methods of taxing dividends are now practiced in the Common Market. The Federal Republic of Germany applies a reduced rate of company income tax for distributed profits. France and Belgium grant relief on personal income tax, allowing stockholders to deduct from their personal income tax liability a part of the company tax paid by the firm distributing the dividends. The Netherlands, Italy, and Luxembourg have no measures to avoid this type of double taxation.

Since France and Belgium allow "tax credit" only to residents and only for dividends distributed by companies established in their territory, the stock of national companies is obviously more attractive than the stock of companies established in other member states. On the other hand, this treatment discriminates against holders of stock in French and Belgian companies if they reside in other member countries. This situation is clearly incompatible with the principles of free movement of capital and will soon have to be modified.

Common Rates for Tax Withheld at the Source

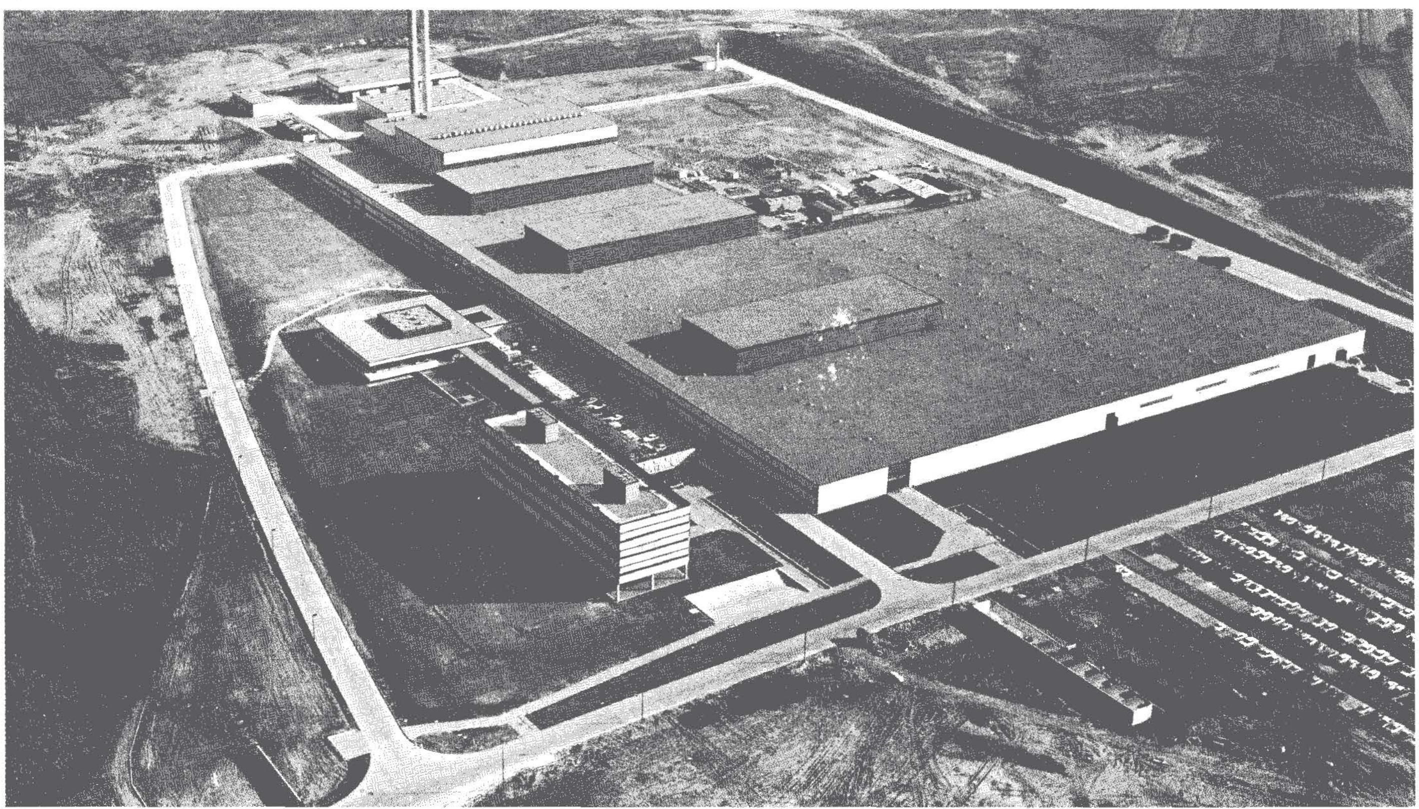
Each country has different arrangements depending on where the income arises and where the income is collected.

The European Commission suggests the introduction of common rates for tax withheld at the source, and considers 25 per cent as a workable rate of taxation on dividends. For bond interest, a lower rate seems indicated, a maximum of 10 per cent, for instance.

Arrangements would have to be made for taxpayers to receive full credit for all taxes withheld at the source on their personal income tax returns and for refunds of excess tax payments over tax liability. The procedural formalities now in force are both numerous and complicated and, the Commission emphasized, need simplification. The Commission also suggests that member states could be authorized to refrain from levying the common withholding tax on dividends paid to residents, provided that the paying agency so informs the stockholders' tax office immediately. This is the current practice in France, where withholding tax is levied only on dividends paid to foreigners.

Two other measures proposed in connection with the establishment of a free capital market are the removal of fiscal arrangements that favor direct investments over the activities of investment trusts and funds, and an examination of the present tax arrangements to which holding companies are subject to see if they can be harmonized.

Part of the Commission's program was designed to remove taxation as a determining factor in investment site selection. Nylon factory in Oestringen, Germany. PHOTO: *Courtesy Imperial Chemical Industries Ltd., London.*



COMMUNITY NEWS

GUIDELINES DRAWN FOR INDUSTRIAL MODERNIZATION BY COMMUNITY'S SECOND MEDIUM-TERM ECONOMIC PROGRAM

Strong arguments to hasten the modernization of companies in the European Community and to speed up the pace of technological research and development are presented in the Community's draft second Medium-term Economic Policy program.

The European Communities Commission submitted the draft program to the Council of Ministers on March 20. The second program is not a "five-year plan" and does not replace the first, 1966-1970 program. Rather, it supplements the first, dealing mainly with problems for which the first program gave only general guidelines, and correcting forecasts and provisions resulting from them. Instead of indicating goals for production, consumption, and investment, for example, it proposes guidelines for structural policy and generally defines the lines that the Community's economy should take and that each member state should follow in directing its economy.

In addition to concentrating on structural policies and adaptation, the second program deals with policy in the fields of scientific and technological research, private savings, incomes, and investment financing. Analyses of the problems connected with shipbuilding and th eelectronics industries and several other special studies are annexed to the draft.

The preliminary draft of the program was prepared for the Commission by the Medium-term Economic Policy Committee (MEPC) with the active participation of the Commission.

Aims of the Medium-term Economic Policy

The Commission began work on a medium-term economic policy in 1962. A Council decision on April 15, 1964, on arrangements for formulating a medium-term program for the Community, created the MEPC, composed of economic experts from each country and from the Commission, to chart the probable trend of the Community's economy over a five-year period and to provide a framework for European planning. The first program was planned to cover the years 1966-1970. (A Short-term Economic Policy Committee helps the Six to coordinate their day-to-day economic policies.) The object of the first program was to obtain medium-term forecasts to provide the basis for measures to be taken by the Community's member governments and the Community institutions. The consequences of economic trends could then be determined in advance and actions taken by the public authorities to achieve the goals of the Common Market Treaty—harmonious economic development, continuous and balanced expansion, and rapid improvement of living standards.

The main spheres of policy in which advanced planning and information appeared necessary were: public investments, general financial matters, incomes, scientific and technical research, and regional policy.

The main task in drawing up the first program was to make quantitative projections through 1970. The program dealt mainly with the presentation of the overall prospects for employment, the domestic product and its utilization in each member country, and comparative price trends, as well as budget and regional policies. It was finally adopted by the Council on April 11, 1967.

The Second Program: Structural Reform

The authors of the draft second program see in the economic developments of recent years clear indications of the need for comprehensive structural reform.

Structural adaptation in the Community has not yet gone far enough and is far behind the progress made with the customs union and the liberalization of international trade. This relative backwardness is most evident in the low profits and lack of drive in many enterprises, according to the authors. It is also seen in the relatively important place declining industries occupy in the Community's economy, compared with that of growth industries. Finally, the need for structural reform is visible in the national government's emphasis on keeping old industries alive instead of on encouraging new techniques and products and accelerated structural change. The authors of the draft program made the following recommendations.

Structural Adaptation of Enterprises

An appropriate competition policy and policies on the structures of industry, scientific and technological research, and employment and vocational training is needed—to encourage the development of the most promising industries and at the same time favor the most dynamic enterprises.

The sections of the Rome Treaty dealing with cartels and the abuse of dominant positions should be clarified as quickly as possible, but without inhibiting associations between enterprises that contribute to economic progress—whether through cooperative agreements or mergers. The adaptation of industries with poor sales prospects should be facilitated. One of the most important ways by which the development of growth industries can be assisted is by awarding public orders and research contracts and by making the results of the research done by public institutes available to all interested enterprises.

Company law must be adapted at Community level to the conditions necessary for the functioning of a real common market. In particular, obstacles to the free establishment of enterprises and the functioning of multinational companies in the Community should be eliminated. Work on the "European company" statute should be rapidly completed.

In the area of tax law, obstacles must be removed that still militate against industrial concentration; especially important is the problem of taxes levied on undisclosed reserves that are brought to light and on capital gains made as the result of a merger. Measures must be taken to make it easier for enterprises to raise more share capital and allow them to establish their financing structure on a multinational basis.

Agricultural Policy

The agricultural price level should be so fixed as to ensure that competitive farms can earn a satisfactory income, while ensuring that there is no increase in living costs and no structural surpluses which could be sold on the world market only at increasing cost to the public finances. Market and price policy ought to be accompanied by a structural policy to improve the profitability of farms that could become sufficiently competitive within a reasonable time. Measures taken should encourage increases in productivity only when justified, contribute to improvement of the structures of production (land improvement, consolidation of holdings, increase in the size of farms, etc.), and develop the collective equipment essential for the marketing of farm produce.

Only if some of the people presently employed in agriculture find jobs in other sectors of the economy, will it be possible to achieve an appreciable improvement in farmers' living conditions and incomes. An active policy on retraining and social benefits is needed to achieve this shift, and for those farmers who cannot transfer to other kinds of work an adequate living should be guaranteed.

Scientific and Technical Research Policy

Measures for promoting research and the economic utilization of its results should be rapidly improved. The program's proposals cover, among other things, measures in the fields of tax law, industrial property (creation of a "European patent," generalization of a system of patent registration, solution of problems relating to the granting of licenses), and competition. The university system is also to be strengthened further.

Research policy should not stop at the frontiers of the individual member countries, and it is expected that cooperation among the Six in the form of joint or coordinated action will provide the main stimulus to a common research policy. Such joint technological action, however, must not be looked upon as something cut off from the rest of the world; on the contrary, cooperation with non-member countries on as broad a basis as possible is indispensable.

Investment Savings and Investment Financing

The structural adaptation of enterprises is largely a question of improving their financial organization and their ability to obtain financing for the productive investments needed for rapid economic growth.

Private savings will have to put more funds at the disposal of business. To attract such funds, efforts should be made to ensure that a sufficient proportion of savings enters the capital market and that long-term savings are available to finance private investments. To ensure keener competition on the capital market, efforts should be made to eliminate fragmentation of the system of credit supply and the privileges enjoyed by certain borrowers. The broadening of financial transactions within the Community and the gradual development of a European capital market calls for, among other things, the revision of various rules governing operations by institutional investors in other member countries, a review of the foreign exchange rules, steps to harmonize taxation which will include elimination of double taxation, the adjustment at the European level of the tax incentives granted to purchasers of securities in the individual countries, and the removal of unduly wide differences in the way income from capital is taxed.

Incomes Policy

Structural and institutional conditions in the field of incomes policy vary greatly from one country to another. The main task will be to reconcile aims and results of incomes policy with the diverse methods used by the six Community members. In principle, incomes policy must cover primary and secondary incomes. Target figures should be used to indicate the development that is desirable in incomes. The program also deals with policy on different types of incomes, particularly wages in the private sector, non-wage primary incomes, and policy on the transfer of incomes. The program encourages voluntary personal saving, wage systems providing for the investment of part of the wages, and profit-sharing systems.

COMMUNITY AGREES TO ACCELERATE KENNEDY ROUND TARIFF CUTS TO ASSIST U.S. BALANCE-OF-PAYMENTS PROGRAM

The European Communities Council of Ministers has decided to help the United States reestablish balance-of-payments equilibrium by accelerating the tariff cuts the Community agreed to make under the General Agreement on Tariffs and Trade.

This decision to encourage U.S. exports into the Common Market was made on April 9. At other meetings, the Council discussed foreign affairs (March 25, March 9, April 9); labor and social affairs (February 29); economic affairs (April 8-9), and agriculture (March 11-12, March 29, April 8-9). During April, the Council meets in Luxembourg. All other meetings were held in Brussels.

U.S. and Common Market Economic Partnership

As a result of the Council's decision of April 9, the Community will make the third stage tariff cuts of 20 per cent on January 1, 1969, instead of January 1, 1970, a one-year, one-stage acceleration. The Community also agreed to a one-year delay by the United States of its mandatory 20 per cent cut due to be made on January 1, 1969.

The Council said its acceleration move would be made if the United States did not impose new protectionist regulations this year and if it repealed the American-selling-price system of customs valuation, in accordance with the protocol concerning chemical products agreed upon during the GATT negotiations.

At its meeting on March 4-5, the Council of Ministers for the first time discussed harmonization of direct taxes. The program which the Commission submitted last June (see page 11), and comments by the Committee of Permanent Representatives served as the basis for its discussion. It asked the Commission to study, and report back before summer, on taxes affecting mergers and the acquisition of shares in Community companies. The Commission was also asked to study harmonization of taxation at the source of interest on dividends and debentures and its connection with the capital market.

Economic Policy Recommendations

On a proposal by the Commission, the Council adopted on March 5 a recommendation to the member countries concerning economic policy to be followed in 1968. The recommendation said that in view of the devaluation of certain currencies and the U.S. balance-of-payments program, policy should remain expansionary. Selective measures of limited duration should be used to prime investments or consumption, as necessary, to maintain balance in the Community's economy and to stimulate employment. Since the U.S. balance-of-payments program could cause a shortage of capital on Community markets, the Council said the member states would have to coordinate and stabilize the level of their interest rates in order to carry out their expansionary objectives.

On March 25, the Council adopted the Community's budget for 1968 and a Commission proposal for introducing a common method of calculating the average rates of tax under the common added-value turnover tax system.

Foreign Affairs: Membership Requests

The British, Irish, Norwegian, and Danish requests for membership in the Communities were the main topics of discussion at the Council's meetings on foreign affairs. Documents submitted to the Council by various member governments were reviewed on March 9, and the Commission was asked to

Council of Ministers of Economic Affairs, Brussels, March 26.

report on April 5 on problems discussed during the meeting.

The Commission's report dealt with the points of agreement between the Six on possibilities for agreements with the four candidates to prepare them to assume all obligations and advantages of membership immediately upon joining the Communities. Such an agreement, the Commission document noted, would not be a substitute for membership and would be of limited duration. It would deal with trade and establish procedures for consultation and rapprochement, and cooperation on research and development. To avoid any unnecessary complications in trade, the starting date, duration, contents, and pace of the preferential trade arrangements would be the same for all participants.

The Council asked the Commission and the Committee on Permanent Representatives to give further consideration to the applications in the light of discussions during the meeting and to report back at the next Council meeting of foreign affairs ministers, probably in May.

Agriculture: Milk and Dairy Problems

The Council discussed on March 11-12 the Commission's communication on achieving structural balance in the milk market, reducing stocks of butter, and limiting surplus production of butter. On March 29, the Council adopted a regulation specifying transitional measures for milk and dairy products between April 1, 1968, and the introduction of common market organizations and prices.

Among other agricultural decisions adopted were regulations

- specifying quality standards for flower corms, bulbs, and tubers
- setting quality standards for freshly cut flowers, and greens
- fixing monthly price increases for cereals, wheat and rye flour, groats, and meal; special intervention measures in the rice sector, and prices for sugar.

Social Policy: Extension of Activities

The Council on February 29 agreed to extend Community activities in the field of social and labor policy into areas not specifically mentioned in the Common Market Treaty. The Treaty specifically binds the member countries to work together only on employment, vocational training, and social security.

In a communiqué issued after the meeting, the Council said that the Six agreed that a progressive social policy should not simply correct the effects of economic policies, but rather that it should ensure that the economic policies themselves are consistent with social aims. By reporting on interrelationships between social and other policies, the Commission is to enlist more active collaboration between the member governments. The Council will then consider to what extent national social policies should be aligned and what joint Community actions should be taken.

The communiqué specified that the Six would try to work more closely to achieve better balance between supply and demand for workers. To encourage greater mobility of workers, the Council suggested that improvements be made in information and advisory services, compensation for loss of wages, and access to retraining courses.

SOCIAL REPORT TREATS HARD-CORE UNEMPLOYMENT; POSTULATES BASIC REFORMS

The European Community's sluggish economy last year put the hard core unemployment problem in the spotlight. Unemployment increased, as economic growth slowed to a rate of 2.5 per cent; unskilled workers and workers with obsolescent skills were among the first affected.

The European Communities Commission covered these and other labor and social developments during 1967 in a report published in April as an appendix to its First General Report to the European Parliament (see *European Community* No. 111). Because the report was published six months earlier than usual, not all statistical data could be included in it; those omitted will be published later in 1968 in a yearbook of social and labor statistics.

Unskilled Workers Hardest Hit

Unemployment increased during 1967 as the demand for manpower eased throughout the Community, but especially in the Federal Republic of Germany. The Community had 1.7 million unemployed in October 1967 as compared with 1.4 million in October 1966. Partial unemployment also rose as a result of reductions in working hours.

Less than half as many work permits were issued to foreign workers in 1967 as in 1966. The decline was more pronounced in the case of workers from countries outside the Community than for "foreign" workers from other member states.

Employment in the coal and steel industries declined by 102,400 workers during the same period to 1,127,200 at the beginning of October 1967. Although the recession began to wane in the second half of 1967, the Commission said that unemployment still remained fairly high in the spring of 1968, particularly because of the difficulty of re-employing older workers.

Unemployment was most acute in economically undiversified areas of the Community and in weak industries. The least skilled workers were the first to become unemployed. Considerable divergence occurred both in the nature and the geographical location of manpower supply and demand. Thus, the Commission recommended the planning of specific measures to encourage labor mobility, special efforts to develop backward areas and areas in the process of conversion, and efforts to assist diversification of single-industry regions.

Basic Reforms Needed in Vocational Training

The changing nature of vocational qualifications creates a need for basic reforms in the Community members' vocational training system, the Commission observed. Constant changes in the structure of the Community economy, rapid technical progress, and changing social and cultural needs and aspirations have made vocational qualifications in an industrial society less permanent and more complex than they were a decade ago. Training for one job or one type of work no longer constitutes adequate vocational preparation.

Today, vocational qualifications must be adaptable to the technical needs of employment. They can be built up only on a sound general training—a cultural scientific, technical, and civic education—which necessitates drastic changes in the Community members' vocation training systems.

Wages, Working Hours, Cost of Living

In 1967, wage increases slowed down by contrast with previous years, especially in the three Benelux countries and Germany. French wages continued to increase at about the same rate as in 1966. In Italy, the increase was more rapid. The working week in the Community, according to the figures available, became shorter.

From October 1966 to October 1967, the cost of living increased between 3 per cent and 4 per cent in five member countries. In Germany, it increased slightly more than 1 per cent. Per capita private consumer expenditures grew about 2 per cent, as compared with rates of 3.3 per cent from 1965-66.

Labor Relations and Working Conditions

In the area of labor relations, the Commission mentioned several collective bargaining agreements that it considered significant.

In the Netherlands, an agreement concluded between the Government and the Foundation of Labor will give labor and management greater freedom to negotiate wages. Previously, union and Government representatives used to negotiate the maximum and minimum standards for wages, working hours, and general standards for working conditions. The new agreement will allow labor and management to set these conditions without prior Government intervention, although the Government will continue to watch over the situation to prevent wage increases that would damage the economy.

In France, a Government order introduced compulsory profit sharing for all wage earners in firms employing more than 100 people. Employee participation is in the form of capital frozen in principle for five years. This action was intended to give workers a more direct interest in the growth of their firms and to create an additional source of savings thus increasing corporate investment capacity.

Social Security: Alignment by Different Means

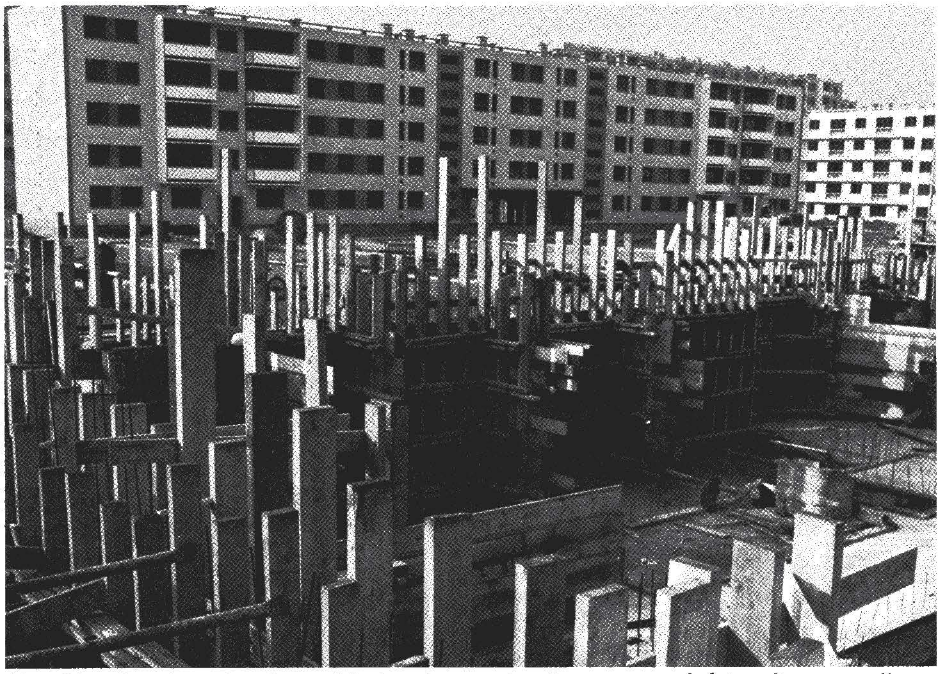
The application of social security was further extended during 1967, benefits improved, and reforms enacted, proposed, or initiated. However, some countries took restrictive actions because of financial difficulties in their social security systems. Accounting or budgetary concerns accounted for some of these decisions, but the Commission indicated that others were modifications to assure the future of plans likely to be affected by the "spontaneous" growth of expenditure.

Despite differences in the means the member states used to accomplish their ends, the Commission said reforms often resulted in an alignment of the national situations at Community level. For instance, in 1967, France separated health and old-age insurance and established a unified administrative system, while Italy decided on a gradual merger of the institutions that administer health insurance plans to prevent "pulverization" of expenditure. Though attacking the problem from opposite directions, both countries are moving towards the same ends.

Industrial Health and Safety

In view of scientific and technical developments in machinery and working methods, further work should be done on legal provisions to protect workers on the job, the Commission said. Legislation on the technical aspect of accident prevention dealt with safety precautions for dangerous machines and equipment, mainly steam boilers and compressed gas containers. Several member states established rules concerning the handling of dangerous substances, and others are expected to do so in view of the Council's directive of June 27, 1967, on this subject.

The Commission noted an inclination in the member countries to make technical safety rules sufficiently flexible for new engineering techniques and methods to be used in the future without modification of the standards.



New ideas in urban planning and in housing construction were needed to relieve crowding in the major cities, the Commission said.

The member states supplemented or amended legislation and administrative rules on basic standards for protection against ionizing radiation, according to the Commission's directives.

France and Italy made changes in their legislation to align them with the Commission's recommendation of January 31, 1967, concerning the protection of young workers. In Luxembourg a draft law for the same purpose was sent to the Council of State. Belgium promulgated a Royal Decree concerning all aspects of women workers, recognizing, in particular, their right to equal pay. A draft law was put before the Belgian Parliament on February 23, 1967, to recognize the legal status of collective labor agreements, filling a gap in Belgian labor legislation.

Housing Problems Become More Complex

Housing problems are becoming more complex, mainly as a result of population expansion and urban concentration. Public housing can no longer be dissociated from the concept of an overall environment policy, which the Commission said, should be introduced gradually into the wider context of urban and rural land use planning.

During 1967, the Commission said severe housing shortages persisted in France and Italy. Germany and Luxembourg met normal requirements, and the Netherlands was catching up. In Belgium, there was a public housing shortage. The Commission estimated that in 1967 1,467,200 new dwellings had been completed throughout the Community, about the same number as in 1966.

SWISS ASK TO JOIN EEC COOPERATION TALKS

Switzerland has asked to be included in any negotiations on agreements for cooperation that take place between the Common Market and the applicants for Community membership (the United Kingdom, Ireland, Denmark, and Norway). The Swiss ambassador to the European Community, Paul-Henri Wurth, submitted this request on March 7.

Switzerland submitted a request for associate membership in the Common Market in 1962, but it has not formally renewed it. Switzerland is the Common Market's second largest client, buying about 12 per cent of the Community's farm produce.

EIB FINANCES NUCLEAR REACTORS IN GERMANY

The European Investment Bank is lending a German nuclear energy company, Kernkraftwerk Obrigheim, $6.25 million to help finance an $83 million nuclear power station at Obrigheim, Baden-Wurttemberg. The power station will be equipped with a 300 MWe pressurized-water reactor and will supply electricity to 13 local supply companies. The loan runs for 12 years, and bears interest at 6.5 per cent.

Another recent Investment Bank loan was of $5 million to West Berlin's power company, Berliner Kraft und Licht, to help enlarge the Reuter power station in West Berlin. The 17-year loan bears 7 per cent interest.

RENEWAL OF YAOUNDE CONVENTION EXAMINED COMMISSION SUGGESTS MORE FINANCIAL AND TECHNICAL AID TO AFRICA

The European Communities Commission has recommended that the Six increase their financial and technical assistance to the 18 African countries associated with the Community by the Yaoundé Convention of 1964.

This was one of the recommendations the Commission made in a memorandum sent in April to the Council of Ministers, in preparation for negotiations with the Eighteen. According to the Convention, these negotiations for its renewal are to begin on June 1, 1968, one year before its expiration date. The Commission said that it had tried to find ways to improve existing arrangements and adapt them to recent changes in economic relationships, especially in the area of trade between industrialized and developing countries. It also said that the relations developed between the Six and the Eighteen were of economic and political importance and that these relations should be in any new agreement.

More Export Expansion Aid

The basic features of current trade arrangements should be maintained, the Commission said. These consist of a system of reciprocal obligations and preferences, a principle which, though criticized by some non-participating countries, has helped to increase trade, thus fulfilling one of the purposes of the Yaoundé Convention.

Any modifications made in this aspect of the association, the Commission indicated, should be made in such a way as to help the developing countries solve special exporting difficulties.

The Six should include:

- specific measures to encourage production and sale of products that are essential for certain Yaoundé countries' economic development.
- maintenance of a liberal agricultural import system to encourage the Yaoundé countries to industrialize, especially by processing their own agricultural products.

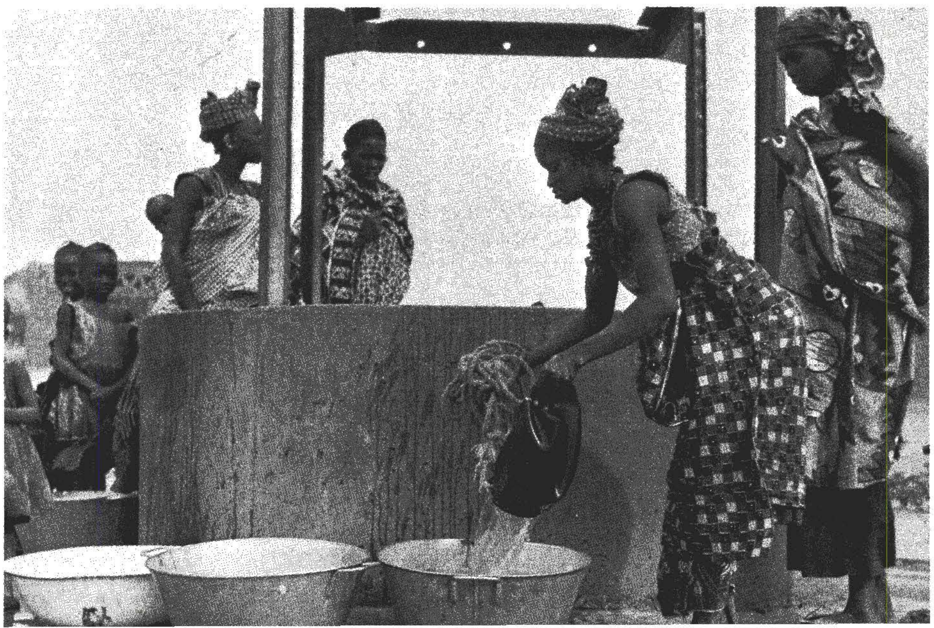
Financial and Technical Aid, Satisfactory

Apart from recommending that the Six increase the volume of their financial and technical aid to the Eighteen, the Commission made no other suggestions for improving arrangements that are already satisfactory.

Since the Yaoundé Convention entered into force, the Community has provided a total of $1,147,550,000 for grants and loans to the Eighteen. Intervention and financing methods have been developed that now suit the varying needs of each associate country. Financial and technical cooperation has become wide enough in scope to cover all the aid required for the economic and social advance of these countries. The aid (principally through the European Development Fund but also the European Investment Bank) allows enough flexibility to modify priorities, should the need arise.

The clauses on right of establishment of companies, freedom to offer services, and freedom of capital movements and payments are helping to eliminate any remaining obstacles or discriminatory measures that hamper any surviving discriminatory treatment. These too, the Commission said, should be maintained.

This is one of fifty wells drilled in Mauritanian villages with Community assistance. The Six should increase their technical assistance as well as their financial aid to the Eighteen, the Commission said.



1967 U.S. INVESTMENT IN EC DROPPED BY $302 MILLION

American persons and companies invested $838 million in the European Community (EC) countries during 1967, $302 million less than in 1966.

According to the U.S. Department of Commerce, new direct private American investments all over the world totalled $3.03 billion in 1967, as compared with $3.54 billion in 1966, $3.42 billion in 1965, and $2.44 billion in 1964. Foreign investment in the United States rose from $86 million in 1966 to $153 million in 1967.

In 1967, investment by U.S. companies and individuals in Canada fell by $704 million to $383 million, and by $28 million to $356 million in Great Britain. Investment totalled $143 million in Latin America (down $133 million), $329 million in Australia, New Zealand, and South Africa (up $159 million), and $654 million in other African and Asian countries (up $220 million).

PARLIAMENT JOINS U.S. IN MOURNING KING

The European Parliament's Political Committee on April 9 unanimously approved the text of the following message:

"The European Parliament's Political Committee joins the Government and the people of the United States in mourning on the funeral day of Rev. Martin Luther King Jr. and honors his noble and heroic memory. It hopes that his exemplary sacrifice will work for peace among all men, irrespective of their race and ideologies."

"PUBLIC OPINION" SPEAKS UP ON ECONOMIC POLICY

Public opinion, as represented by the Economic and Social Committee, thinks current economic policy should place greater stress on the need to maintain expansion of the European Community economy. The European Communities Commission, taking expansion for granted, has voiced special concern about maintaining cost and price stability in its economic forecast for 1968.

The Committee, reviewing the Commission's forecast, at the end of March said that the Community should increase joint activities that would enable it to function as an economic unit, particularly in trade and monetary affairs. The Economic and Social Committee consisting of representatives of employers', workers', consumers' and other groups, was created by the Common Market Treaty to bring the views of the public to the attention of the executive institutions of the Community.

COMMISSION PROPOSES HARMONIZATION OF RULES ON FREE ZONES AND PROCESSING TRAFFIC

The Commission of the European Communities submitted proposals to the Council in April for directives on the harmonization of laws on free zones and on the processing traffic system.

Free Zones

A free zone is any territorial enclave where merchandise is not considered to be in a country's customs territory for the purpose of customs duties, agricultural levies, quantitative restrictions, or any charges or measures having an equivalent effect. Failure to harmonize the Community members' free-zone laws would jeopardize the customs union.

However, since the free zones in the Gex district of the German Federal Republic and in the Haute Savoie, France, and Trieste, Italy, were created by international treaties, the Community measures in question can only be implemented if the treaties are revised. Furthermore, these measures would not preclude—if the need were felt for economic reasons connected, say, with regional development—the future creation of free zones with more liberal arrangements; but the necessary provisions would have to be worked out at Community level.

The new proposal is based on Article 100 of the Common Market Treaty, and the European Parliament and the Economic and Social Committee will have to be consulted.

Processing Traffic System

The economic importance of this system is considerable since it temporarily exempts importers of non-Community goods for processing and re-export from paying customs duties, agricultural levies, or taxes with equivalent effect. Some Community members condition exemptions upon prior examination of the interests of domestic producers of competitive goods. Others merely investigate whether the technical conditions in which processing takes place necessitate customs inspections to ensure the collection of duties, taxes, and agricultural levies if the products are not re-exported. Since this situation involves considerable differences in the member countries' regulations, and is incompatible with customs union, common rules must be established for granting the benefit of processing traffic with due regard both to the interests both of the Community's export trade and of producers in the Community.

Community members would have to make any necessary changes in their systems by July 1, 1968, to conform with the proposed directive.

Processing Traffic Committee

The Commission has also submitted a draft decision to the Council, creating a committee composed of representatives of the member countries to examine problems involved in introducing and applying relevant rules.

COURT OF JUSTICE RULES ON U.S. PATENT CASE

The Court of Justice of the European Community has ruled that the exercise of a patent right could not be nullified by invoking the Rome Treaty rules on unfair competition.

The suit was brought by Parke-Davis, an American pharmaceutical firm which had licensed a Netherlands company to produce its patented antibiotic, Chloramphenicol. Other firms subsequently began importing the drug into the Netherlands from Belgium, Hungary, and Italy and undercutting the licensed manufacturer. Parke-Davis sought a restraining injunction against the Dutch importers from the Netherlands courts. The Netherlands courts decided that imports from Belgium and Hungary should be halted, but reserved judgment in the case of Italy, because Italy has no patents on pharmaceuticals and, according to Italian legislation, production of the antibiotic was legal in Italy. The issue then was whether the Italian version could be sold in other Community countries.

The defendant companies argued that if Parke-Davis were allowed to prevent the import of Italian-produced Chloramphenicol, it would constitute a violation of Articles 85 and 16 of the Rome Treaty, which ban practices that restrict competition. The Netherlands Appeal Court at the Hague referred the case to the European Community Court in Luxembourg for a preliminary ruling. The European Court confirmed the legality in terms of Community law, of patent protection granted by member states. This protection, it stated, cannot be thwarted by invoking the Rome Treaty rules on unfair competition. The Court maintained that a firm is not necessarily acting improperly if it sells its patented product at a higher price than a non-patented equivalent.

The ruling pointed out that the Rome Treaty expressly recognizes the need for the protection of industrial property, on condition that there is no arbitrary discrimination or disguised restrictions on trade between member states. The Court added, however, that the Treaty's provisions on restraint of competition could be applied where there was concerted action by firms in the exploitation of patents. But it found that these provisions are not applicable in the Parke-Davis case.

EDF TO LEND $17.6 MILLION FOR DEVELOPMENT PROJECTS

The European Development Fund will receive $17.6 million to finance ten new development projects in countries associated with the Community, as a result of decisions made by the European Communities Commission on April 2.

The projects approved were:

Country	*Project*	*Amount*
Niger	studies for the Niamey-Zinder highway	$ 466,000
Central African Republic	slaughterhouse construction, and equipment	2,034,000
Burundi	construction of a national college of public administration	491,000
Congo (Kinshasa)	purchase of two marine dredgers	1,000,000
Comoro Islands	road improvements	1,803,000
Surinam	modernization of the east-west road	1,612,000
Martinique	sanitation improvements in Fort-de-France and Schoelcher	1,269,000
Wallis and Futuna Islands	dirt road construction on Futuna	607,000
Madagascar	third annual installment of production aid program (rice, pepper, coffee, cotton)	7,855,000
Chad	fourth annual installment of production aid program (cotton)	466,000

These amounts will raise the total commitments of the second European Development Fund to $501,297,000, covering 246 projects. These figures exclude expenses of supervising the execution of the projects and the Fund's own administrative and financial expenses.

DUTY EXEMPTIONS PROPOSED ON IMPORTS FOR AIRCRAFT AND SHIPBUILDING INDUSTRIES

Tariff exemptions for certain products used in aircraft and ocean-going ship construction have been proposed by the European Communities Commission.

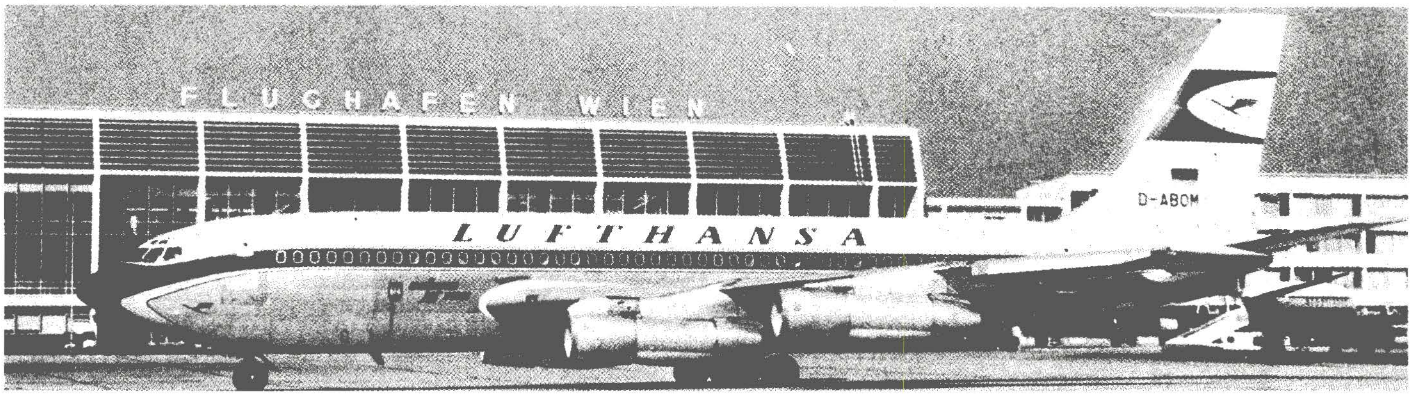
On April 1, 1968, the Commission sent proposals for these exemptions to the Council of Ministers for a decision, which would affect all the members of the European Community—Belgium, France, Italy, the Federal Republic of Germany, Luxembourg, and the Netherlands.

Tariffs on imports used to build, equip, maintain, renovate, or repair maritime vessels would be given tariff-free entry for a period of five years, starting on April 1, 1968. The exemption would be renewed automatically for additional five-year periods, unless one or more member countries objected and the Council of Ministers, by unanimous decision, made other arrangements.

Duty-free entry for some aircraft parts and partial tariff exemptions for others were proposed for a period of three years, retroactive to January 1968. The exemptions would apply to material—for which the major supplier is the United States—for use in building aircraft larger than 15 metric tons and for the construction, maintenance, or repair of planes weighing from 2 tons to 15 tons.

Products for planes weighing between 2 tons and 15 tons would be given a partial tariff exemption for three years, retroactive to January 1, 1968. The exemption would bring the Community's common customs tariff to the level agreed on in the Kennedy Round of negotiations under the General Agreement on Tariffs and Trade (GATT). The same duty exemption applies to products intended for use in construction, maintenance, and repair of planes of this weight that have been built, were under construction, or imported into the Community before January 1,1968.

A Boeing 720 jet at the Vienna Airport. The United States, as the major supplier of large aircraft to the Community members, would be the major beneficiary of the tariff exemption proposed. PHOTO: *Courtesy of* Lufthansa, *Washington, D. C.*



JOINT EFFORT NEEDED IN EURATOM

Europe's nuclear industry could lose its competitive position in the world if member states of the European Community do not adopt a common industrial policy to prevent Europe from relying too heavily on imported technology.

These conclusions were put forth in a document on Euratom's future role submitted in March by the Commission of the European Communities to the Council of Ministers in Brussels.

Despite objections voiced by some member states against continuing certain joint Euratom efforts, the Commission urged the Council to take speedy action to approve a common program.

Among the problems highlighted in the Commission's document, "Future Research Activities of Euratom," are those of joint effort in the field of reactor prototypes and of long-term supply of enriched uranium. On the latter point the Commission called for a study on the possibility of a European isotopic separation plant.

The Commission said that the Atomic Energy Community's Joint Research Center must be maintained for a wide variety of research tasks ($300 million has been invested in the four establishments of the JRC since its creation in 1958). It also said that associations in the field of thermonuclear fusion research have proved effective and must be carried on.

The Commission suggested wider use of certain provisions of the Euratom Treaty, such as:

- comparison and coordination of national programs (Article 5 of the Treaty) which must now be carried out more effectively than in the past
- joint financing (Article 6): the Community would contribute to programs already jointly financed by several states or companies
- granting of loans (Articles 6 and 172) for specific projects
- direct financing by the Commission of certain common actions (Articles 6 and 174)
- the setting up of joint enterprises (Article 45) to carry out major undertakings such as the building of fast reactor prototypes.

Total expenditures of the member states during the next five years in research and development activities in the field of peaceful uses of nuclear energy have been assessed at about 4-5 billion dollars. The total cost of research and development in which the Community could participate is put by the Commission at about $1.9 billion. However, Euratom's contribution is left open, depending on the number of contributions and amount of each.

FRENCH BUSINESS ELITE FAVOR BRITISH ENTRY

Sixty-two per cent of the chairmen of France's leading 1,000 companies favor Britain's entry into the Community, once the British economy is in order, according to an opinion poll published on March 9 by the Parisian newspaper *Le Figaro*. SOFRE, the French equivalent of the Gallup Poll conducted the survey.

Ten per cent of those who replied did not want Britain in the EEC under any circumstances, 22 per cent favored UK membership as soon as possible, and 6 per cent were undecided. Strongest support for British membership came from financial institutions and chemical industries. Heads of the textile, electrical, engineering, metallurgical, and heavy machinery industries were least favorable.

GATT RELEASES 1967 WORLD TRADE ESTIMATES

The General Agreement on Tariffs and Trade (GATT) estimates that in 1967 world exports increased by 5 per cent, from $201 billion to roughly $211 billion. This compared with a 9.7 per cent annual rate of increase in the three preceding years.

The Common Market's exports (including trade between the six member countries) grew 7 per cent in 1967 as compared with 10 per cent in 1966. Exports by the European Free Trade Association members increased 2 per cent, as compared with 7 per cent in 1966. Total EFTA imports remained unchanged at 5 per cent, but their imports from the Common Market expanded only 3 per cent in 1967, compared with a rate of 9 per cent in 1966.

The GATT said the slow-down of world trade expansion has particularly severe effects on the developing countries: the value of their 1967 exports increased only by 1 per cent.

HIGHER STEEL CONSUMPTION FORECAST

Raw-steel consumption in the Community should total nearly 20 million metric tons in the April-June quarter, according to the European Communities Commission.

Consumption will amount to 8.47 million metric tons in the Federal Republic of Germany, 4.98 million in France, 4.5 million in Italy, 950,000 in Belgium-Luxembourg, and 940,000 metric tons in the Netherlands. This forecast is nearly 5 per cent higher than consumption in the same period last year.

Production will be around 24.15 million metric tons: 9.75 million in Germany, 5.45 million in France, 4.25 million in Italy, 2.65 million in Belgium, 1.15 million in Luxembourg and 900,000 in Holland.

Exports are expected to total 4.9 million tons; and imports 700,000 tons.

PUBLICATIONS AVAILABLE

NATIONAL ACCOUNTS 1957-1966: BALANCES OF PAYMENTS 1962-1966. Statistical Office of the European Communities, Brussels, December 1967, 311 pages. $2.00

Contains the national accounts and balance-of-payments statistics of the EEC and its member states and some comparative data for the United Kingdom, the United States, and Japan.

REVENUE FROM TAXATION IN THE EEC 1958-1965. Statistical Office of the European Communities, Brussels, 1967, 81 pages. $1.00

General analysis and commentary on the revenue from taxation and a description of taxes in each member country of the EEC. Statistical Tables are included. Most of the text is in French.

EXPOSÉ SUR L'EVOLUTION DE LA SITUATION SOCIALE DANS LA COMMUNAUTÉ EN 1967. Commission of the European Communities, Brussels, February 1968, 316 pages. . . . $2.40

Annual report on social and labor developments. Published a few months earlier than usual, as a result of the merger of the executives of the Community, this report covers the period from January 1 to December 31, 1967. It includes information on the ECSC and Euratom as well as the EEC.

AGRICULTURAL COOPERATION IN THE EEC. *Agricultural Series*, No. 21, EEC Commission, Brussels, 247 pages. $6.00

Prepared by Mr. J. Lockhart, assisted by a group of experts from the Community countries. This study discusses the sociological and economic origins of agricultural cooperation. It describes and compares the legal system, fiscal system, social provisions, budgetary measures, and organization of agricultural cooperative activities in each EEC member state. It also shows the position of agricultural cooperatives within the general cooperative movement of each country and within the national economy. In conclusion, the author assesses the present and future role of agricultural cooperation and suggests certain reforms.

THE ECONOMIC SITUATION IN THE COMMUNITY. Commission of the European Communities, Directorate General for Economic and Financial Affairs, Brussels, December 1967, 125 pages $2.00

Report on the economic situation in 1967 and the outlook for 1968 for the European Community. An effort is made to assess the effects of the European situation on the balance of payments of the United States.

ASSOCIATES: YEARBOOK OF GENERAL STATISTICS 1967. Statistical Office of the European Communities, Brussels, 1967, 731 pages. . . . $2.50

Basic statistics for the associates of the Community. Countries and territories included are: Greece, Turkey, Mauritania, Mali, Upper Volta, Niger, Chad, Senegal, Ivory Coast, Togo, Dahomey, Cameroon, Central African Republic, Gabon, Congo (Brazzaville), Congo

FOREIGN TRADE: ANALYTICAL TABLES—CST, JANUARY-DECEMBER 1966. Statistical Office of the European Communities, Brussels, 1967.

Import Volume, 395 pages. $3.00
Export Volume, 776 pages. $5.00

Published in a single French-German edition. Contains:

- *Summary of EEC imports and exports by area and 4-digit commodity groups.*
- *Imports and exports by commodity (5-digit groups), broken down by country of origin and destination.*
- *Imports and exports by country of origin and destination, broken down by commodity (3-digit groups).*

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