

SEPTEMBER-OCTOBER 1981 NO. 227

\$ 1.50

EUROPE

Magazine of the European Community



IRELAND: FitzGerald's Inheritance



**he English language
brings out the
best in the Irish.
They court it like
a beautiful woman.**

**They make it bray with donkey
laughter. They hurl it at the
sky like a paintpot full of rain-
bows, and then make it chant
a dirge for man's fate and
man's follies that is as mourn-
ful as misty spring rain crying
over the fallow earth. Rarely
has a people paid the lavish
compliment and taken the
subtle revenge of turning its
oppressor's speech into
sorcery."**

TIME

Senior Writer T.E. Kalem
in a review of *Borstal Boy*.

*In appreciation of the Irish from those who share their love of language.
TIME, The Weekly Newsmagazine*

EUROPE

Magazine of the European Community

SEPTEMBER-OCTOBER 1981 NO. 227

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Cover: Irish Prime Minister Garret FitzGerald
Courtesy of Tara Publishing Co. Ltd.

EUROPE, Magazine of the European Community, is published by the Delegation of the Commission of the European Communities, 2100 M Street, NW, Suite 707, Washington, DC 20037. © The Commission of the European Communities, 1981. The magazine is a forum for discussion, and therefore its contents do not necessarily reflect the views of European Community institutions or of the member states. The magazine encourages reproduction of its contents, but any such reproduction without permission is prohibited. EUROPE, published bimonthly, is available by subscription for \$9 per year; \$15 per 2 years; \$20 per three years.

Editorial, permissions, advertising, and circulation offices: 2100 M Street, NW, Suite 707, Washington, DC 20037; telephone (202) 862-9500; telex 248455 COME UR.

Advertising Sales Representatives:

Belgium/Luxembourg, Insight Publications SA, 42 bd. de la Cambre, Bte. 3 1050-Brussels, tel: (02) 640 62 80 telex 63 695.

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The Netherlands, G. Arnold Teesing BV, Prof. Tulpstraat 17, 1018 GZ Amsterdam, tel: (020) 26 35 16; telex 13133

Application to mail at second class circulation rates is pending at Washington DC.

Postmaster: please send change of address forms to EUROPE, 2100 M Street, NW, Suite 707, Washington, D.C. 20037.



Publisher's Letter

With this edition, Europe magazine marks the arrival of a new editor-in-chief, Jurek Martin, successor to Walter Nicklin, our guiding light for so many years. We think we have netted something of a catch in Martin, an occasional contributor to our pages in recent years and one of Britain's foremost commentators on American affairs from his vantage point as Washington-based US editor of the Financial Times, the distinguished daily newspaper.

"What I want to try and do," he says, "is to help bridge the often vast gulf of incomprehension that separates Europe and the United States, even among supposedly sophisticated people. I hope to be able to tell Americans more about how Europe works, in all its many manifestations, and to enlighten Americans about how they and their Governments' policies are viewed in Europe. If and when Europeans fail to understand America, then we will lay that on the line, too."

"I'm taking over a pretty good magazine," he adds. "I will try and give it a little sharper focus, grouping subjects more thematically and encouraging a fair and hard hitting exchange of views." Thus, our member state report this month on Ireland pulls no punches in assessing the considerable political and economic problems confronting the new FitzGerald Government; we are honored that the Taoiseach (Prime Minister) himself takes time to give us his personal sense of Ireland's place in the world.

Similar criteria apply to our section on the state of the Atlantic alliance, with Robert Hunter's tough critique of the Reagan Administration's foreign policies and John Wyles's trenchant analysis of the Ottawa summit, contrasted with US Defense Secretary Caspar Weinberger's pithy world view (culled from a British Broadcasting Corporation interview not broadcast in the United States) and former British Prime Minister Edward Heath's broader historical perspective.

Each edition will also be taking hard looks at critical business and economic areas; this time it is the competition in high technology and export credits on the one hand and dissections of France's and Britain's economic and social difficulties on the other.

But enlightenment, Martin argues, can also be fun. Johnny Apple, London bureau chief of The New York Times, is known among his friends as a legendary gourmet. Hereinafter, his secrets will be divulged exclusively in these pages. Subsequently we will be adding columns on sports, cultural, and social matters.

Yet this is a letter which must also look, with great sadness, backward. The tragic deaths of Fernand and Ann Spaak are an immeasurable loss to America, Europe, and to all of us personally.

Andrew A. Mulligan.

Ireland, Europe, and America

*Garret FitzGerald, the Prime Minister,
assesses his country's place and policies in the world*

AMERICANS WHO DO NOT FOLLOW IRISH ISSUES MORE closely than by reading their local newspapers might perhaps be forgiven for thinking that we are a politically introspective people, either impervious or indifferent to forces or events beyond the horizons of an old, intractable, and murderous quarrel that drags on in Northern Ireland. Those who know us a little better have learned that we are not as they might have expected. History and temperament have in fact given us a peculiarly internationalist sense, both of our own problems as well as of our limited but rather complex place in the world. As one who has never concealed his profound internationalist convictions, I find this enthusiasm for the external world a considerable encouragement to me at a difficult time in our country's affairs.

For centuries the Irish have looked outside for inspiration, relief or an avenue of escape from misery at home. The struggle for political independence looked to Spain in the 17th Century, France and Italy in the 18th and early 19th, and of course overwhelmingly to America from the great famine of 1846-48 onward. Emigration, itself largely the historical source of our internationalism today, continued during these centuries, swelling into a diaspora that reached almost every country on earth and in such numbers that there are today more people conscious of recent Irish extraction abroad, relative to the number of Irish people at home, than any other country can comparably claim.

Our involvement with the external world was, therefore, from the beginning grounded more in the human links of kinship, friendship, and material need than in any colder diplomatic calculation. This human emphasis has endured and strongly colors our policy in today's more complex world. Thus, our people continue to see our official friendship with the United States as an expression of their own more intimate personal links with Americans. Our involvement in the European Community is partly felt as an echo or a renewal of earlier solidarity, itself founded on still earlier waves of emigration to the European continent. Thus, too, Irish foreign policy reflects a human compassion which our history inevitably inspires for other peoples who are trying to overcome the difficult political and economic burdens of a colonized past.

Although one of the oldest peoples in Europe, we are a young state. Memories of deprivation and conflict are recent, and these memories, reinforced by the tragic drama which continues in Northern Ireland, have given us a keen sense of the precious value and also the fragility of order and stability in public affairs, not alone in Ireland but in the larger world.

As a small open economy, we have a vital stake in international economic and political stability. We see our relationships with the United States and Europe as central to this objective. New economic links have been and continue to be forged with America. In 1980 over 50 per cent of foreign investment in Ireland was of US origin. Ireland has come to be seen by American corporations as one of the most attractive locations for investment, with unrestricted access to the Common Market of the European Community.

Our relationship with Western Europe has also been transformed. We joined the Community in 1973 and we have since participated in the effort to promote economic integration and closer political union with an enthusiasm which reflects the great desire of our people to act in a large and less claustrophobic environment than the difficult and sometimes bitter Anglo-Irish relationship which had previously dominated our international horizons.

Europe

At this time of uncertainty in international relations and of world economic difficulty, it is not surprising that there should be efforts to restate or even reinterpret the basic political European ideal. Economic integration has faltered within the Community. In the eyes of the world, the efforts of the Community have in recent years been marked more by squabbling than by progress and some of the member states have seemed to be preoccupied with narrow national interests. Public confidence in the future of the Community has suffered within Europe—even in Ireland. Externally, the Community's potential has been recognized although Europe's friends, including the United States, have shown impatience with the inevitable complexity of the Community's decision-making procedures and have at times chosen to disregard the European institutions either by proceeding unilaterally and without any consultation or by consulting only some of the larger member states on matters which are

within the Community's competence.

No one is more aware of the tiresome irritations of the Community system than a small member state such as Ireland which lacks the relatively greater administrative resources of larger partners. Equally, few can be as painfully conscious of the damage done to the interests of the Community either by internal disunity or a failure on the part of our friends in the world, particularly the United States, to deal with the Community through the institutional systems which have been created patiently and with enormous labor and outside of which the smaller member states interests have no protection.

European Foreign Policy

The Community's capacity to influence external events depends directly on the degree of internal cohesion which we have achieved. It is only through greater economic integration in the Community, by building on existing policies and developing new areas of Community activity, that a broader common interest can be created.

These factors are already being acknowledged in the current debate in Europe on the future of European union and in the efforts that are now being made to develop the procedures and the scope of European Political Cooperation (the inter-Governmental process through which the 10 member states of the Community seek to coordinate their foreign policies). The Irish Government, in particular, is convinced that any real prospect of finding a common will among the Ten to act together in the face of world problems—for example, East-West relations—is set back by a failure to make progress on internal Community problems such as the seemingly endless and sometimes very bitter squabble about the Community budget.

That is to say, we do not believe that the Ten should embark on an intensification of European Political Cooperation merely as an alternative to, or a more congenial distraction from, the Community's existing internal tensions. We see European Political Cooperation as an externalization of the Community's internal strength, i.e. its internal unity of purpose. The Community's "foreign policy" and its "internal policy" are, in short, mutually dependent and mutually reinforcing.

US-European Relations

The United States has consistently supported the EC ideal of closer integration as a policy objective. Some American leaders, however, have found that this policy when put into practice, e.g. in trade negotiations, runs counter to their perception of the interests of the United States. As a short-term view this is understandable but it involves, in my judgement, a profound misconception of the long-term interests of the West. It is also a failure to face reality. The reality of the 1980s is that economic and political circumstances in the United States and Europe differ with the result that their perceptions and

approaches sometimes diverge. The problems and tensions that result should be seen to be subsidiary to the larger interest which is a harmony (though not necessarily an identity) of purpose between the United States and Europe. The ideological credibility of the West, after all, rests largely on its manifest pluralism. In more practical political and economic terms, Americans should recognize that the value to them of their relationship with Europe today will be determined directly by Europe's ability to develop separate stature in world terms.

The Irish Emphasis

Ireland's position in the Community is marked by a number of peculiar features which in themselves serve to underline the distinctiveness of the European experiment. On the one hand, although deeply committed to Western democratic values, we are not members of any military alliance. In fact, we are the only member state of the Community not to belong to the North Atlantic Treaty Organization (NATO). Our non-membership of the alliance has not given rise to any serious difficulty and, indeed, has created a useful working distinction between the foreign policy roles of the Ten and NATO which has proved congenial to both groups.

It is also the case that, while we greatly value our traditional friendship with the United States, and while our economic development is based to a considerable extent on the development of that relationship, our historical experience with a large neighboring state places us firmly among those in the Community who believe that the best prospect for the future of US-European relations depends on respect by each side for the prerogatives of independence and "sovereignty" of the other. Our historical experience also gives us a strong sympathy with developing nations or peoples struggling for their freedom and this has characterized our policy in a community of states of which we are the only member to have experienced colonial occupation in modern times. We, therefore, bring a particular emphasis to issues under discussion in European Political Cooperation. For example, while the East-West relationship continues to be the primary focus of efforts to maintain international peace, we believe that there are other conflicts of a regional nature which cannot be seen solely against the background of a bipolar East-West relationship but have their own intrinsic features which must be faced squarely. Thus, we have supported the efforts of the Ten to encourage progress toward a comprehensive peace settlement in the Middle East.

Both the United States and Europe acting together can do much to assist Israel, the Palestinian people, and the Arab countries to work toward a settlement of a conflict that diverts too many resources and prevents normal development in that part of the world. We have made our own specific contribution to the search for peace by

supplying military personnel and contingents for United Nations peacekeeping operations in the area, most recently in southern Lebanon.

In Southern Africa, Ireland among the Ten and at the United Nations has urged rapid and peaceful change. The example of Zimbabwe is an encouragement of those who wish to avoid damaging conflict in a sensitive part of Africa. We hold that the time is ripe for vigorous efforts to encourage South Africa to reach an early negotiated settlement in Namibia and to make the necessary changes internally in South Africa itself. The longer term interests of Europe and America are best served by action to remove the causes of conflict and to lay the basis for friendly and stable relations among all of the states in the region and between them and the rest of the world.

The greatest problem we face is, of course, on our own island. It is not possible in this brief review of our position in the larger world to give a full picture of the historical, social, economic, or political complexity of this tragedy. Such a review would, however, be incomplete without reference to Northern Ireland, not just because it is our greatest single problem, but because I believe that the United States and Europe can play constructive roles in helping to solve it.

At the heart of the problem in Northern Ireland are the conflicting aspirations of the two communities, the Protestant unionist majority and the Catholic nationalist minority. There is a deep desire on the part of the majority of Irish men and women that a solution should be found for the problems that have divided the people of our island, a solution which is agreed by the British and Irish Governments and a majority of the people of Northern Ireland.

For some seven years now there has been a political vacuum in Northern Ireland which the men of violence have attempted to fill. A tiny minority of terrorists on the nationalist side have, over the past 10 years, maintained a campaign of violence which has deepened the divisions in the community and frustrated the efforts of the British and Irish Governments to find an agreed solution. The activities of the nationalist terrorists, notably those of the Provisional Irish Republican Army (IRA), have intermittently provoked violent reactions on the majority side of the community which have, if anything, surpassed in ferocity and cruelty the violence of the IRA. The security forces, for their part, particularly in the early 1970s, were guilty of serious and extensive ill-treatment of citizens as confirmed by the European Commission for Human Rights, one tragic result of which was the alienation of hundreds of young men who became involved in violent crime.

The impasse has been greatly exacerbated by the current hunger strike by prisoners who are members of the

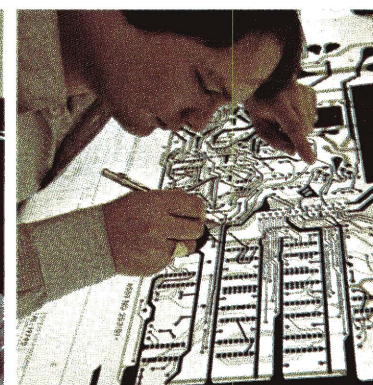
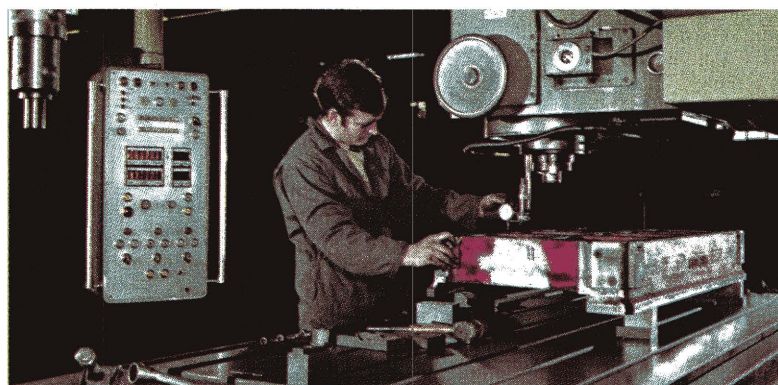
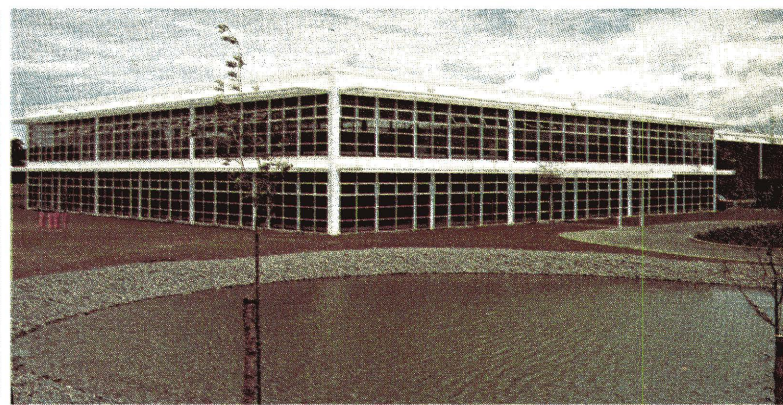
Provisional IRA or the allied Irish National Liberation Army (INLA) in which 10 men have already died. Emotions have been raised to a dangerous point in Northern Ireland and public feeling in the Republic has also been unsettled to an extent.

The continuation of the hunger strike has postponed the prospect of early success of the current talks between the British and Irish Governments and has also seriously undermined the position of moderate political leaders in Northern Ireland. As is well-known, it has benefited the propaganda machine of the Provisional IRA, particularly in the United States. For these reasons the Irish Government has urged the British Government to find a solution to the hunger strike which would not involve the sacrifice of any fundamental principle. We have reason to believe that such a solution is possible. Up to this time of writing we have been disappointed at the British response to our representations which we feel has failed to reflect the seriousness with which we view the dangerous opportunities which this situation creates for subversion and which could, if prolonged, create a danger to the security of both islands.

With the passage of time the solution to the fundamental political problem of Northern Ireland becomes not alone more difficult but more urgent. It is essential that both Governments should give to its solution the highest priority. They must both confront in their full dimensions the age-old differences between those who favor and those who oppose a specifically Irish solution to the crisis. The membership of all of Ireland in the European Community provides the Community with an opportunity to exemplify in a dramatic way its fundamental commitment to preventing conflict between the peoples of the Community. American leaders are also presented with an opportunity to encourage and assist progress towards a peaceful solution which some of them have grasped. We have already welcomed the establishment this year of the "Friends of Ireland," a bipartisan group of leading US politicians, who are helping to promote a greater understanding of the positive role America can play in resolving this tragic conflict.

After the last World War, the possibility of renewed conflict between the peoples of Europe was prevented by a massive infusion of American generosity and goodwill. That danger was kept at bay thereafter through the construction of European institutions in the European Community which enshrined and implemented the ideal of peace. Despite these great constructive efforts a conflict between Europeans continues today in the north-east of Ireland. It will require the energy and goodwill of Americans and Europeans alike to ensure that any solution devised by the Irish and British Governments and the leaders of the people of Northern Ireland is implemented and endures. €

IRELAND TODAY



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THE TAIOSEACH WALKS

Joseph O'Malley looks at political, economic, and social problems

"WHOEVER WINS THE ELECTION SHOULD HAVE FIRST choice on going into opposition." That was the sardonic view of Ireland's new Taoiseach (Prime Minister) Garret FitzGerald in the course of the June election campaign as he warily contemplated the economic and political problems awaiting the new Government, notably the crisis in the country's public finances and the need to secure a settlement in the H-Block hunger strikes in Northern Ireland.

But that election provided a result, but no clear winner. The voters denied victory to all the parties and left six independents to play political king makers in the formation of the new Government. So, for three weeks before the Dail (parliament) resumed to elect a Taoiseach and Government, they kept everyone guessing as they agonized publicly over their new power and responsibility.

The choice was whether to support the incumbent Fianna Fail Government led by Charles Haughey, which had just suffered a huge reverse at the polls, or a center left, Fine Gael/Labor coalition headed by FitzGerald. With 80 seats, the coalition had a two seat majority over Fianna Fail, the largest single party, but the independents still held the balance of power. But national suspense and speculation finally ended with the Dail votes on June 30. Then, the independents by and large abstained, so providing the new coalition with a three-vote majority and qualified endorsement.

For the new Taoiseach, a 55-year-old economist and former minister for foreign affairs in an earlier coalition Government (1973-77), the election result was a personal triumph. Four years earlier when he took over as Fine Gael leader, he took over a party demoralized by a massive general election defeat which saw its voting strength drop to its lowest level in 20 years.

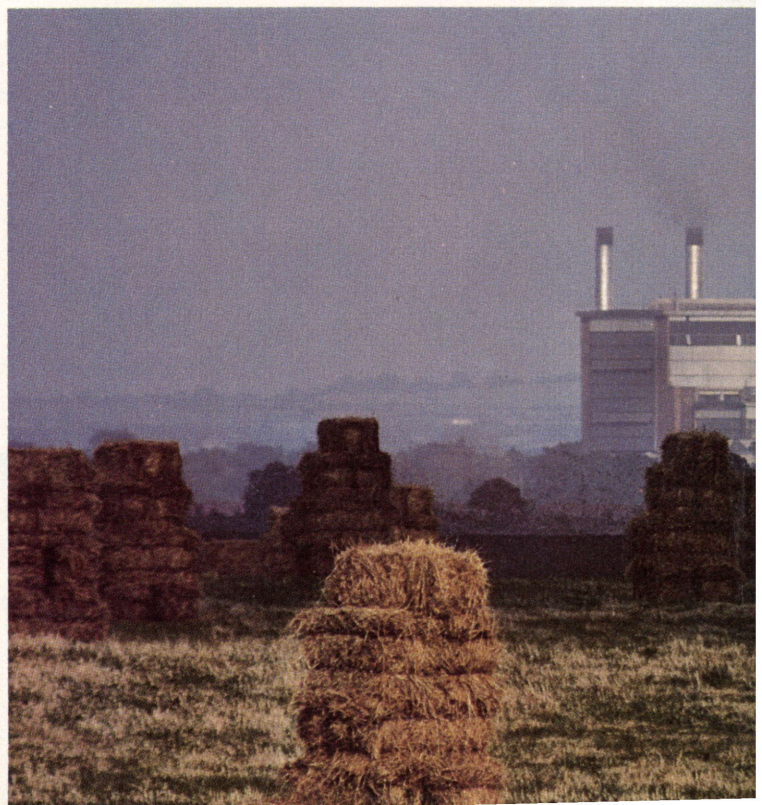
But since 1977 he has transformed the party from a role of semipermanent opposition to that of major challenger to Fianna Fail as the natural party of Government. And in the June elections a revitalized Fine Gael came close to realizing that aim. In the 60-year history of the state, Fine Gael (Family of the Gaels) had never taken

more seats (65) or won a higher share of the popular vote (37 per cent) than it managed this time.

The major factor in that success was FitzGerald himself. As party leader he consistently enjoyed a higher rating in the polls than Haughey, but the question remained whether the huge personal support he enjoyed could be converted into party votes at election time. In opposition, he drafted a new party constitution and set about a complete reorganization of its structures. He broadened its political base, once heavily reliant on middle class and large farmer support, to appeal to the young and capture greater working class support. In the campaign Fine Gael's election program complemented all those efforts with the party adopting tax switching policies similar to those favored by the Conservatives in the 1979 British general election—a reduction in the standard rate of income tax financed by higher indirect taxes on nonessential items.

If Fianna Fail was the main victim of Fine Gael's elec-

Old Ireland converges with the new. This peat-burning electricity generating plant



THE TIGHTROPE

Confronting the new Government, with its fragile majority.

toral success, so too was the Labor party—its current coalition partner. As the refashioned Fine Gael shed its conservative image and policies and adopted an increasingly social democratic stance, it did so at Labor's expense. In the postelection talks on the terms for coalition, a depleted Labor party (15 seats) had little bargaining power. But the joint program preserved the essential positions of both parties, with Fine Gael adopting comprehensive Labor proposals for a major youth employment program.

The new Government—which includes four Labor ministers among the cabinet of 15—reflects the new dominance FitzGerald now enjoys over his party since the election. By Irish political standards his choice for the key Government posts, while revealing a remarkable self confidence, also showed a disregard for the conventional political wisdom in cabinet making. Those chosen were by and large young and with relatively little political experience.

For his foreign affairs minister he took the virtually unprecedented step of appointing a nonelected back-room party worker, James Dooge, a professor. Only once before has the constitutional provision allowing a Taoiseach to bring an outsider directly into Government, via a Senate nomination, been invoked. Dooge, a former Senator himself, is a professor of civil engineering and a close associate of the Taoiseach's. And in his portfolio he is expected to perform with something like the same distinction as FitzGerald himself, when he occupied that role in the earlier coalition Administration.

His minister of finance, John Bruton, is not just the youngest member of this Cabinet, but at 34, the youngest finance minister in the history of the state. Agriculture Minister Alan Dukes, also in his mid-thirties, is one of those few deputies who have managed to win a place in Government on their first day in the Dail.

More than anything else the choices which provoked some controversy, not least within Fine Gael itself, re-

Peat is the largest in Ireland. Peat has been used as home fuel for centuries. © Cotton Coulson, Woodfin Camp



flected FitzGerald's desire to stamp his authority on the party and the Government as it faced directly into tackling the country's problems. And, in particular, it faced two issues which threaten its survival in power.

The first is the H-Block hunger strikes by Irish Republican Army (IRA) members in the Maze prison outside Belfast. Two of them were elected absentee members of the Dail last June: one, Kieran Doherty, became the eighth hunger striker to die and the other has promised to resign his seat. The government could well lose the subsequent by-elections to Fianna Fail and thus its slim parliamentary majority. Another general election might then be unavoidable; at the very least, the handful of independents would assume an even more crucial role if the Government is to be sustained in office.

But, party political considerations aside, there remains a broader national concern that a continuation of the hunger strike could seriously destabilize public opinion in the Republic. This fear has been put by Irish ministers to their British counterparts in urging a flexible response and a conciliatory stance in handling the situation. FitzGerald has raised the matter with British Prime Minister Margaret Thatcher, but with little success. A Government request to President Ronald Reagan to press the British Prime Minister on the matter has met with no visible response.

Like the British Government, FitzGerald does not believe the IRA hunger strike claim to political status can



Garret FitzGerald (center) leaves the Dail, the lower house of Parliament, after he was elected Prime Minister of the coalition Government. ©Wide World Photos

be met. But, he feels, a more flexible response to the demands of the strikers could see a settlement without loss of principle on either side. As yet no formula has been found and attempts at a solution have defied the best efforts of a whole range of mediators—including

The new Cabinet (front L-R): James Tully (Defense); Garret FitzGerald (Taoiseach); Patrick Hillery (President); Michael O'Leary (Deputy Prime Minister and Minister for Energy); Peter Barry (Environment); Eileen Desmond (Health and Social Welfare); Peter Sutherland (Attorney-General); (back L-R) John Bruton (Finance); Tom Fitzpatrick (Fisheries and Forestry); Liam Kavanagh (Labor); Alan Dukes (Agriculture); Jim Mitchell (Justice); Patrick Cooney (Transport and Posts and Telegraphs); John Kelly (Industry, Commerce, and Tourism); John Boland (Education); Patrick O'Toole (Minister for the Gaeltacht); James Dooge (Foreign Affairs). © Irish Times



the European Commission on Human Rights, the Pope's special envoy, the Irish Commission for Justice and Peace and, more recently, the International Red Cross.

But pressing for a settlement remains a top priority with the Irish Government, for the continued failure to resolve the crisis has polarized the communities in the north and is now adversely affecting Anglo-Irish relations. Without some settlement, no discussion or progress can be made on providing a solution to Northern Ireland's larger political problems and the Irish and British Governments would find difficulty in advancing discussions on the joint studies agreed last December as a means of improving relations between the two countries. These joint studies were the product of the Anglo-Irish summit talks between then Prime Minister Charles Haughey and Thatcher, with both agreeing to meet again in London six months later to review progress and take decisions in the light of the "totality of relationships within these islands." But from the outset there was political controversy as the British Government insisted they were concerned with a study of institutional and not constitutional relationships, while the Irish Government—with an election on the horizon—was slow, publicly, to accept such a restrictive view of their potential.

FitzGerald pledged himself to full publication of the content of the studies (covering areas such as economic cooperation, citizenship rights, and security matters) to defuse the growing suspicion in the north and false optimism in the south, that they were advancing Irish unity by stealth. But the H-Block crisis has come between the two Governments and the meeting scheduled for July was deferred until the autumn when, it is hoped, the hunger strike will have ended and the irritant in Anglo-Irish relations will have been removed. On Northern Ireland, the differences between Haughey and FitzGerald may be more tactical than strategic while Haughey saw the Northern Ireland problem as a matter for resolution in the first instance by the two sovereign Governments, FitzGerald sees the need, in addition, to take the north's politicians into the confidence of both Governments if an agreement acceptable to the two communities in the north is to be secured.

If Northern Ireland remains a major concern to the new coalition in Dublin, it is one over which it can only strive to exert influence rather than exercise control. On the other hand, the deteriorating state of the Irish economy confronts the Government with its most formidable challenge. On taking over, it inherited a major crisis in the country's public finances with Government spending and borrowing running out of control and rising inflation making Irish exports less and less competitive on world markets.

A Government review of the economic state of the nation pointed up an alarming trend in the public fi-

IRELAND IN FIGURES

Population	3.43 million
Area	27,137 sq. miles
Gross Domestic Product (1980, at current prices and exchange rates) . . .	\$17.4 billion
Inflation Rate (1980, CPI)	18.2%
Unemployment rate 1980	8.3%
first quarter 1981	10.0%
Trade 1980	
Exports	\$8.48 billion
Imports	\$11.12 billion

Source: Eurostat

nances. By the end of last June, the budget deficit on current account had already reached 90 percent of its full year target as Government spending overshot projected limits. The current deficit on the balance of payments was heading toward IR £1.97 billion (\$2.96 billion) or 20 per cent of gross national product.

At the same time Irish industry is finding it increasingly difficult to stay competitive on world markets as a 20 percent inflation rate pushes up wage costs and eats into profit margins. In 1981, income increases are estimated at about 17 percent while, by contrast, wage levels among the European Monetary System's narrow band members, are expected to be about half that level.

Against this background of financial crisis and to deal with what FitzGerald described as the "desperate problems" bequeathed by the outgoing Government, the new Taoiseach introduced an emergency budget on July 21 and put his Government's survival on the line after just three weeks in office.

Despite being regarded as the toughest in 20 years—with indirect tax rises pushing up inflation by as much as 4 percent—the calculated gamble paid off. The independents balked at bringing down the Government and precipitating another general election.

So the style set by Garret FitzGerald's first weeks in office was that of a leader prepared to govern courageously and live dangerously. He has acted as he hopes to continue for the next five years. But that depends on his slim parliamentary majority. €

Joseph O'Malley is political correspondent for the Sunday Independent

The Millstone of Public Debt

Stewart Dalby reviews an economy in transition.

GARRET FITZGERALD, THE IRISH PRIME MINISTER OF JUST two months has, in his time, been a business executive, an author, a journalist, and of course, a politician. He is probably best known, however, as an economics lecturer. Not surprisingly, when he held his inaugural press conference, one of the points he made was that the "public finances were worse than he had expected." Two weeks later he went on television and gravely intoned that there was going to be a tough deflationary budget. "As a country we are living beyond our means," he said.

Eighteen months earlier, then Prime Minister Charles Haughey, who is by profession an accountant and by inclination a successful, millionaire property speculator, went on television and said: "It is clear that as a nation we are living way beyond our means." So two Prime Ministers—past, present, and most probably future, with economics or business background—along with virtually every Irish economist of note feel that Ireland's public borrowing and in turn—because Ireland has a very open economy—its balance-of-payments deficit on current account have become untenable.

Three general questions then easily pose themselves. First, why and how has Ireland's borrowing been allowed to rise to a level where it is widely considered to be out of control? Second, what should be done about the borrowing and why? Third, and this is the really tricky one, is it necessarily wrong for a small, developing country on the poorer fringes of Western Europe, to get into debt in order to develop? If it is not wrong what is the permissible level of indebtedness?

The answer to the first question is relatively simple but the ramifications of the answer are wide. Haughey succeeded the immensely popular Jack Lynch as Prime Minister after something of a putsch by the republican wing of the Fianna Fail party. They thought Haughey was more republican than Lynch. But Lynch's legacy was more an economic problem than a republican one. He got himself reelected in 1977 on the promise of a jolly spending spree.

Once elected, even though the economy was coming out of a recession, he proceeded to meet the election

promises. He abolished domestic rates, cut taxes, and increased public spending. Unemployment fell, but, in short, he overstocked the economy. The result was that by the time he was succeeded by Haughey, the public-sector borrowing requirement—that is to say the Government's yearly overdraft as opposed to its long-term debt—was equivalent to 13 per cent of gross national product (GNP).

Haughey promised to do something about this and the budget of January 1980 was designed to get the borrowing requirement down to 11 per cent. By the summer of that year however all targets had been abandoned simply because, Haughey needed to get reelected. Moreover, the country by this time had entered recession. To deflate the economy in the way necessary to reduce the borrowing requirement would have meant hardship and would have cost votes. Haughey gambled that by carrying on spending and going to the country early he could conceal the state of the country's indebtedness. In

Total foreign investment in Ireland is \$3.6 billion at current prices, creating a net 100,000 new jobs. Here an Irish worker at a Nippon Electric Company assembly plant for integrated circuits. ©Cotton Coulson, Woodfin Camp





Ireland received a tremendous economic boost from joining the Common Market in 1973. ©Cotton Coulson, Woodfin Camp

the event the gamble only just failed. Haughey lost the general election by just two seats.

The message in Haughey's behavior is that Ireland, rather like the United States, has got itself into a state of almost permanent election or at least permanent election fever. Elections come along every four years these days, although constitutionally the term is five years. For at least two of the four years, Governments have their eye on the next poll. Decisions about the economy, are taken, or rather are not taken, because of political and electoral considerations.

A critical economic consequence of electioneering was that, before FitzGerald unveiled some austerity measures late in July, the public-sector borrowing requirement had risen to IR£1.97 billion (currently about \$2.93 billion). This is the equivalent of about 20 per cent of the Irish GNP, a staggering proportion if one considers, for comparative purposes, that Thatcher is putting Britain through economic agonies in her attempts to control public-sector borrowing requirements amounting to less than 5 per cent of GNP.

The Irish economy is also particularly vulnerable to external circumstances. It imports over \$11 billion worth of goods. It has no oil and over 70 per cent of its energy needs are in the form of oil, rendered ever more expensive by the Organization of Petroleum Exporting Countries and, more recently, by the appreciation of the US dollar. Apart from oil, Ireland has a high propensity to import, not only capital goods for its industrialization, but also consumer goods. Combine these needs and the demands of public-sector borrowing and the balance-of-payments deficit on current account widens alarmingly. This year it may amount to nearly \$2 billion, a record.

Because of the energy problem and the openness of the economy, Ireland tends to import inflation. Oil and the price of other imported goods help explain why inflation is heading to hit 20 per cent. Additionally, public

spending, which in large part is financed by borrowing, has helped push up inflation. There have been some generous public-sector wage agreements, important in a country like Ireland which has nearly a third of its work force in the public sector.

But Ireland has more than ideological reasons for trying to reduce its borrowings. Here one begins to answer the second question, posed earlier, of why should something be done about debts. Until April 1979, Ireland was linked at parity to sterling. For all intents and purposes, Ireland was part of sterling as much as, say, Wales or Liverpool. This meant its borrowings were not too serious since they were subsumed by a much larger currency.



The number of people employed in agriculture has dropped to less than 20 per cent of the work force, compared to 60 per cent 20 years ago. ©Cotton Coulson, Woodfin Camp.

In April 1979, Ireland joined the European Monetary System (EMS), breaking the link with sterling. For the first time in 150 years Ireland had an independent currency. It meant being part of a fixed exchange-rate system, which in turn demanded greater financial discipline. For example, three years ago the balance-of-payments deficit on current account was \$272 million. This was easily covered by invisible earnings notably tourism and by capital inflows. There is no way a deficit of nearly \$2 billion will be covered by inflows other than foreign borrowings.

Reserves are not bulky enough to bridge the payments gap. If the Irish pound was not to come under great pressure for a devaluation within the EMS or a realignment, deflation was inevitable. With its open economy devaluation would be disastrous, the value of exports in its main markets, Britain and West Germany, would

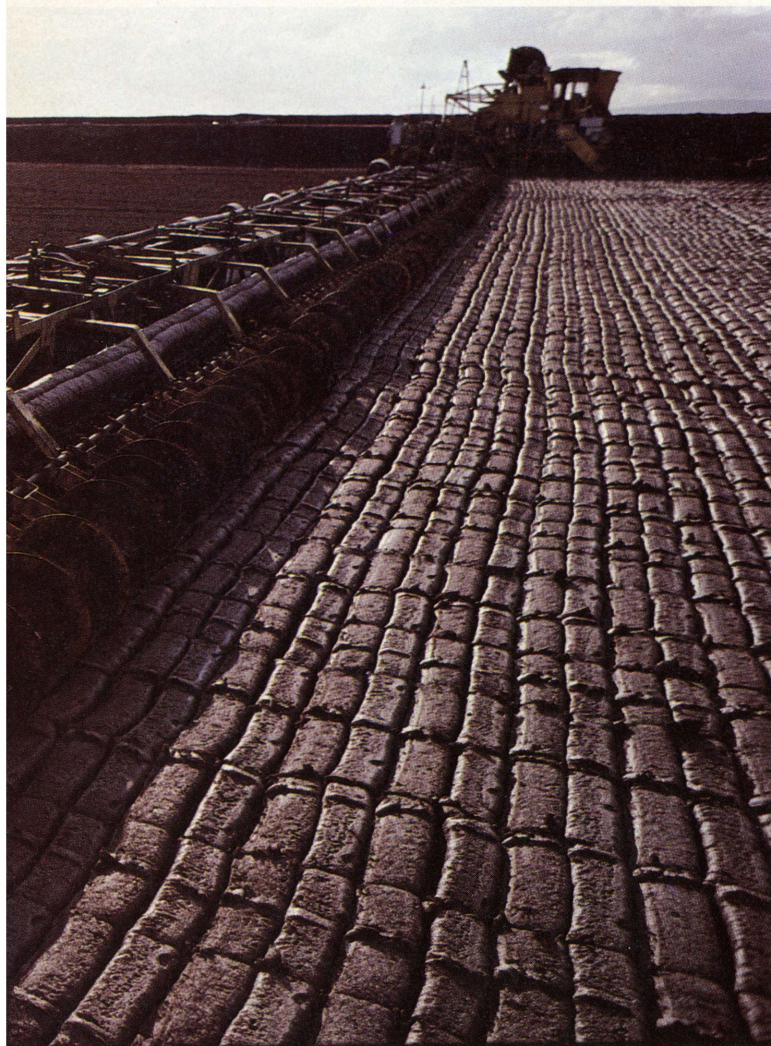
shrink, and the cost of the capital goods which it cannot avoid importing would rise.

Accordingly, since one of the FitzGerald Government's first pacts was to bring in a tough budget through increases in indirect taxation and some trimming of the capital budget, the public-sector borrowing requirement is expected to fall back this year to \$2.38 billion or 16.5 per cent of GNP. Finance Minister John Bruton has talked about bringing public borrowing under control within four years.

But what in the Irish context is a reasonable level of borrowing? Is it not sensible, not to say inevitable, for a poor country to borrow in order to create employment and increase living standards? Ireland has always had an unemployment problem. In the 1840s its population was 8 million people. Came the famines and 1 million died, and a further 1 million emigrated, mostly to the United States. The country has been hemorrhaging its people ever since. In the 1950s people were leaving at a rate of 70,000 a year, and the population of the Republic dropped to 2.2 million.

This machine cuts peat to be dried into briquettes for fuel.

© Cotton Coulson, Woodfin Camp



Armed with a package of incentives and a tax holiday the Governments of the 1960s and 1970s set out to attract foreign investment. To date some 300 foreign companies, half of them US concerns, have invested in Ireland. Total investment is \$3.6 billion at current prices. More important there has been a net creation of 100,000 new jobs. The numbers now on the land have dropped to less than 20 per cent of the work force compared to 60 per cent 20 years ago. Ireland also received a tremendous economic boost from joining the Common Market in 1973. Its prices for agricultural goods, for example, leapt overnight.

But successive Governments in the 1970s felt the need also to spend in order to develop and to borrow. Primed by public money, the economy grew by 6 per cent, 6.5 per cent, and 7 per cent in the mid 1970s. Per capita income crept to the level of Northern Ireland, which with its industrial base had always been higher. Unemployment in 1978 fell to a historic low of 8 per cent.

The jobless figure has now crept up again (to 12 per cent) and it could well go higher because of the deflation forced on the Government. The message is clearly that of a 20 per cent annual borrowing requirement is too high if the country is to maintain its credit rating with foreign banks—indeed if it is not to become hopelessly in debt to foreign banks and is going to maintain the value of the currency.

However, around half the 20 per cent borrowing requirement was on current account. That is to say it was money being used for day-to-day expenses, paying civil servants, running the Government. Most leading economists feel there is no harm in borrowing up to 10 per cent of GNP if the cash is used for infrastructure, roads, telephones, and so on. This in turn will help attract more foreign investment and help export-led growth. The current-account spending is on the other hand considered profligate and self-indulgent. If the coalition Government can get this in hand, then the prospect when the recession bottoms out in countries which are major trading partners (like Britain), is that Ireland can resume growth and develop its industrialization. This will mean jobs and also that fewer people will have to emigrate.

In the meantime, however, doing something about the current-account borrowing means unpopular budgets when expectations have become high. This means the Government could well be defeated if forced to the polls. So again the need is for a balancing act and the weighing political expediency and financial good sense. This one price for having one of the developing world's few democracies which really functions well. €

Stewart Dalby is Dublin correspondent for the Financial Times

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NORTHERN IRELAND: the

Looking for fresh approaches

DENNIS KENNEDY

Garret FitzGerald, the leader of the new, and rather shaky, coalition Government in Dublin, has probably spoken, written, and almost certainly thought more about the problem of Northern Ireland than most politicians in the Republic of Ireland. But that does not necessarily mean he is going to have more success in handling it than any of his predecessors, or that his approach to it is going to be radically different.

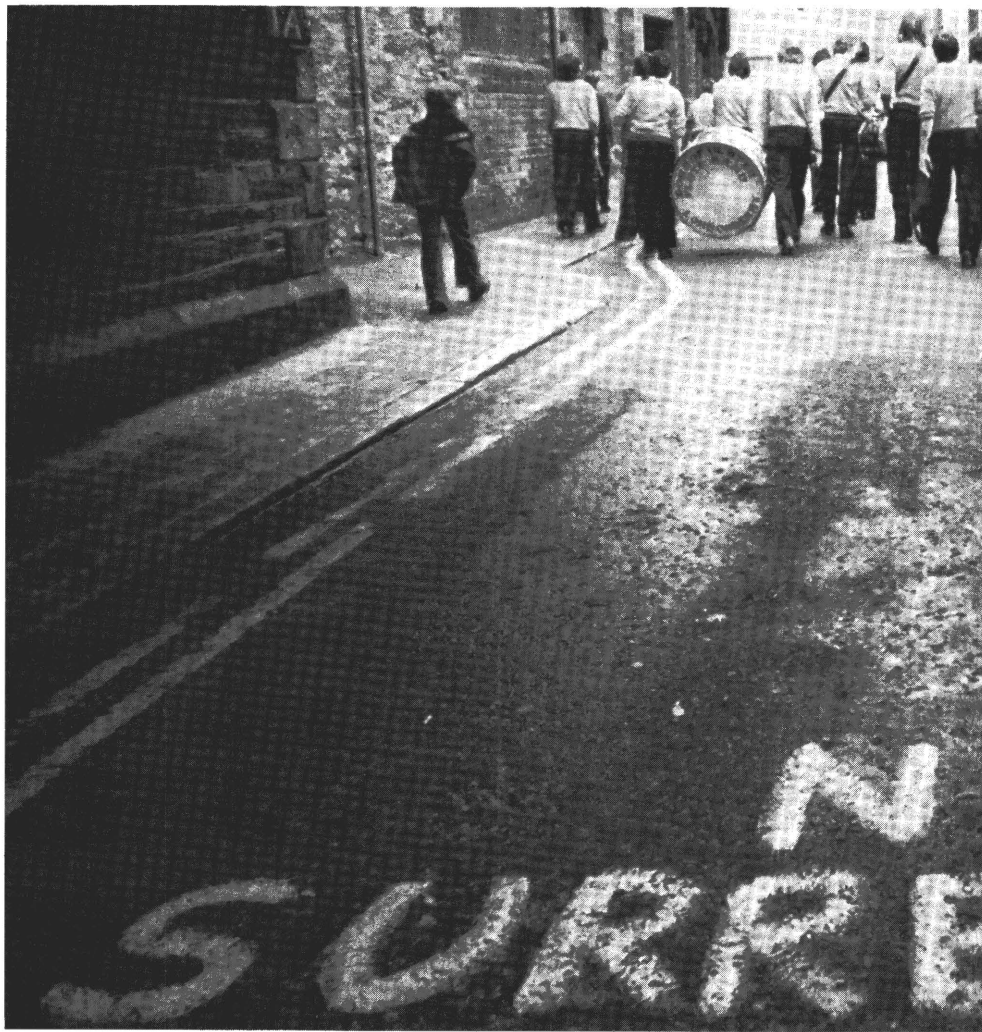
For like every other established political leader in the Republic he is an Irish nationalist, professing Irish unity, of some sort or other, as his goal and the only logical, and morally permissible, resolution of the Irish problem.

In modern times only Conor Cruise O'Brien, as a minister in the coalition Government from 1973 to 1977 and as a writer then and since, has challenged the whole theme of Irish nationalism, pointing out that Irish unity may be neither inevitable nor logical and arguing that by maintaining it, Irish nationalists, including Irish Governments, are helping perpetuate the violent divisions inside Northern Ireland.

For a time between 1973 and 1977, FitzGerald and O'Brien were seemingly associated in a new and open approach to Northern Ireland, paying particular attention to the fears and suspicions of the Protestant population there, and to increasing contacts with it.

FitzGerald, and his party, have continued to stress the importance of these contacts, but since O'Brien was resoundingly rejected by Irish voters in 1977, FitzGerald has been conspicuously careful to reassert his basic nationalism, and to make it clear that he is no disciple of O'Brien. Thus he produced, in opposition, a detailed and complex plan for an Irish confederation. It is the formal policy of his party to seek a public commitment from Britain to Irish unity.

But in general he would be regarded as a most moderate nationalist, a reasonable na-



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tionalist, and one unambiguously opposed to the violence of the Provisional Irish Republican Army.

By contrast the man he has just replaced as Prime Minister, Charles Haughey, would generally be regarded as more of a hard-liner, more republican, more open to criticism over his attitude to political violence.

Ironically in the year and a half during which Haughey was Prime Minister and FitzGerald leader of the opposition, their roles were in some aspects reversed: FitzGerald criticizing Haughey for not being nationalistic enough in his dealings with British Prime Minister Margaret Thatcher, and also urging a much tougher line with Britain over the H-Block hunger-strike protest in the Maze prison.

Clearly FitzGerald was worried that Haughey would play the Northern Ireland card in the election, and would win on a wave of nationalist fervor. Haughey had, of course, seized the center of the stage with his Anglo-Irish initiative based on his summit meeting with Thatcher in Dublin last December, and

with the commissioning of joint studies into various aspects of relations between Ireland and Britain. This, Haughey claimed, raised the Irish problem onto a new plane, opened the totality of the relationship between Britain and Ireland to examination, and cleared the way for real progress toward Irish unity.

In the face of such intoxicating fare, FitzGerald had to tread carefully—the fact of the new Dublin-London links he could not reject, but he could, and did, criticize Haughey for raising nationalist expectations far beyond any justifiable level and also for offending Northern Protestant opinion by maintaining secrecy over the exact contents of the Anglo-Irish talks.

In the event, the Anglo-Irish initiative he inherited when he became Prime Minister in July was running out of steam. It was emerging that the matters being studied were of minor importance, and unlikely to be of political or constitutional significance. It seemed clear too that British enthusiasm for the Dublin-London process had faded. At the same

Dennis Kennedy is associate editor of *The Irish Times*.

views from two capitals

Facing up to old frustrations

DAVID BELL

British tourists traveling in France and Italy this summer have been taken aback to find slogans such as "Mrs Thatcher murdered Bobby Sands" scrawled on walls. The Irish Republican Army (IRA) hunger strikers—and Britain's continuing inability to solve the worst sectarian problem in modern Europe—have become a burning topic this year in the United States and in many European countries but in Britain, the eye of the storm, it has been rather different.

Each death has been reported, but not necessarily as the lead item on the news or on the front pages—Ulster ranks well down on Britain's list of most pressing political issues. Most Britons, if they think about it at all, still approach the "Irish question" with a sense of weary indifference, tinged with apprehension.

For 13 years now the "troubles" have been a regular fixture on the television screens. Political breakthroughs, understandings, and initiatives have come and gone. All, with that special brand of hindsight that the British reserve for the Irish, are said now to have been foredoomed to fail. Meanwhile the killing and bombing have continued, usually in Ulster, but sometimes spilling over into mainland Britain.

The optimism that Britain could resolve the Ulster issue so marked in 1968 (the year the army was given a rapturous reception on the streets of Belfast by the Catholic minority) has given way to an increasing sense of helplessness. As a result present British policy can roughly be translated as follows: Britain can't be seen to give in to mindless IRA thuggery, can't persuade the majority Protestants to make any concessions worth making, can't pull the army out for fear that the Protestants will annihilate the Catholics in a civil war and so has no choice but to keep on plugging away in the hope that the IRA will eventually see reason and give up.

Thoughtful Britons readily admit that this scarcely amounts to a constructive strategy

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David Bell is features editor of the Financial Times.



time the FitzGerald Government approach to the H-Block crisis, demanding more flexibility from London, put considerable strain on Anglo-Irish relations.

So, by midsummer, the future for the Anglo-Irish approach initiated by Haughey with such trumpeting, looks extremely limited. Both FitzGerald and Thatcher are committed to continuing it, but it is hard to see it surviving as more than a routine exchange of views between heads of Government and practical contacts at official level on a variety of technical matters.

This running down of the process—if it ever amounted to anything more than public relations—may save FitzGerald the embarrassment of actually wrecking it. His Government is committed to involving elected representatives from Northern Ireland in the process when any matters affecting Northern Ireland arise—and even moderate Unionists, never mind the likes of Ian Paisley and other hardliners, would undoubtedly refuse to participate, thus leaving FitzGerald the option of

going back on his undertaking, or ending the process.

In its place FitzGerald has so far offered only a policy of contact—contact between south and north, between individuals and institutions. This is the theme in three key documents: the Fine Gael election program on Northern Ireland, the joint program agreed between the two coalition parties, and FitzGerald's one major speech on the subject during the election campaign. In that speech he said this:

"We shall ask workers and farmers, businessmen and community leaders, politicians and teachers, and, above all, our young men and women to make an unprecedented gesture of friendship and goodwill to the people of Northern Ireland—we shall ask them to travel to Northern Ireland, to holiday there, to do business with Northern Ireland. . . ."

Faith in the efficacy of such contacts stems from the view, expressed in the coalition program, that many of the present difficulties are

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caused by myths, misunderstandings, and suspicions arising out of lack of personal contact. It is an optimistic analysis that ignores the irreconcilability of Irish nationalism and Northern Ireland Protestant rejection of it, and that also makes no reference to specific northern grievances such as the lack of extradition of wanted IRA terrorists from south to north. But the intention to pursue the contacts is genuine. In his own entourage FitzGerald has bright, ambitious young men to match his own energetic approach to any problem, and they are confident enough, or brash enough, to believe they can work wonders on the north. So doubtless new policies and new initiatives will emerge, frequently.

Unfortunately even this aspect of the FitzGerald approach has run into early trouble. His Government's line on the H-Blocks, putting the onus on London to make concessions to the IRA, has greatly offended even moderate Protestant opinion in the north. Where, they have asked, is the much vaunted FitzGerald sympathy for and understanding of the Protestant position?

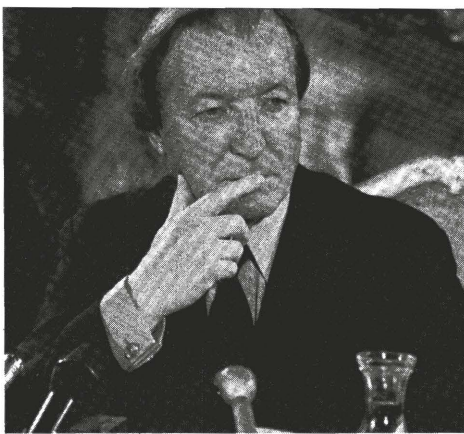
Another snag is FitzGerald's unrestrained public admiration for John Hume, the leader of Northern Ireland's Catholic-nationalist party, the Social Democratic and Labor Party (SDLP). Most northern Protestants believe that contacts between Dublin and the SDLP are already too intimate, and that Hume's influence on Government policy in Dublin is already too strong.

Another plank in FitzGerald's northern platform has a hollow ring: His party advocates a pluralist society in the Republic that would eventually attract support from a section of northern unionism. But he has already agreed to back a call for a ban on abortion in the Irish Constitution, and his party has refused to move decisively on the question of divorce—already ruled out in the Constitution. It is this official enshrinement of the strongly Catholic nature of society in the Republic that has been one of the greatest obstacles to reconciliation in Ireland, and one of the prime causes of northern Protestant rejection of Irish nationalism. €

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and acknowledge that Britain has grossly mishandled Ulster down the years. But they are also tired of hearing that Britain has not been trying to get a solution in the past decade.

As most Britons see it, every attempt to find some political way forward—by creating a



Former Irish Prime Minister Charles Haughey's initiative led to direct talks with Britain about Northern Ireland. © UPI

new Administration to share power between Catholics and Protestants—has foundered on the same obstacle: the Protestants will not give way. The most helpful of all attempted solutions, the 1973 Sunningdale accord, did set up a power-sharing executive and even envisaged a Council of Ireland, a very tentative step along the road to some kind of North-South federation. But it perished, killed by a Protestant general strike a year later.

This same rooted Protestant suspicion surfaced again last year when Margaret Thatcher, the British Prime Minister, and Charles Haughey, then the Irish Prime Minister, set in motion new talks about unspecified Anglo-Irish issues. Protestant accusations that Britain was softening them up for a sell have already forced Thatcher onto the defensive.

For Ulster is not merely a religious issue. It also poses constitutional problems for Britain of fearsome complexity which often get lost behind the bombs and the propaganda. Since the partition of Ireland in 1921 the six counties of Ulster have been part of the United Kingdom of Great Britain and Northern Ireland. Thus, constitutionally at any rate, the province is not like India, Kenya, or Malaya which could be floated off on their own with relative ease.

Protestants (and Catholics) in the province hold British passports and are bound in with the rest of the kingdom and the Protestants are obsessively loyal to the crown. Successive British Governments have baulked at the constitutional precedent which might be created if Britain were seen to be forced to "pull out" of its own territory because of "a handful of terrorists." Could the same thing then happen, the question is asked, in Scotland or Wales in 10 years time? The Protestants, meanwhile, say that withdrawing from Ulster is like abandoning Yorkshire.

The IRA is, of course, contemptuous of this kind of domino theory. It insists that Ulster is a British colony and that the six counties are under British imperialist domination. In Ireland as a whole, says the IRA, the Protestants are the real minority. They should give in, or get out.

Very few Britons accept the IRA's view of the situation and the vast majority support Thatcher's refusal to grant its prisoners "political status." Where the IRA is concerned, even normally liberal people can turn into hawks. "I don't care about the hunger strikers" said one lawyer. "The more of them that die the fewer we will have to deal with in the future."

Even the way the IRA is described betrays the differences in perception. British media almost always refer to them as "terrorists" whereas most US newspapers—and the two major news agencies—always speak of guerrillas. Rightly or wrongly, most Britons are contemptuous of parallels with El Salvador or Vietnam and suggestions that the IRA is in the tradition of Jomo Kenyatta who led Kenya to independence or even of the founding fathers of the US revolution. Instead they see the IRA as cruel, ignorant, misguided maniacs.

Part of this is because Britain cannot see Ireland except as a problem with an almost infinite pedigree. Hundreds of years of violence, misunderstanding and bigotry—on all sides—seem to have frozen the situation fast. In short the Irish problem has become, numbingly, "just more of the same."

This in turn probably explains why the IRA's intermittent attempts to take the "war" to the mainland have failed. The bombings and the assassinations have hardened opposition to the terrorists and actually made it easier for most Britons not to think about their political case at all.

So what happens now? The most recent polls show that a vast majority of Britons have absolutely no enthusiasm for keeping the army in the province and wish the whole issue would go away. But they also reveal that most people have no alternative to the present policy. Nor do they think that the United Nations, or some other arbitrator, will be able to overcome the political obstacles.

At Westminster there have been some signs that the bipartisan political consensus which has covered everything to do with Ulster is beginning to break down. The left wing of the opposition Labor Party is now urging the Government to set an irrevocable date for the withdrawal of the army. James Callaghan, the former Prime Minister, thinks that the province should be made independent. Various conservatives are toying with new proposals which could set Ulster in a federation with the South. But so far none of these amount to a believable strategy.

There are those who argue that British withdrawal followed by civil war might be no bad thing because it would at least "clear the air." For the British (and Irish) Governments who would have to pick up the pieces, however, such a scenario is a total nightmare, and one never far from their minds. €

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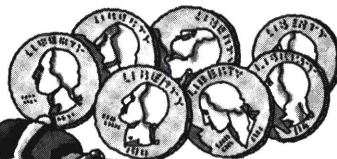


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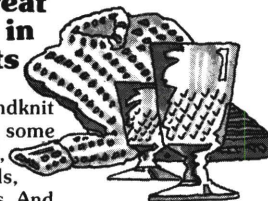
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ALLIANCE A

Robert E. Hunter argues that the European honeymoon with the Reagan Administration strains, and military requirements.

"THE WESTERN ALLIANCE," ONE WAG RECENTLY SAID, "has been unraveling since Adam and Eve." A pointed comment, underlining the dynamic nature of the alliance and a long series of dire predictions which have not come true—in part, perhaps, because they became self-denying prophecies.

Is today any different? A recent month-long trip to Western Europe has led to the conclusion that, beneath the usual rhetoric of alliance malaise, there are real and persistent problems that cannot be ignored. And whether they will be readily surmounted is less certain than at many times in the past.

First, the substance:

Economic Policy. Transatlantic disagreement over economic policies of individual nations is nothing new, but the intensity of the squabbling this spring—focusing on high US interest rates—has brought the economic dimension to center court of alliance difficulty as rarely before. In part, President Ronald Reagan's Administration has been subjected to criticisms that are an accident of timing: At the beginning of every new regime in Washington, West European anxieties skip upward on the charts, as the allies nervously take the measure of the new President and his team. Trouble over particular issues thus gets magnified and projected forward, however much staying power or underlying force these issues actually have.

But there is more to this disagreement than that. At one level, there has been widespread European frustration at the difficulty in getting official Washington to understand the impact of record high US interest rates on European economic management—whether in paying oil bills in US dollars that have soared by as much as 35 per cent in recent months to produce a "third oil shock," or in having to raise interest rates and distort economic planning to defend European currencies. In West Germany, for example, the "real" rate of interest (the nominal rate less inflation) is about 10 per cent—what Chancellor Helmut Schmidt has called the highest rates "since the birth of Christ."

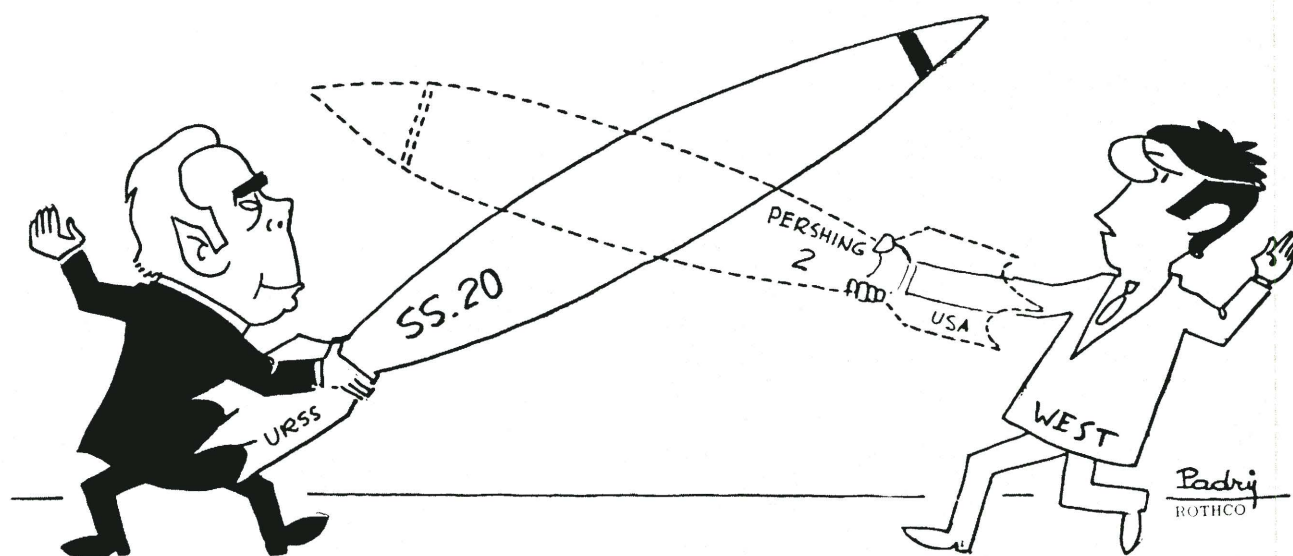
At another level, there is widespread European concern that the United States is simply insensitive to the problems its actions are causing in Europe—a feeling only partly dispelled at the Ottawa summit in July by the eloquence and grace of Reagan's defense and the general good manners of his interlocutors. Nor is the interest-rate problem alone. For example, many Europeans assert that they were taken by surprise this spring by the US-Japan auto agreement, although all the West European auto-making states quickly cut their own deals with Tokyo. And there has been some European testiness over the way in which the Reagan Administration has used trade in East-West relations: lifting the grain embargo on the one hand, primarily useful to the US, while on the other hand seeking further limits on high technology trade, primarily harmful to Western Europe.

To be sure, officials in Washington are quick to point out that many of Europe's economic ills are home grown, that only a few years ago the allies were griping about a *depressed* dollar, and that the hoped-for success of "Reaganomics" will cure American inflation and thus help everyone. The gleam of protectionism, they also point out, is not just in American eyes as the continuing world economic crisis everywhere puts strains on the spirit of multilateralism.

Whoever is right in current transatlantic debate on these issues, however, the allies collectively remain very much in the woods; and mechanisms and willingness for relating domestic economic management to the needs of neighbors lags far behind the growth of economic "interdependence"—which means vulnerability to the acts of others. For all the orchestrated bonhomie of Montebello, the annual ritual of the economic summits, with their promises to "do better," will not suffice. Nor are these problems simply economic: They spill over onto alliance politics as well. For instance, some European commentators are beginning to contrast US demands for increased defense spending by the allies with what they characterize as Washington's unwillingness to show understanding of the interest rate problem—as though pay-

GONISTES

on is proving short-lived, cast adrift on the rocks of high interest rates, East-West



© Padry, Le Hérisson, Paris

ing for arms is somehow independent of overall economic management. The West German decision to cut increases in defense spending must certainly be seen in this light. And, in general, these economic divisions are pressing hard on the sense of community that undergirds the overall alliance.

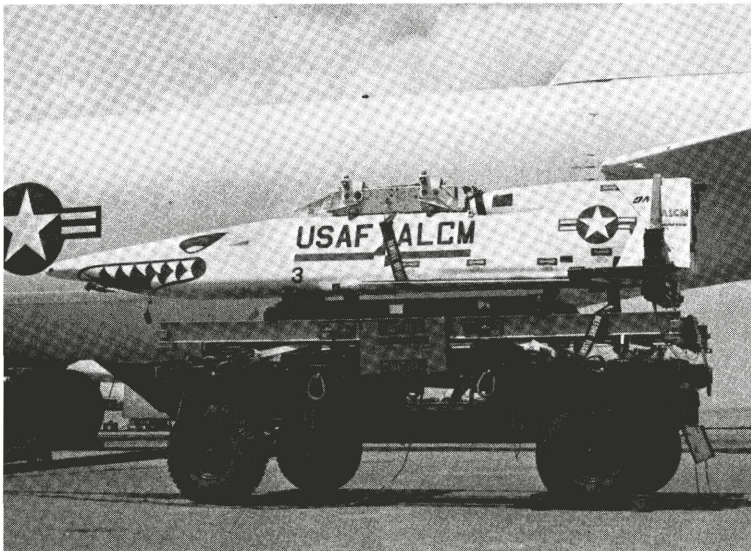
East-West Relations. Another key bellwether of allied comity—or anxiety—in recent years has been the state of East-West relations, and especially the extent to which Europeans are comfortable with the way Washington plays its necessarily lead role in dealing with Moscow. The mood was not auspicious when Reagan came to power, following the failure of the US Senate to ratify the SALT II treaty and European reluctance both to accept the Carter Administration's view of the Soviet invasion of Afghanistan and to accede to the response required from the alliance.

Here, too, the posture adopted early by the Reagan Administration went down badly in most European capitals, with an often-strident rhetoric that outran actual policy, which in the main has been more temperate and

cautious. Yet here, much of the problem is also real and reflects different *emphases* in East-West relations if not emerging differences in basic *interests*. The Reagan Administration's view of East-West relations as globally encompassing—from Europe and the Persian Gulf to Angola and the Caribbean—is simply not shared by West European nations tied by geography and largely limited by reach and interest to the Continent. Even where Europeans do look outward and recognize that their interests are involved, as in the Persian Gulf, few accept Washington's defining Soviet power as the primary threat (and especially the direct application of that power), as opposed to risks to stability of local Gulf regimes, requiring a quite different response.

Some officials in Washington bemoan European insularity regarding the Soviet threat as well as the desire of the allies to reap the benefits of European *détente*, at what these Americans see to be the price of undercutting US efforts on behalf of the alliance as a whole. But American pleas fall largely on deaf ears, while criticism also flows the other way, as when Secretary of State Alexander Haig announced arms sales to China at

a delicate and dangerous moment in the Polish crisis. Many Europeans also take umbrage when they are accused of being neutralist or pacifist—although, to be sure, there are now elements of both in many European societies—and they resist the notion that Americans somehow know more about European security needs than those allies living cheek-by-jowl with Soviet power. As a rejoinder, some West Germans have taken to pointing out that the *Bundeswehr* is conscript-based—whereas the United States will not face this issue, politically—and they are almost derisive about the quality of US forces in the Federal Republic.



The cruise missile shown above is one of the weapons behind the growing mistrust across the Atlantic. Courtesy of US Air Force

This debate, too, will go on, but with an undercurrent of mutual mistrust that has not been there before. With a few partial exceptions, transatlantic minds don't meet on the Soviet challenge and the best means of meeting it; and simply "consulting" about differences of view will not bridge the gap.

Theater Nuclear Weapons. This year's "sleeper" issue in the alliance is proving to be the impending deployment of new theater nuclear forces (TNF) on the Continent, to offset Soviet deployments of its SS-20 medium-range missiles as well as to keep the issue of the Soviet Backfire bomber from reemerging.

A scant year and a half ago, the North Atlantic Council succeeded in reaching what the Germans call the "double decision:" agreement to deploy 572 modernized Pershing missiles and ground-launched cruise missiles (GLCMs) on the Continent, but also to seek limitation of theater nuclear forces with the Soviet Union in the period before Western missiles are ready for deployment in 1983.

The weaknesses in this approach were always obvious: The West German requirement that these weapons be deployed elsewhere on the Continent in addition to the Federal Republic always foreshadowed near-intolerable

pressure on Belgium, an uncertain outcome in Italy, plus hard sledding in the Bundestag. All that is now coming to pass, with particular difficulties in West Germany, where there was little public understanding in 1979 of the double decision and its implications.

Unfortunately, the carefully-planned, but always uncertain, NATO effort to make it all come right has been weakened by further mistrust across the Atlantic. Earlier this year, allies with difficult parliaments felt let down by the seeming reluctance of the Reagan Administration to pursue TNF talks with the Soviets—a charge vigorously denied—and by its parallel reluctance, now turned to grudging willingness, to resume the SALT talks without which, virtually all experts agree, no TNF agreement is possible. Washington officials, meanwhile, see these arguments as excuses to get out from under the more important NATO decision to deploy the Pershings and GLCMs—and the mistrust builds. It has been further heightened by the US decision to produce the neutron bomb—even though it is to be stockpiled only in the United States. Officials in Europe had warned that raising the ghost of the neutron bomb (a cathartic experience for some in 1977-78) would vastly complicate the more important issue of TNF.

There is irony in all this. Originally, the United States conceived new TNF deployments largely as a means of meeting fears expressed by Schmidt in 1977—that a growing Soviet preponderance of theater weapons would lead the US strategic arsenal to be "decoupled" from the defense of Europe—a classical fear which returns like the 7-year locust. As the debate has progressed, however, respectable strategic arguments have faded into the background, and transatlantic disagreement is beginning to center around tertiary issues: Americans aver that alliance credibility now depends on following through on a strategic decision; some European leaders see Governments falling over an issue now viewed as of secondary importance to them, except as a way of pleasing the Americans. In fact, some German observers—seemingly innocent of the debate's origins—are even suggesting that *deploying* Pershings and GLCMs could be "decoupling." The wheel comes full circle.

In the absence of renewed transatlantic sensitivity that has been lacking for some time—plus a miracle or two—the chances of TNF deployment must be rated as no better than even, with only the Soviets taking comfort from the West's TNF tangle. Again, different perspectives about the nature of threat and response have not been sorted out in ways that can enhance rather than confuse allied solidarity. €

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friends and strangers

Behind these substantive examples of alliance difficulty lies the question of more basic understandings of common purpose across the Atlantic.

Quite visible, now, is a shift in global power—and hence of America's capacity to exercise the leadership that once quickly quelled alliance difficulty. As America's military power has declined relatively in the face of Soviet challenge, it has greater need for allied buttressing, both in Europe and beyond (a need which even massive US defense increases will not obviate)—yet it thereby treads upon European reluctance to follow America's strategic lead or to look beyond the Continent. As America's economic power is now rivaled by others, it can no longer set the course of Allied cooperation—yet it faces European economies themselves unable to share leadership, especially as the three pillars of Britain, France, and West Germany are tri-polarized in both political philosophy and economic approach, while the European Community sits dead in the water.

In time, the allies can learn to adjust to these new realities. But there is a more subtle development in transatlantic relations that is more difficult to fathom: what has been called the problem of the "successor generation."

For many years following World War II, Americans and West Europeans of all stripes knew one another and worked together, from post-War military Governments and the Marshall Plan to the web of Western institutions that were the dominant preoccupation in foreign affairs of that generation. A political culture embracing both sides of the Atlantic—not just among governmental elites, but also in the trades and professions—put down firm roots in common assumptions about relations, interdependence, and approaches to solving problems.

Today, this instinctive reaching-out is far less evident among a younger generation of both Europeans and Americans. Other than officials in Government and others in a few specialized professions with an international dimension, the sense of knowing one's counterparts across the Atlantic cannot be taken for granted among emerging leaders—in business, labor, science, scholarship. At the same time, the fascination of younger students with

society across the Atlantic has dwindled, as exchange programs have lost funding and as attention, where not directed inward, shifts to other parts of the world. This is especially telling in the United States, where the ranks of young specialists in European affairs are thinner than at any time since World War II.

This problem is reflected in the rapid change of personnel in the US Congress in recent years, where there has been a serious depletion of legislators attuned to the subtleties and crosscurrents of European and transatlantic politics. This is not to say that in the Congress—as its members reflect upon sizeable defense increases coupled with painful domestic stringency—we will soon see a "son of the Mansfield Resolution." But there is room to worry about growth of Congressional sentiment that our allies are not prepared to play their part in the common game.

In Europe, meanwhile, there is a develop-

ment more serious than fledgling attitudes of neutralism or pacifism that have gained some currency, a development allied to those attitudes. There is less today of an instinctive looking toward America as part of the same community, with an indispensable political and security dimension, perforce to be nurtured. This does not come from West European leaders making their pilgrimages to the White House, or from parliamentarians seasoned in Atlantic relations. But in a younger generation of Europeans, there is a spreading sense that somehow "America" stands for things they find objectionable in modern society as they see it in their own countries. If it develops, this nascent attitude promises to be more lasting than earlier opposition to America's Vietnam involvement—which both had a "remedy" and did not so directly touch individual lives in Europe.

In sum, if there is today a challenge to US-European relations, it is less with the substance of individual issues of the moment—such as those illustrated earlier—even where they carry the seeds of real differences of interest. It is rather that the next years could see a gradual loosening of the instinctive bonds of alliance, those based more upon habit, sentiment, common experience, and "knowing one another," than upon calculations of national interest. And that problem is both more fundamental and harder to resolve. ◀

ROBERT HUNTER

Founder's Day 1969 at Harrow, Winston Churchill's prep school: Will this generation understand its American counterpart as well as its predecessor did? © Keystone Press Agency



ALLIANCE R

Caspar Weinberger, the secretary of defense, lays out the parameters of dealing

The following excerpts are part of an interview with US Secretary of Defense Caspar Weinberger. It is from the British Broadcasting Corporation's series "America, Europe, and the World" on US foreign policy under President Ronald Reagan. The interviewer is David Perman.

Is the assumption that in the past few years, maybe American foreign policy has been a foreign policy from a position of weakness?

I think that is largely correct—both neglect of the actual strength of the armed forces, but, perhaps even more important, a weakening of the national resolution and the will to take some of the stern and difficult measures that are necessary to enable a country to be sufficiently strong, so that its voice and its desires can be heard. I think we saw too many times a lack of resolution, a lack of will, and consequently a lack of effectiveness in American foreign policy in the last few years.

But are you aiming at something similar to the containment policy of Soviet power that we saw the United States exercising maybe during the 1950s or the very early 1960s?

I think that it isn't so much containment. The basic idea is that we want to be strong enough with our allies in maintaining a strong allied position to deter any kind of attack or any thought of attack upon the institutions and the Governments and the basic cause of freedom. And if we are strong enough we believe we can succeed in deterring any kind of Soviet or other attack on those basic rights and principles. That's what we want to achieve. I don't think that it is particularly useful to think of it in terms of containment or confrontation or anything of the kind.

But is the United States economy going to be able to bear that sort of cost?

We can certainly afford it, because we are pursuing a policy which we have not pursued before but should have, and that is to reduce domestic spending so that the overall totals

of Governmental spending do not increase. And even just looking at the defense spending alone, we will not be in a position of using as much of the gross national product of the United States for defense as we did in the pre-Vietnam war days. So that I don't think there is any undue strain on the American economy.

Do you think the West European allies are doing their share of the military burden of the alliance?

I think that other European countries have over the years done a very considerable amount in their own defense and for the defense of these common goals of preserving peace and freedom. I think that it would be particularly helpful to those causes if more could be done by all of us—I don't single out anybody. I do single out Britain and Italy as two countries that have made very significant contributions at times when it was most difficult for them to do so based on their own domestic problems. I think that Spain as a new member of the North Atlantic Treaty Organization (NATO) may be expected to do a very considerable amount and I think Portugal is doing well at the moment, considering their domestic problems. Germany has done well in the past and others we hope will continue to follow suit.

Do you think there is any loss of will among the European members of the alliance or among their populations, associated maybe with these fears that have been expressed in Washington of European pacifism or European neutralism being on the increase?

Well, there are evidences of that in Europe and there are evidences of that in the United States. But I don't think it has infected any Governments so far. There are strong groups of people with these varying views in a number of countries, including our own, but I would be very hopeful that the present situation in which Governments are not following policies advocated by unilateral disarmers or neutral pacifists or whatever, and I would hope that ultimately a continued majority of

people in each of these countries would see that this was a very dangerous path to pursue and would not want to urge it. Everybody wants peace and everybody would like to secure it at less cost and not be faced with the unpleasant questions of rearming or continuing to vote large expenditures to military items, particularly when the success of your policy is measured by the fact that you hope you will never have to use any of these items that are so costly. But to the extent that we are faced with a growing threat, a path of unilateral disarmament is a very dangerous path to pursue, it's an invitation to the Soviets to use some of their strength. And so I would hope that these considerations would continue to appeal to the Governments of the NATO countries as is indeed the case now.

Is it your view that détente has been an opportunity for the Soviet Union to get an advantage, a military and a psychological advantage, over the West?

The simple fact of the matter is that I don't know whether the Soviets intended to or used détente necessarily to gain an advantage, the important point is that neither during the détente period, nor during the Strategic Arms Limitation Talks (SALT) period, was any restraint exercised by the Soviets. The only country that was restrained by SALT or détente was the United States and the point I was making was that, as a perfectly steady, unchanged, and unvarying policy for 20 years since the first Cuban missile crisis, the Soviets increased their military strength by regular amounts each year on a steady upward path and détente didn't slow it and SALT didn't slow it and that we should be aware of that and realize that this process has given them very substantial momentum. Indeed it has given them advantage in many significant areas, an advantage which they continue to press and that is why it is so absolutely essential for us to start rearming on the strong path that we have now undertaken.

EVIVED

th the Soviet Union and what is expected of Europe.

Many of the West Europeans see détente as a new era, as it were, of relaxation of tension on their own borders, particularly the West Germans I think. They fear that maybe the United States does not see détente in that light at all and some remarks from some people associated with the Administration, like "détente is dead"—I think was one of these remarks—seem to bear that out. Do you think that détente is dead?

Well, I don't know whether it is dead or not, I don't know whether it was really ever alive on a bilateral basis. I think, as I said a moment ago, there are a lot of people and it is perfectly normal and natural, that search for some kind of rationalization for relaxing vigilance and relaxing the need to make heavy investments in military arms and equipment of a defensive nature along their borders and elsewhere. And détente certainly offered the hope that perhaps that could be the case. It was worth examining, it was worth trying but all it did was to increase the imbalance in favor of the Soviets because they did not restrain themselves during détente and the West and we did. And that I think is a reason for concluding that if the aim of détente was to reduce tensions on both sides it didn't work, but what we are trying to do now is to regain a sufficient strength so that by holding things in balance we can obtain the deterrence which is the best price of peace. But I think perhaps that one of the lessons maybe is that there is no cheap or easy road to securing peace with freedom. If the Soviets would genuinely reduce arms, not talk about some esoteric formulas with respect to limitations of launchers and things of that kind, but would genuinely reduce arms, we could secure a balance that would maintain deterrence at far lower levels than we have now. That would be a most worthwhile enterprise and one that we are fully prepared to engage in and continue with great patience and perseverance because that's something worth achieving. But so far we have not had that and we have not achieved that result and I think it is sheer delusion that either SALT or détente improved the security position of the

West or of the United States. In fact I think it made it much worse, because it lulled people into believing that they had secured some real advantage whereas the Soviets, as I say, never stopped for one moment, not for a single month or a single day during that 20-year period to increase their military strength.

At the recent Ottawa summit of the Western leaders, the question of East-West trade was raised, rather controversially perhaps in some people's views, and you are credited as defense secretary with being very concerned about this, that the level of East-West trade may be giving the Soviets an advantage. Is it true, that this is a main concern of yours in the defense department?

Yes, we have a concern that anything that strengthens the Soviets internally or gives them a substantial amount of hard currency in exchange to use for other purposes is something that we would have to regard as an undesirable addition to their strength, at a time when they already have a very substantial arms advantage.

But isn't this a point of potential friction with probably your best ally in Western Europe which is West Germany, which is of course very dependent or not dependent but very interested in developing trade with the East?

We have several best allies in Western Europe. I think we have to look at the interests of the alliance as a whole and I think we have to look at the conditions that will most likely lead to the maintenance of peace and freedom. And if two, three, or four years of vigorous trade is going to lead only to strengthening of a country that already has a very large military establishment and a growing one and one that does not appear to be being acquired for defensive purposes, than I think we have to ask whether or not the trade is just benefiting one or two countries or whether it is benefiting a potential aggressor. And, if it is trade of certain kinds that give a very large balance-of-payments advantage, as for ex-



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ample the Siberian pipeline would give to the Soviets, then I think it becomes a legitimate issue of consideration in relative security matters.

The Soviets say that they can't really take you seriously when you talk about entering into arms-control talks when you are already rearming in quite a massive way.

Well, I think the answer to that is that I don't think they would take us very seriously with arms control talks if we went into a discussion unarmed or in a very weak position, without any intention to build up anything remotely resembling a balance or to secure a balance. The Soviet agenda for such talks previously has been a freeze, a moratorium which would leave the imbalance permanently institutionalized and legalized so to speak, at the present, very undesirable, levels.

But you are not seeking military superiority which some people have rather loosely spoken about?

No, a great many people have spoken about it very loosely and it's a convenient term that fits into headlines. But it has no validity and is not related to what we are talking about. We are talking about achieving the renewal of the degree of strength that we used to have that could and will maintain the peace by deterring any Soviet attack, because the Soviets would correctly perceive that the cost of making such an attack would be unacceptably high to them. And that is essentially the kind and degree of strength that we think has to be maintained to preserve the peace. €



Heads of Government at the Ottawa summit (L-R): Gaston Thorn (EC Commission); Zenko Suzuki (Japan); Helmut Schmidt (Germany); Ronald Reagan (United States); Pierre Trudeau (Canada); François Mitterrand (France); Margaret Thatcher (United Kingdom); Giovanni Spadolini (Italy).

OTTAWA SUMMIT

John Wyles finds it "sweet and sour"

OTTAWA, LIKE SO MANY PREVIOUS WORLD SUMMITS, failed to satisfy advance expectations, though for somewhat different reasons. Other summits had set themselves grandiose targets such as agreements on energy targets and economic recovery programs which seemed at the time, and more often in the light of subsequent experience, to fall short of what was needed. At Ottawa all of those taking part—the leaders of the West's seven industrialized countries plus EC Commission President Gaston Thorn—agreed to concentrate on discussions rather than decision.

Many observers felt that this was because they could agree on little in particular but much more in general. In any case, it was said, sharp personal conflicts would be unavoidable when such differing philosophies were clashing as those of President Ronald Reagan and France's President François Mitterrand or when interests were so opposed as between the free-exporting Zenko Suzuki of Japan and the European countries, groaning under the weight of Japanese imports.

However, the château Montebello, a huge log-built

hotel resort 62 miles out of Ottawa where most of the formal sessions took place, did not ring to the sounds of battle in quite the way expected. Perhaps Pierre Trudeau, the Canadian Premier and host to the summit, had been right and, by divorcing the leaders from their 1,500 media followers forcibly camped in Ottawa, he denied the heads of Government an instant gallery to play to.

The exchanges, a French spokesman said, had been "frank," at times "very frank," but the initial harmony between the personalities never gave way to bitterness. UK Prime Minister Margaret Thatcher may have said "I agree with President Reagan" enough times to put Mitterrand's teeth on edge, but he never let it show. German Chancellor Helmut Schmidt may have found Reagan's constant folksiness an irritation, but if he did, no one ever knew it.

Curiously, the summit was helped by the fact that five of the participants were newcomers, Mitterrand, Suzuki, Italian Premier Giovanni Spadolini, Reagan, and Thorn. None wished to mark his debut with any responsibility for bruising personal encounters. The other important

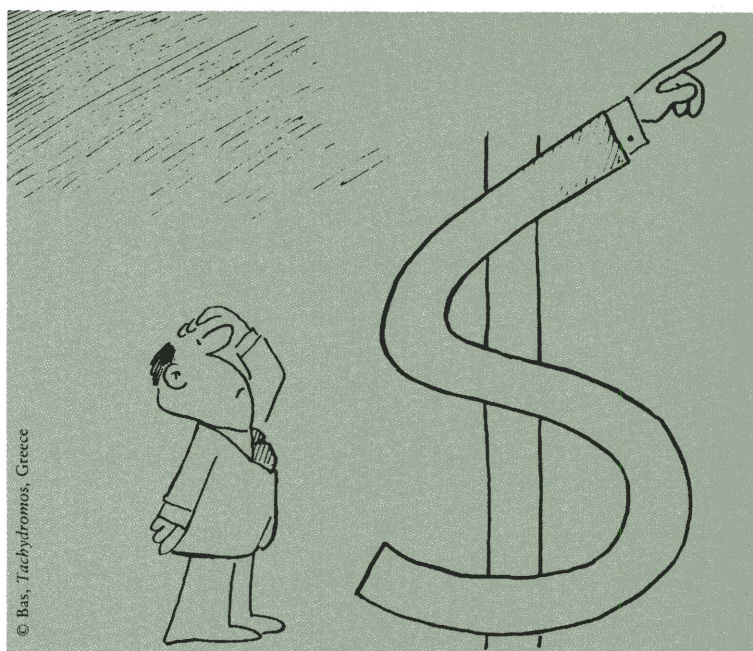
emollient was Thorn's visit to Washington just a week before the summit. His explanation of European thinking on the main issues and his stress of the apparent points of difference with the United States concentrated the Administration's mind on how to bridge the gaps at Ottawa.

Avoidance of personal conflict, however, is not alone sufficient to declare Ottawa a success (which would have been the summit leaders' judgment even if it had been a failure). At the very least the summit has to show an acknowledgement of the world's critical economic problems, a keen sense of the basic principles for tackling them and some means of achieving their resolution. In addition, a summit has to present a credibly united face on the main political problems of the day—relations with the Soviet Union, arms control negotiations and, unavoidably with coincidental bloodshed and fighting in southern Lebanon and northern Israel, conflict in the Middle East.

According to these criteria, Ottawa was only a partial success. The problems caused by the current high levels of US interest rates, the strength of the dollar, and by the growing dangers of trade and protectionism were thoroughly discussed. It was agreed that a stable international monetary and financial system and the maintenance of free world trade were needed to counter them. It was also agreed that an attempt would have to be made to tackle these problems in concert in various fora and ad hoc consultations over the months ahead. What was lacking, however, was a sense that the heads of Government had satisfactorily agreed the more detailed principles according to which they would try to reconcile their differing national interests.

In the months ahead the height and volatility of US interest rates could still be a point of major friction between Washington and Europeans. Schmidt, Mitterrand, and Spadolini all stressed the difficulties they were laboring under. High American interest rates essentially force the Europeans to maintain their domestic rates at competitive levels in order to prevent flights of capital and to stabilize their currencies. Reagan took the point and acknowledged that he could not ignore the effects of his economic policies. At the same time he stressed with Thatcher's obvious support, that his first priority was to lower domestic inflation. He was confident of success and hopeful that US rates would fall in the second half of the year.

The Europeans could do little more than welcome this assurance and let it be known that they would again be banging on the White House door if the problem had not eased by the end of the year. Significantly, they also endorsed a final communiqué which to a considerable extent underwrote "Reaganomics." Mitterrand did manage to have the defeat of inflation and unemploy-



ment billed as the West's "highest priority," but the communiqué then stressed the need to employ all of the weapons of current economic orthodoxy, listing low and stable monetary growth, the use of high interest rates "where fears of inflation remain strong," a reduction in public borrowing, and a shift in resources from consumption to public investment.

The "middle of the road monetarist" Schmidt and the Socialist Mitterrand did not begrudge their endorsement of these principles. All of the European leaders seemed content to have Ottawa as a justification for their present policies and for any new austerity that is needed and promptly did so on their return home.

While reaffirming their "strong commitment to maintaining liberal trade policies," the summit leaders threw their weight behind plans for a ministerial meeting next year, the first since 1973, of all the countries involved in the General Agreement on Tariffs and Trade (GATT). This meeting would examine current impediments to free trade and make a general commitment to renounce "beggar my neighbor" trade policies. The fact that it is now firmly entered into the political calendar will be enough, it is hoped, to discourage any further drift to protectionism in the meantime.

On the trade front, a second important decision was to hold regular, four-sided consultations between the United States, Canada, the EC, and Japan. These would attempt to resolve bilateral trade problems without broader interest being ignored, as was the case, the Europeans claim, when this year's Japanese undertaking to cut its car exports to the United States risked a diversion of shipments to Europe.

Considerable discussion at the summit was given to North-South issues which, at the present stage of the world debate, are dominated more by political than

economic considerations. On this topic, Reagan made important concessions to European views which could have an important impact at October's North-South summit at Cancun, Mexico. In the first place, he abandoned opposition in principle to the proposed "global negotiations" in the United Nations on the transfer of

During EC Commission President Gaston Thorn's trip to Washington on the eve of the Ottawa summit, he visited President Ronald Reagan (top), Speaker of the House of Representatives "Tip" O'Neill (middle), and the National Press Club (bottom).



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Courtesy of House of Representatives

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resources from rich to poor countries. Secondly, he agreed to take part in negotiations on a possible international financial mechanism for promoting energy investment in the third world. Here, however, Reagan would not go as far as endorsing the specific idea of creating a new energy affiliate to the World Bank.

Perhaps the most discordant note at Ottawa was struck at Reagan's insistence on the dangers of Western Europe becoming too dependent on the Soviet Union for its energy supplies and on the need to tighten up controls on high technology exports to the Eastern bloc. Schmidt vigorously rejected the first point arguing that the proposed DM 20 billion (currently about \$8.2 billion), 5,000-kilometer pipeline would only be satisfying 6 percent of West Germany's energy requirements and that it made good political sense to tie the Soviet Union more firmly into Western Europe's economic system. Neither he nor Mitterrand was particularly sympathetic to Reagan's second point, but they finally agreed on a review of possible new export restrictions within the Consultative Group Cooperation Committee (COCOM), the Paris-based committee which screens the West's exports to the East to ensure that security is not endangered.

Discussion of broader East-West political issues was undoubtedly eased by a secret letter Reagan sent to Schmidt a few days before the summit assuring him that the United States would begin negotiations with the Soviets on reductions in theater nuclear forces this autumn. However, the Chancellor did stress the need for continuing dialogue with the Eastern bloc while Reagan talked of his suspicion of Soviet intentions and of the need for the United States to restore a military balance with the Soviet Union.

These are the two poles of the Atlantic argument generating a sort of creative tension out of which the Europeans know that they need to try to satisfy the US demands for more spending within the North Atlantic Treaty Organization while the United States is learning gradually that it must keep alive the prospect of détente if neutralist and pacifist sentiment in Europe is to be spiked.

In this world of declining expectations, the Ottawa summit looks better in retrospect than it deserves to. It offered, after all, no sense that the West's leaders have any kind of winning recipe for coping with virtually zero growth and rising unemployment. Its main achievement was a negative one, albeit very important. The world is more, not less, economically and politically interdependent, said Ottawa, and for the next 12 months at least the seven leading industrialized countries will try to avoid solving their own domestic problems by begging their neighbors. ☾

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THE EUROPEAN COMMUNITY

Yesterday's achievements — tomorrow's goals

EDWARD HEATH

The institutional development of modern Europe appears to some to be along contradictory lines. In economic and political affairs the operative units have become larger. There are now two major blocs, the European Economic Community and the Council for Mutual Economic Assistance (COMECON), with a number of fringe countries related to a greater or lesser degree with each of them. There is in fact really no comparison between the highly organized European Community with its institutional basis and the loosely linked COMECON group. Nevertheless it seems to the people of Europe that their affairs, in politics, defense, and economics, become more and more complex, requiring a larger and larger size of institution to manage them and thus appearing at times more and more remote from the people affected by them. They accept this intellectually, however much they revolt against it emotionally, because they appreciate that no individual European country can defend itself alone against the threat from the Soviet Union; because they realize that few countries have a market of sufficient size to be able to compete on their own with Japan or the United States; and because they know

“Even those who wished the ultimate outcome to be a federal system did not seek to copy the arrangement in North America or Australia.”

that security, politics and economics, peace and prosperity are indissolubly linked.

All this makes them wish all the more to have a greater say in running those affairs closer and more familiar to them. Hence the pressure in parts of Britain, parts of France and parts of Spain for devolution, not necessarily in the same form, but for the same purpose as it already exists in the Federal German Republic and in Switzerland. This explains the growth all over Western Europe of innumerable community groups and or-



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ganizations. This is a healthy sign and much to be encouraged. I see nothing incompatible between the two objectives of creating and developing the institutions required to cope with the characteristics of modern defense, trade, and industrial processes whilst, at the same time, encouraging grass-root activities among our fellow citizens which enable them to take part in discussing, and sometimes administering, their own local affairs.

Those who first created the European Communities did so in the full knowledge that they were starting out on a new path. The Community, as they envisaged it, was not to be an enlarged nation-state, nor was it to be a replica of any of the existing federal systems. Even those who wished the ultimate outcome to be a federal system did not seek to copy the arrangement in North America or Australia. The organization embodied in the treaties involving an independent permanent Commission to prepare and propose policies for decision by a governing body of ministers, after being debated by a representative assembly, was something quite new in international institutions.

It is true that among its supporters were those who believed that at some future date a blueprint would be prepared for a political

community, to deal particularly with foreign policy and the relations of the Community with the outside world, and also probably a defense community, which would give Europe a degree of independence from its major ally, the United States, which it had hitherto lacked. Today nobody believes that the Community will set about dealing with these problems in this way. Instead the last five years have shown that the Community institutions and the member states together have developed *ad hoc* arrangements to meet the new circumstances they are all facing.

Perhaps the most important of these is the regular four-monthly meeting of the heads of government known as the European Council. No provision for this is made in any of the treaties. Indeed when French President Georges Pompidou invited other heads of Government to join him for a summit meeting in Paris in October 1972 there were some, among them many good Europeans, who challenged the right of heads of Government to meet in this way and to lay the lines of development of the Community for the rest of the decade. At that meeting a decision was taken to reassemble in four years' time. Only a year later, after the oil crisis, heads of Government realized that the business of the Community could not be carried on unless they met at least every six months. Now they do so every four months, combined with a considerable number of bilateral meetings.

Another important example is the start which has been made on formulating a common foreign policy at regular meetings of the ministers of foreign affairs. These developments spring from a pragmatic approach which can be described as typically British, but which has in fact been found by all its members to meet the real needs of the Community without involving it in the unnecessary doctrinal debates as to whether this should become a federal or a confederal entity. I am sure that it is this approach that will govern the future nature of our European institutions. A further impetus will continue to be given to this by the directly elected members of the European Parliament.

The application of Greece, Spain, and Portugal for membership of the Community also clearly demonstrates that the Community is not a static organization but a means of creating an ever wider community in Europe. All three countries have recently moved from authoritarian regimes to democratic parliamentary systems. As such they are politically to be welcomed into the Community. At the same time, as the negotiations show, their admission provides considerable economic problems for the existing members. France and Italy will be confronted with competition in agricultural products, soft fruits, citrus, and wine and the Community may well find itself

with a surplus of these commodities. Some industries in the Community will face more competition, particularly in the field of textiles and other consumer goods, from the new members.

Although this presents problems, the seriousness of which should not be underestimated, it also provides the Community with opportunities for taking decisive action on new policies which will enable it to expand to 12 whilst, at the same time, accommodating the resources and the production of the additional Mediterranean countries. It will be an incentive to create an expanding economy which will effectively absorb the industrial products. It will bring about strong pressures to reorganize Mediterranean agriculture so as

"An exciting prospect would be opened if the Community were to establish a modus vivendi between the transnational companies and the Governments of developing countries which would be beneficial to both."

to reduce the surpluses of existing products and make the Community more self-supporting in other basic foodstuffs such as maize and soybeans. The fact that the Community will need to deal with these problems through properly thought-out overall policies will also support the impetus for Community action in other spheres.

One of the undoubted successes of the first 25 years of the Community has been the creation of a fresh relationship with the former colonial territories of the member states. This association, at first suspect to many of the developing countries outside the Community, has been widened since the enlargement took place in 1973. In many ways its nature has also changed. The Community has been able to finance development in these countries, consume their basic raw materials and foodstuffs, and at the same time provide a market for a growing quantity of their industrial products.

In negotiations for fresh agreements, the Community may well be able to create precedents for the relations between North and South as a whole. One of the major preoccupations of the industrial West is the rapid fall in the exploration and mining of minerals because of political uncertainty about the stability of many developing countries and their future attitudes towards any investment made in them. This is bound to lead within a few years to world shortages of some basic raw materials. The problem is largely one of the relationship between the large transnational companies which carry out this form of in-

vestment and the Governments of developing countries which feel themselves to be poor and weak in the face of these giants. An exciting prospect would be opened up if the Community were able to establish a *modus vivendi* between the transnational companies and the Governments of developing countries which would be beneficial to both. In this, as in the past, the Community is aided by the fact that it is a new organization and of itself—as apart from its constituent members—has no colonial past to embarrass it.

The fact that the Community is making these attempts to ensure the supply of raw materials and to increase world trade in a liberal trading context does not exonerate it in any way from the effective use of its own resources. There is an interesting contrast in the comparatively small difference between the total domestic product of the United States and that of the European Community and the large gap between the achievements of the two economies.

The United States is able to maintain a vast defense program, including the continuing development of nuclear weapons, to carry out, rightly or wrongly, a number of huge space projects, and to support individual industries, such as civil aviation and computers which scoop the world pool. In Europe we have reached no such position. Can it be that in our continent too many firms and too many Governments in too many countries are trying to achieve the same objective when in fact in modern conditions there is insufficient room for them all to do it successfully? In the private sector this requires the rationalization of our free-enterprise services which must be carried out by the firms themselves. In the public

"The ultimate result might well be a still greater disparity between the standard of living of Western Europe and the Soviet bloc."

sector it requires concerted action by governments at the highest level to make decisions on a rational program which takes into account overall each member's national interest. If, as a result, the Community were able to increase the scope of its industrial achievements it would at the same time be able to benefit its European neighbors by expanding its trade with them. Moreover it would have a broader base on which to secure its own defense. In the process it would enable Europeans to enjoy a richer, fuller life.

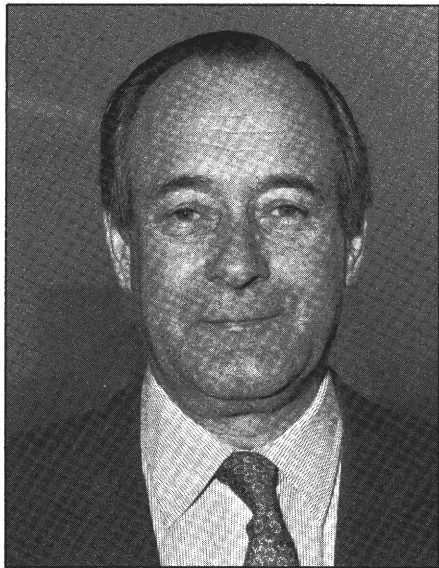
The ultimate result might well be a still greater disparity between the standard of living of Western Europe and the Soviet bloc. The Iron Curtain might become more firmly

entrenched than ever before. However well established a *modus vivendi* between the conflicting ideologies may become, it is difficult to visualize within a measurable time span a situation in which the COMECON countries develop liberal economies which will enable them to work as one within the European Community. However much individual members of the Soviet bloc wish to expand their trade with the rest of the world, to become members of international economic organizations and to give the impression of drawing closer to the members of the Community, they still internally maintain authoritarian regimes, completely unacceptable to the Western democracies. Strangely enough the more liberal they appear in their outward stance to the rest of the trading world, the more illiberal their regimes seem to become internally. Nor can one yet see a situation in which the Soviet Union will be prepared to allow any of its satellites to move outside its orbit even though at times they may appear to stray somewhat from its path.

This does not mean to say that Western Europe, and in particular the Community, should not continue to expand trade with its Eastern neighbors. We should help them to improve the standard of living of their people by providing them with modern technology and with large credits with which to support it, always providing that it is not of direct assistance to Soviet military strength. Although we may not be able to determine the time span in which a more liberal society can evolve behind the Iron Curtain, there is every reason to continue our efforts to open the windows through which the citizens of the Eastern bloc can look out upon and communicate with the Western world.

From Europe came the explorers, the navigators, the traders, the missionaries, who carried with them the values and traditions of centuries of Western civilization. There followed an era during which the great powers, that is to say the European powers, tore all their own continent apart. Sometimes this originated in personal ambition or the desire for national domination; at others it was the result of trading rivalry or commercial conflict. Those days are now past. Europe has to play its part in maintaining its defense against the threat from outside its boundaries but it can devote more of its resources not to internal conflict but to the development of its people in the traditions and culture which have been its heritage over so many centuries. More than that. It can convey its values once again to the world, not by the sword but through friendly help and with the example of free peoples. ☪

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Fernand and Anne Spaak



THE TRAGIC DEATHS OF FERNAND SPAAK, CHEF DE CABINET to EC Commission President Gaston Thorn, and of his wife Anne have a special meaning for the Washington community and the many corners of the United States that they knew and loved so well.

Appointed Head of the EC Commission's Delegation to the United States in 1976 by Lord Soames, Spaak's task was to put the Delegation on the map and to give it the leadership and coherence which up till then it had lacked. From the very moment he arrived he took the Delegation in hand and soon made it one of the most professional diplomatic missions in Washington. I recall a briefing he gave at an editorial luncheon of the Washington Post, after which a senior editor remarked "Spaak is one of the most impressive public officials we have ever entertained."

Always a master of his dossiers, and quick to see the political implications in technical issues such as trade, agriculture, economic and financial affairs, or the arcane world of nuclear proliferation, Spaak quickly made his mark, not through the style section of newspapers or magazines, but through sheer ability and hard work. Yet, he keenly understood the importance of the fourth estate in the United States and never condescended to the press. Although as a European *fonctionnaire* it was unnatural to him, he became an expert interviewee on radio and television.

To understand Fernand Spaak the man it was necessary to see him in his home environment at the official residence on Belmont Road. It was there that his literary tastes, his love of antique books, his pipe collection, and his fondness of gardening, were most in evidence. The excellence and generosity of his wine cellar and table were renowned and the guest lists formidable.

In all this Anne Spaak was an essential partner. Warm, charming, and cultivated, she imbued the Spaak house-

hold with color, texture, and taste. Herself a passionate European, she expected other Delegation wives to spread the European gospel just as she did. Who could forget that memorable lunch for the American media when Black September occupied the neighboring mosque? The Spaak residence was immediately converted into an outside broadcast unit for television while Anne Spaak plied the TV crews endlessly with coffee. Typically she even wanted to offer herself as a hostage in the place of some children held in the mosque.

The Spaaks together were indefatigable travelers. During their four years in Washington they visited every state in the Union (except Hawaii). He addressed Councils on Foreign Relations, World Affairs Councils, Rotaries, Kiwanis, business circles, and countless other collections of "notables." Anne meanwhile would explain mainly to women's groups the importance of the European idea and the role of women in Europe. The mail which followed each visit was eloquent testimony to the impact the Spaaks made.

Fernand Spaak in his constant pursuit of excellence was a demanding colleague. His charm and good looks belied a man of temperament, fastidious about detail and impatient of incompetence. On issues of real importance Spaak was decisive and visionary and, above all, human.

In Fernand, Europe has lost one of its most talented servants, and, for those of us privileged to work with him, not just a colleague, but a lifelong friend. In the Spaaks, together, the United States has lost two friends who grew to know, understand, and love the many dimensions of this country. Their passing poignantly recalls Shakespeare's lines: "High events as these strike those that make them; and their story is no less in pity than his glory which brought them to be lamented."

ANDREW A. MULLIGAN

The Social Democratic Answer

President Francois Mitterrand has wasted no time in setting the French economy on a course far different from that of most other Western nations. Paul Lewis reports.

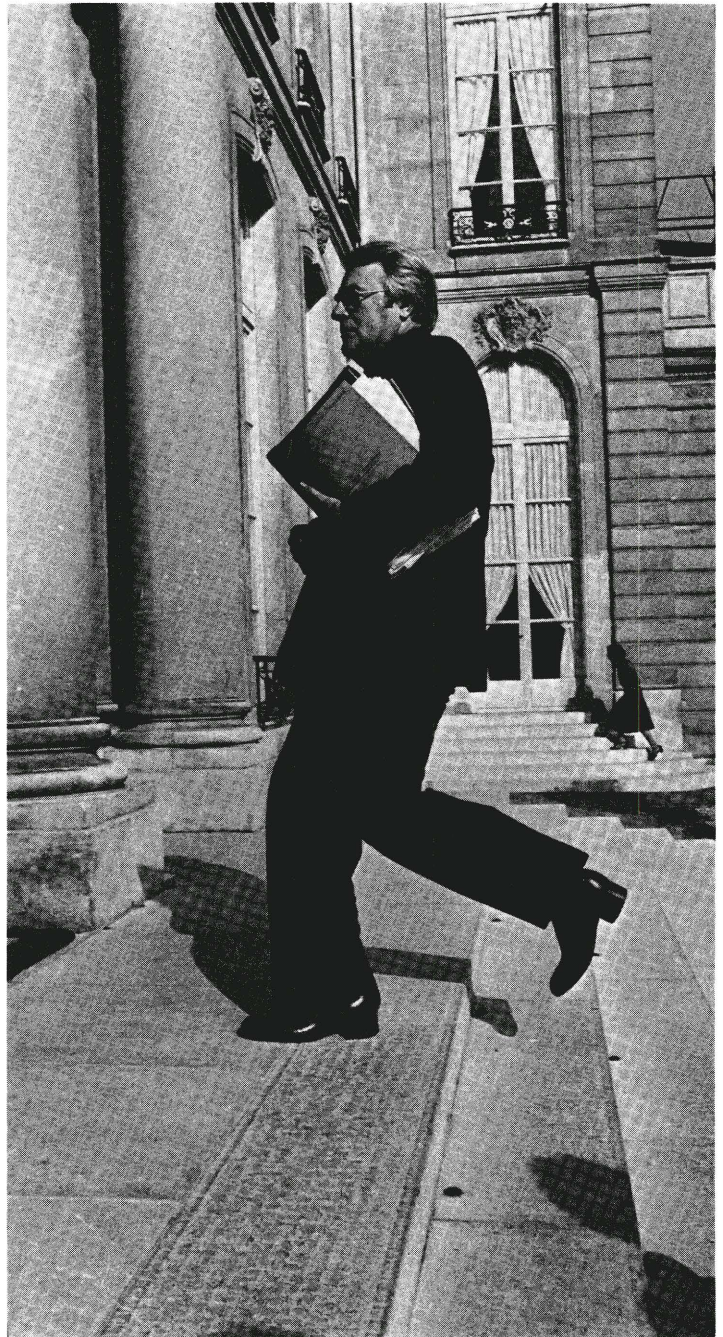
THE FRENCH HAVE A TALENT FOR DOING THINGS differently. And they are indulging it once again.

When General Charles de Gaulle came to power at the start of the Fifth Republic some twenty three years ago, he said his actions would be guided by “a certain idea of France” quite different from everyone else’s. Few doubt he and his heirs lived up to that promise, transforming France from an unstable, agricultural nation, bogged down in hopeless colonial wars in Vietnam and Algeria, into a haughty industrial power with atomic weapons, enjoying a greater degree of international prestige than at any time since Napoleon.

Today, Socialist President François Mitterrand can also claim to have his own, distinctive view of France’s role in the Western world, once again very different from its neighbours. Within days of capturing the Elysée Palace and seeing his supporters gain an absolute majority in the Parliament, something de Gaulle never achieved, Mitterrand unveiled a unique plan, running counter to all conventional wisdom, for restoring prosperity to France. His aim is to break out of the recession that has gripped all Western nations with varying degrees of intensity since the first oil price explosion of 1973, by blasting the French economy back into an orbit of high growth and falling unemployment.

Calling unemployment “the priority of priorities,” Mitterrand argues that an unfair share of the miseries brought on by the West’s economic difficulties has fallen on the workers and the poor for too long. “I have a contract with France for change and I will keep it,” the new French President said shortly after his election. Just as *la continuité* was the favorite slogan of the Giscardians ousted during this spring’s elections, so the most popular word in the French political lexicon today is *le changement*—change.

For three years now, Western industrial countries have all more or less agreed that inflation fighting must be their top economic priority, despite the relentless rise in unemployment this has brought. Once hallowed Keynesian theories which held that Governments should boost



Prime Minister Pierre Mauroy will seek to increase Government spending instead of cutting it. © Ledru, Sygma

their spending to counteract any slowdown in the economy have been discarded as recipes for hyper-inflation. "Governments no longer believe they can spend their way back to prosperity," German Chancellor Helmut Schmidt said recently.

Only when inflation has been beaten, the argument runs, will investment revive and the West return to the sustained prosperity and low unemployment it knew in the 1950s and 1960s. The way to beat inflation is to limit public spending, control the growth of the money supply, cut oil imports, and generally reduce Government interference in the workings of the economy, allowing the free play of market forces to determine which

of the economy, rather than reducing it. In addition, the French Socialists plan to curb France's highly ambitious civil nuclear power program, increase the country's reliance on imported oil, and limit its booming foreign trade in arms. Moreover, they are pledged to do all this without devaluing the franc, boosting inflation, or retreating into protectionism.

Already the Socialists are starting to reflate in what they hope will prove a non-inflationary way by transferring wealth from the richer sections of society to the poor, who are expected to spend it immediately, thus boosting demand. The minimum wage has been raised along with various social security benefits. Public works

France: Principal Projections and Indicators, 1977-81

(Percentage changes, except as indicated)

	1977	1978	1979	1980	1981
Gross national product and components (in volume)					
Gross national product	3.1	3.7	3.5	1.2	0.4
Consumer expenditure	3.2	4.7	3.5	2.1	1.5
Government current expenditure	1.4	4.3	1.6	2.5	2.2
Gross fixed investment	-0.8	1.3	3.7	2.0	-2.6
Stock building ¹	-0.2	-0.3	1.1	0.1	-0.8
Total domestic demand	1.8	3.6	4.4	2.2	-0.1
Foreign balance ¹	1.3	0.1	-0.9	-0.6	0.5
Output, employment, and costs					
Industrial production	1.8	2.4	4.5	-0.7	-1.7
Employment	0.5	0.4	-0.1	—	-0.8
Hourly earnings in manufacturing	12.6	14.2	13.4	15.0	14.5
Unit labor costs in manufacturing	9.0	8.8	8.3	12.6	13.0
Unit labor costs of competitor countries ²	6.8	6.3	5.1	10.0	8.4
Unemployment rate (actual)	4.7	5.2	5.9	6.3	7.9

¹The figures indicate the change in stock building, or in the foreign balance, as a percentage of GNP in the previous year. (They thus indicate the contribution of these elements to the growth of GNP.)

²Weighted average of changes in indices expressed in terms of national currencies.

Source: International Monetary Fund, July 1981

companies survive and which go under.

The outgoing French Government of President Valéry Giscard d'Estaing and his financially conservative Prime Minister, Raymond Barre, accepted this so-called "monetarist" answer to the world's economic difficulties, as does Schmidt and Britain's Conservative Government. So, too, do most leftist European political leaders. "What do you want me to pay you with . . . confetti?" Britain's former Labor Chancellor of the Exchequer, Dennis Healey, would shout back in exasperation at leftwingers demanding he reflate the economy by raising wages.

But Mitterrand and his Prime Minister, Pierre Mauroy, the former Socialist party boss of the declining textile area around Lille, are committed to a completely different approach. Their alternative "social democratic answer to the crisis," (as the Socialists call it) seeks to increase Government spending instead of cutting it and to step up state intervention in the day-to-day workings

are being increased. The first batch of some 200,000 promised new civil service jobs are being advertised. Government funds earmarked for bailing out troubled companies have been raised. And by 1985 the working week will be cut from 40 hours to 35. But all this largesse will be paid for this year by higher taxes on the very rich and on banks and oil companies, next year by a general reform of the tax code. Only a marginal increase is planned in the Government's budget deficit.

Then in October, the Socialists plan to move onto the second stage of their controversial economic recovery program—nationalizing the commanding heights of the French economy. Although the Government already owns 75 percent of the country's banking sector, it will take control of all remaining private banks and, in stages, of 11 major industrial groups. First to go will be Dassault and Matra, the armament makers, France's two bankrupt steel producers, Sacilor and Usinor, along with three big companies heavily into advanced electronics, St.

Gobain-Pont-à-Mousson, Thomson-Brandt and Compagnie Générale d'Electricité. Later the State will extend its tentacles over Péchiney, the aluminum giant, Rhône-Poulenc, the synthetic fiber and chemical producer, IIT-France and Roussel-Uclaf, a German-controlled pharmaceutical giant.

Just what the purpose of this wholesale extension of the public sector is supposed to be has never been spelled out clearly by the Socialists. There is vague talk about directing more credit to small- and medium-size industries, although the allocation of credit has always been state-controlled in France. There is similarly vague talk, too, about "restructuring" the nationalized companies to create a few larger and more efficient groupings. Yet with the exception of the steel makers and Rhône-Poulenc, all of the companies on the Socialist "hit list" are operating profitably and most are themselves the offspring of Government-supervised mergers over the last 10 years designed to transform a host of small, national companies into a number of big, multinational ones.

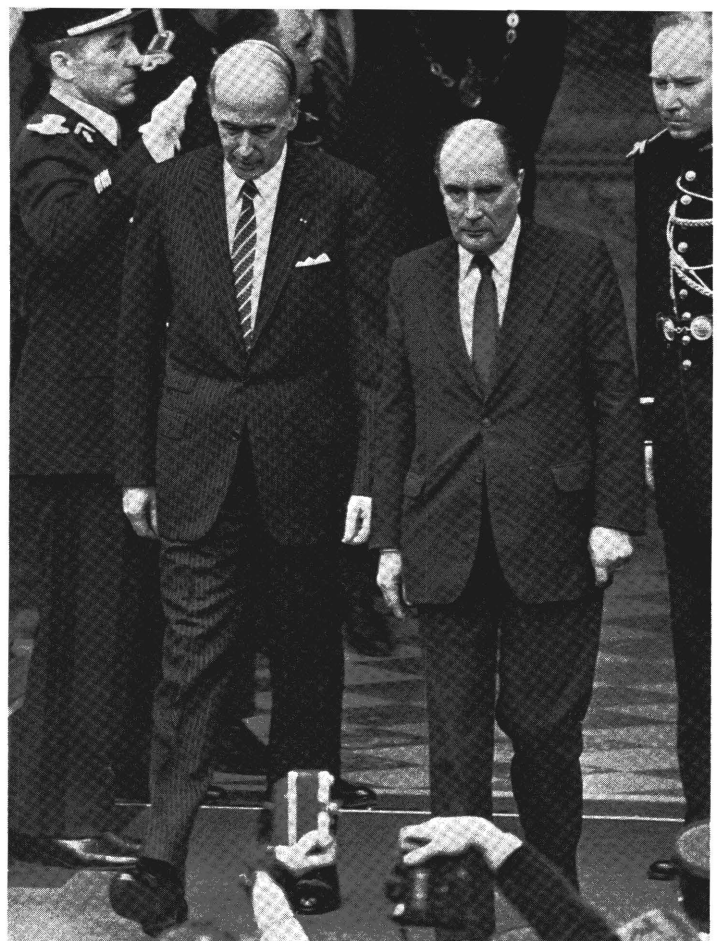
The truth is, of course, that the Socialists' commitment to nationalize so much of French industry and banking is an awkward bit of baggage left over from their now defunct electoral pact with the Communists, but which Mitterrand was forced to retain to appease the left wing of his own party and to encourage Communist voters to support him in districts they could not hope to win by themselves.

The French Communists may have done badly in this year's elections, getting their lowest share of the vote since World War II in the presidential contest and seeing their seats in the parliament halved from 87 to 43. But they have managed to leave, nonetheless, a vivid imprint on the economic platform of the victorious Socialists.

When the Socialists have completed their nationalization program, France will have the dubious distinction of possessing more state-owned industry than any other country in the Western world. Theirs will also be the only Western Government with a complete monopoly of credit, apart from Portugal where the banks were all nationalized by the Marxist army officers who overthrew the dictatorship of Marcello Caetano in 1974.

The key question about the French Socialists' ambitious and radical economic plans is whether they promote greater efficiency, or the reverse. Put another way, it is whether their nationalization and reflation goals prove compatible with their equally ardent promises to defend the Franc, to keep France a free-trading member of the European Community, and to preserve a healthy private sector in its economy. Keeping all these balls in the air at the same time, promises to be anything but easy.

Mitterrand starts with several important advantages. The Government budget deficit is low by Western stan-



Two different approaches: The conservative monetarist approach to fighting inflation goes out with the former Government of Valéry Giscard d'Estaing (left), shown here with the new Socialist President François Mitterrand. © Gerard Rancinan, Sygma

dards thanks to ex-Prime Minister Raymond Barre's penny-pinching ways, leaving some room for increased public spending. The prudent financial policies of the outgoing Giscardians have also left the Bank of France with a formidable war chest of gold and dollars for the defense of the franc. France's credit rating remains high on international markets enabling the new Government to borrow easily to finance part of its spending spree. The presence of four Communist ministers in Mitterrand's Government, while upsetting for the Reagan Administration, probably ensures it a longish honeymoon with the trade unions. Above all nationalization is not necessarily the dirty word in France that it is in America, with its overtones of Marxism and inefficiency.

France has a tradition of large, well-run, state-owned enterprises which are fully competitive on world markets. Renault, the automobile maker and Aerospatiale, the aviation and armaments company, both of which were originally nationalized by General de Gaulle after World War II, are examples; as are the big three state-owned banks, Banque Nationale de Paris, Crédit Lyonnais, and Société Générale.

But France's new Socialist Government is already using up the precious margin of maneuver these advantages give it, fairly quickly. Mitterrand's reflationary efforts are expected to eliminate the slight contraction the Or-

ganization for Economic Cooperation and Development forecast in the economy this year and improve the modest 1.5 percent real growth foreseen in 1982. But if world interest rates stay high, it is unlikely to lift growth substantially over 4 percent next year, as a recent study of the Socialist's economic program by Chase Econometrics suggests. And even if growth did improve, Chase Econometrics still warns that unemployment will do little more than level out around the present figure of 1.7 million because of the large number of school-leavers entering the labor market.

Meanwhile, the external constraints on the Socialists' freedom of action are becoming increasingly apparent. The franc is only being supported by draconian exchange controls. Inflation, already 14 percent when Mitterrand took over, is starting to accelerate as a result of the franc's fall against the dollar. Faster domestic growth promises to suck in more imports, wiping out the hoped-for reduction in France's \$6 billion current-account deficit this year. Like successive British socialist Governments in the 1960s and 1970s France's new rulers will find it difficult in practice to reconcile their commitment to cut unemployment with their determination to stave off a politically embarrassing devaluation of the currency, which would only add to their economic difficulties by increasing the cost of imported oil and other goods paid for in dollars and further boosting inflation.

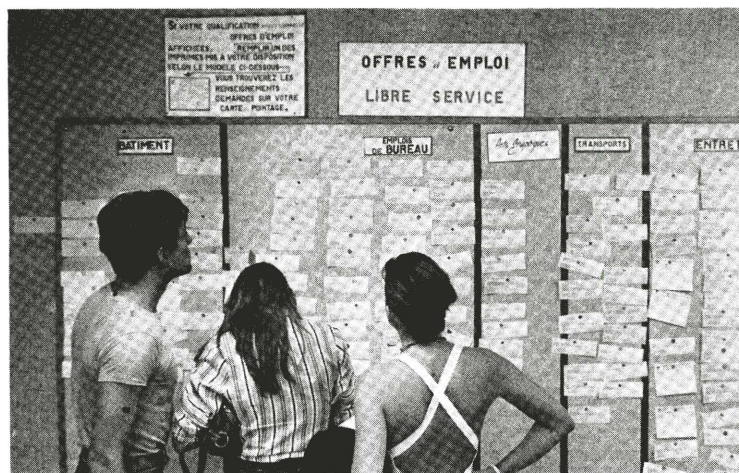
But what worries many economic commentators more than how the economy itself performs over the next few months, is the danger that the Socialists will slow down the needed restructuring of French industry to meet the difficult world trading conditions ahead, in order to maintain employment. As Yves Laulan, chief economist at the Société Générale, put it: "What is most to be feared is not so much short-term economic fluctuations, but the progressive creation of structural distortions in the economy by the Socialists' policies."

Big companies fret that under Socialist rule it will become politically impossible to shed surplus labor. Owners of small firms worry that high taxes and increased red tape will stifle entrepreneurial spirit. As disillusionment with the results of their radical new policies sets in, many observers fear that France's new Socialist rulers will be tempted to move toward protectionism, price controls, and a siege economy.

It should not be forgotten that the French Socialist party already contains a powerful Marxist wing, ready for more radical measures than the Government program envisages. By bringing the Communists into the Government, Mitterrand hopes to weaken them, forcing the leadership to compromise on its principles and encouraging more of the rank and file to switch their allegiance to the Socialists as the leading force for radical change in France. But this strategy could backfire if the economy

goes sour. The Communist ministers might then walk out of the Government with their prestige enhanced, denouncing the Socialist economic program as inadequate to deal with the crisis.

Already it is clear that much more than economics is at stake in France's radical bid to break out of the world recession. Overnight, France has been transformed from a hard currency country and one of the pillars of Europe's fixed-exchange-rate monetary system, into a soft-currency one whose continued adherence to the European Monetary System is in doubt—"the Italy of northern Europe," as one Western ambassador puts it. The po-



Young French workers check job announcements at this free employment service. French unemployment has reached nearly 8 percent. © Alain Keler, Sygma

litical consequences of this change are emerging.

France's traditional special relationship with Germany, which in the past has been a major driving force for closer political integration in Europe, is now in trouble. Schmidt has not concealed his distaste for Mitterrand's economic policies, which he fears will weaken France and undermine support for inflation fighting and free trade throughout the West. Already, smaller Western countries are growing restive with the West's joint commitment to restrictive economic policies and glancing enviously at the example set by Socialist France.

Right now Mitterrand seems to be trying to compensate for his controversial economic stance in his allies' eyes by taking a super-hard anti-Soviet line in foreign policy, attacking Germany and Britain for their "neutralist" tendencies and encouraging the Reagan Administration to match the build up of Soviet SS-20 nuclear missiles by modernizing the North Atlantic Treaty Organization's nuclear arms. But if the Socialists' economic policies go seriously wrong, it will become hard for them to maintain France's traditionally high level of defense spending. The country could then become another Britain—a model ally of the United States on paper, but without the means to back it up in practice. €

Paul Lewis is a New York Times correspondent in Paris.

a summer of discontent

ROBERT TAYLOR

Street rioting by white and black youngsters in some of England's inner city areas this summer has dealt a severe blow to the complacent and widely held belief that the United Kingdom remains a socially stable, cohesive, peaceful country with a respect for tradition, established authority, and the rule of law. The nightly television pictures in July of burning buildings, mobs throwing stones and gasoline bombs, and injured policemen came as a shock to most British people, let alone the rest of the world.

For Conservative Prime Minister Margaret Thatcher, Britain's short hot summer of inner city violence came as an unexpected warning of the strains being imposed on British society by the return of mass unemployment and years of economic disappointment. She admitted that the riots had brought her the greatest anxiety since she came to power just over two years ago. Certainly they placed a serious question mark over the Government's entire economic and social strategy, its monetarist experiment to cure the country's ills through cuts in spending programs, and the control of the money supply.

Thatcher's rather harsh and strident reaction to the inner city riots aroused widespread criticism but the Prime Minister has always taken pride in being a "warrior" not a "healer." For all her natural concern, she still appears concerned that no real alternative exists to her own anti-inflationary policy whatever the risks it carries for social conflict.

But the new force in British politics, the Social Democratic Party (SDP), provided instant evidence that the British have not lost their affinity for the middle-of-the-road approach. In July, the SDP made a stunning electoral debut in the by-election in Warrington, Lancashire. Roy Jenkins, co-founder of the party, former Labor cabinet minister and former President of the European Communities, invaded solid Labor territory and pulled in 42 per cent of the vote.

Labor held on to the seat, but with a vastly reduced majority, while the Conservative candidate, garnering a meager 7 per cent, endured the humiliation of losing his electoral deposit. The result was universally interpreted as the strongest of rebuffs to the politics of the extremes, be they practiced by the dominant left

of Labor or the right of Thatcher's Government.

The responses to the violence and looting were perhaps predictable. Many on the political right placed the blame for the troubles on left-wing extremists who they alleged were conspiring to subvert the established order in society through the manipulation of young people. It was suggested that four masked men were traveling around Britain from one inner city area to another stirring up hatred against the police. The tough, chief constable of Manchester, James Anderton, spoke of "real anarchy" and intervention by outside strangers in the savage rioting in the Moss Side area of his city.

Such accusations should not be dismissed out of hand as the figment of fevered imaginations in search of a scapegoat. Some left-wing extremists were eager to exploit the rioting for their own revolutionary ends and they made no attempt to disguise their goals. A leaflet was distributed by the Marxist-dominated Labor Party young Socialists in Toxteth which appeared to condone and encourage attacks on the local police. A handful of ultra-left militants did urge channeling the energies of the young rioters into positive political action on the streets. But, rightly, few people in Britain were ready to believe that the July troubles were part of a grand political conspiracy.

Indeed, the impression was much more that the white and black youngsters involved were not motivated by some revolutionary view of the world. On the contrary, they seemed to have no overtly political interest at all. Obvious attempts to mobilize emotions for political ends met with widespread indifference and often with downright hostility. Many police chiefs in the riot-torn areas insisted that the rioting was criminality, pure and simple.

Looters line up to enter a jewelry store after rioting in Toxteth in July. © Keystone Press Agency



The chief constable of Merseyside, Kenneth Oxford, questioned: "What in the name of goodness are these young people doing on the streets indulging in this behavior at midnight? Are their parents not interested in their futures? Is there no discipline that can be brought to bear on these young people?"

Oxford (and Thatcher) were far from alone in condemning the dogmas of the "permissive society" or in taking dead aim at the fallibilities of the educational system or the perceived collapse of parental discipline. Some of the remedies proposed—the return of corporal punishment, summary arrest, making parents liable for the damage caused by their children, and strengthening the muscle of the police—are far from new and certainly do not command universal backing.

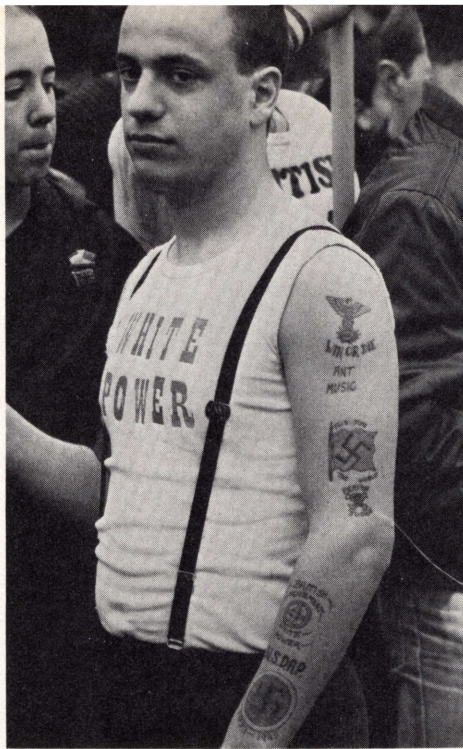
Even the beleaguered police force was visibly reluctant to make use of the tools that Home Secretary William Whitelaw told the House of Commons they could use, such as water cannons, armored cars, and plastic bullets. Such recourses, several police chiefs argued, could undermine their traditional methods of preserving law and order (of which more later). After all, in spite of the widespread looting, arson, and rioting, the police continued to exercise a restraint in the streets remarkable by the standards of America's urban disturbances in the late 1960s or even those in Amsterdam, Zurich, and West Berlin earlier this year.

In looking for causes (and perhaps solutions) four interconnected areas seem paramount; the issue of unemployment, particularly in the cities, and flowing from that, the attitudes of the young, the existence of racism, and the relations between the police and racially mixed communities.

There can be no doubt that youth unemployment is a major cause of the inner-city violence. More than half the school-leavers in Britain this summer will find no immediate work to do. Nearly half the nation's jobless are under the age of 24.

The inner city areas are particularly deprived. In Toxteth in Liverpool, for example, it is estimated that 47 per cent of black youngsters and 42 per cent of the whites are unemployed. The figures are equally horrific in the Brixton area of London and in Moss side, Manchester. The levels of unemployment are more than twice as high for young blacks as they are for young whites.

Industry has moved away from the inner city areas to the suburbs and new towns, so there are far fewer manual jobs available for the many unqualified and unskilled young people in search of work. The present slump in Britain, the worst in half a century, has also hit job opportunities in the service and distribution sectors, where many young people used to find jobs in the more affluent past.



Skinheads marching with the British Movement last year. © Keystone Press Agency

Added to the unemployment crisis for the young are relatively poor housing, the collapse of the family network, and uncaring local Government. They constitute a depressing cycle of urban decay. Many young people are in despair as a result. Until recently, rising unemployment had not appeared to provoke any violence from its victims. Being without work tends to isolate individuals from one another. It encourages inertia, apathy, a disinclination to become involved in protest.

But the young are now in a more rebellious mood. Ten years ago the way to upset authority was to grow hair long, wear love beads, and preach peace. Now there is a new toughness, a macho style among the punks, skinheads, and the "heavy metal" brigade. Bald heads, boots, and Nazi regalia are now *de rigueur* among the young working class. There is a contempt for authority, a love of action for its own sake. Even before the July riots, worries were growing about the mounting crime wave of muggings of old people, petty theft, and vandalism. Some observers see the events of mid-summer as merely the logical escalation of individual random violence into something larger.

The Government rushed through more financial aid to help the young unemployed before Parliament went into summer recess. But this may not do much to ease the crisis of the inner cities. The former Conservative minister Enoch Powell suggested that the July riots vindicated his warnings about black immigration made 13 years ago, but it would be an over-simplification to jump to the conclusion that the inner city troubles were racial in origin.

Certainly some of the rioting was sparked off by incidents involving blacks and whites, such as in the Indian community of Southall, in London, when two coachloads of white skinheads arrived in the area for a pop concert, shouting racist abuse, smashing shop windows, and harassing an elderly Indian lady. In Brixton, where serious violence broke out earlier in the summer, there was renewed conflict when a white policeman tried to arrest a young black youth. The disturbances in Toxteth were similarly sparked.

In each case a common denominator was poor relations between the police and the local community. Complaints about police harassment of the black West Indian community in Brixton have become wide-spread recently. The riots in the spring followed a big police operation by men in plain clothes to catch drug pushers and petty thieves through a stop and search of suspects. The eminent high-court judge Lord Scarman was appointed by Thatcher to enquire into the causes of the earlier Brixton riots and some of his first comments suggest he will take a critical look at policing methods when he reports later in the year.

A major problem is obviously that there are very few blacks in the British police. The metropolitan police in London have only 12 blacks on the entire force. The picture looks no better in Liverpool, Manchester, or other major cities. The police retain widespread popularity among the white majority in Britain. There is still a tendency to see the police as beyond reproach and cases of individual abuse of police powers have done little to dent the overall favorable image. But the defensive attitude of the police has done nothing to reassure those who live in the inner city areas. There is a clash of culture, a mutual incomprehension of differing life styles. It will not prove easy to overcome this problem.

Thatcher has already said that Britain's inner city problems will not be solved merely by throwing money at them. A decade ago the United States took positive action to ease the problem of the ghettos. Despite the riots and the Vietnam war, America was an affluent, dynamic nation with a high rate of economic growth. But Britain is fast becoming a relatively poor country with zero growth, falling industrial output, high inflation, and the worst unemployment since the great depression of the 1930s. It lacks confidence, the spirit of "can do."

In the cozy afterglow of the royal wedding, there is a danger of trying to avoid the difficult issues. But time is running out. It will need a revival of political statesmanship to resolve Britain's crisis. €

Robert Taylor is the labor correspondent of the London Observer.



BUSINESS EUROPE: HIGH TECHNOLOGY

more room in MA BELL'S auberge

Guy de Jonquieres on the changing international face of telecommunications.

ALONG WITH THE AUTOMOBILE, AIR TRAVEL, AND PERHAPS also television, the telephone has been one of the most powerful forces at work this century to expand the frontiers of individual freedom. Most of us expect, without thinking twice about it, to be able to lift our receivers and talk to anyone we choose, whether they live just around the corner or several thousand miles away. If for any reason we are prevented from doing so, we tend to react as though we have been arbitrarily deprived of a basic human right.

Yet in most countries of the world the telecommunications industry is organized along lines that are far from democratic. With few exceptions, it is the fief of large, impersonal bureaucracies, some of which hold virtually dictatorial powers. Many not only set the rules but decide who plays by them. Often, there is only one player.

Gradually, though, this rigid pattern is starting to change. The effects have so far been most noticeable in the United States, where decisions by the courts and regulatory authorities have chipped away over the last decade at American Telephone and Telegraph's (AT&T) monopoly over much of the telephone service. Now, pressures are building in Europe, too, for a swing toward more liberal policies which could have far-reaching consequences.

These trends are only partly due to a fashionable reaction against the concentration of economic and industrial power in relatively few hands. Indeed, since the Reagan Administration came into office the political climate in the United States has clearly turned against energetic trust-busting and now appears more favorable to corporate bigness than at any time in recent history.

A more important and universal reason is that advances in technology are fundamentally altering the industry's business. Until now, telecommunications has been predominantly concerned with transmitting human speech. But in future, more and more of the information humming across the wires or through the ether will be in the form of computer data. In the United States, the

volume of data communications is expected to grow by as much as 30 percent annually this decade, about three times faster than voice traffic.

It will also become increasingly difficult to distinguish between the two types of communication. This is because analog systems, which transmit sound waves corresponding exactly to changes in the speaker's voice, are being steadily replaced by digital networks. These convert speech sounds into a stream of fast-moving electronic pulses which are virtually identical to computer language.

The basic principles of digital communications are not new—they were established before World War II. But other branches of technology have had to catch up before they could be widely applied outside the laboratory. Only recently have developments like the low-cost silicon chip, optical fibers, and communications satellites made it economic to introduce digital exchanges and transmission systems.

The consequences of this "convergence" between computers and communications are far-reaching, opening the door to many new types of service. A few examples:

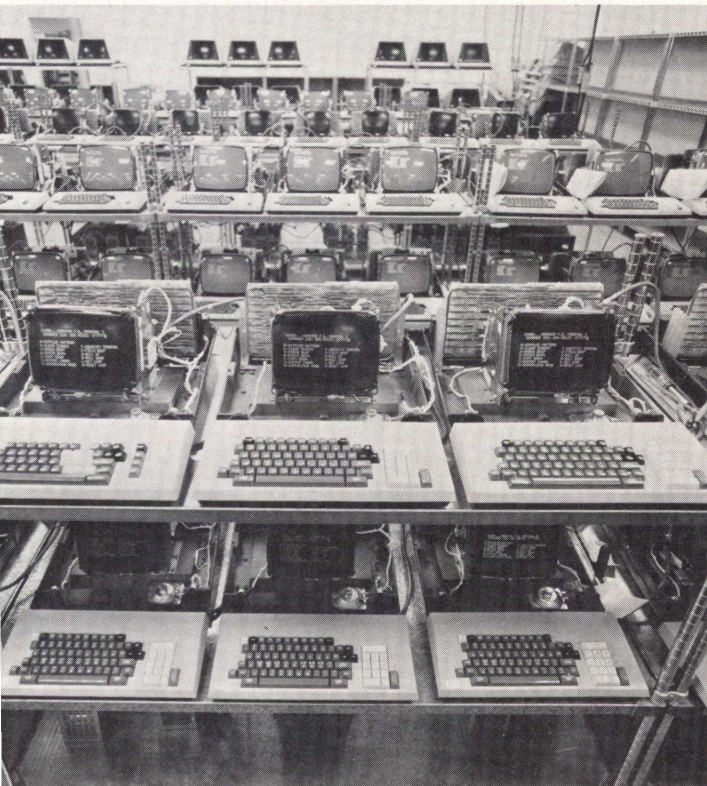
- Videoconferences, linking business executives in distant cities by means of closed-circuit television. Though still expensive to use, these services promise to reduce sharply the need for business travel in the future.
- Electronic mail. A message is typed into a computer terminal and flashed within seconds to its destination, where it is reproduced on a display screen or printer.
- Electronic libraries. Vast quantities of written information can be stored in a remote computer and retrieved and processed on small terminals from anywhere in the world.
- Home information services. Televisions or personal computers can be linked to huge networks, enabling consumers to pay bills, check bank accounts, reserve airline seats, or order goods by manipulating controls on their sets.

The "information revolution" is already starting to cut across the traditional boundaries of broadcasting, publishing, entertainment, financial services and other industries. In the United States, the Federal Communications Commission (FCC) gave it a powerful push last year by voting to exempt from regulation communications services which involved computer processing of data. While intended to stimulate competition, the decision also reflected the FCC's view that advances in technology were making it increasingly pointless to try to distinguish between the two types of business.

The decision is proving difficult to implement, however. There is still much controversy, in particular, over whether AT&T should be free to enter the newly deregulated market. The FCC ruled that it could, provided it did so by setting up by next March a separate subsidiary. But the ruling is being vigorously contested in the courts by the Justice Department and a number of companies which fear that AT&T would swiftly dominate the market. A final resolution may require the rewriting by Congress of the 1934 Communications Act.

In Europe, in contrast to the United States, Government authorities are directly involved in the operation of the telecommunications industry. With few exceptions, responsibility for providing national public telecommunications services is entrusted not to privately-owned companies but to state monopolies known as PTTs, which exercise extensive powers. They have exclusive rights to build national telecommunications net-

The German company Nixdorf AG manufactures these data terminals at its plant in Massachusetts. Courtesy of Nixdorf Computer



works, control access to them, determine what types of traffic they carry, and set tariffs. They also decide what apparatus subscribers may use and, in many cases, are the monopoly suppliers of equipment.

But a sizeable breach is about to be driven into this monolithic structure by Britain. Inspired by US deregulation, Prime Minister Margaret Thatcher's Government will start dismantling this autumn the monopoly of British Telecom, the telecommunications arm of the Post Office. The Government is motivated not only by a distaste for state intervention in the economy in general, but also by its conviction that freer competition is the most effective mechanism for realizing the full benefits of the latest advances in communications technology. It believes that British Telecom is too bureaucratic and inefficient to respond adequately to market needs.

The first bulwark to be attacked is British Telecom's far-reaching equipment monopoly. Over the next three years, the rules will be steadily relaxed to allow subscribers to buy a much wider range of apparatus on the free market, instead of being obliged to accept only products supplied to British Telecom by its main manufacturers. Authority for certifying equipment will be transferred from British Telecom to a new, independent body.

Much more controversial is the Government's proposal to allow private competitors to lease capacity on British Telecom's circuits and offer freely commercial services like electronic mail. The Government is also considering sanctioning the creation of independent communications networks. A consortium of big British companies has already been formed to build an advanced network for business users, for which it is seeking official approval. Ironically, the Government owns substantial shareholdings in two of the companies involved, the British Petroleum oil group and Cable and Wireless, an international telecommunications company. Other groups, including IBM, are looking at the possibility of starting business satellite services.

British Telecom is fiercely opposed to the ending of its network monopoly. Like AT&T, it has voiced fears that private competitors will cream off profits on its most lucrative business, notably long-distance traffic, while it must continue to carry loss-making operations. It has warned that it may have to recoup through politically controversial increases in local subscriber charges. Though the debate about the economic impact of liberalization has been far from conclusive until now, the state of British Telecom's finances, already cramped by official restrictions on its borrowing powers, may influence the speed at which the Government implements its plans to allow freer network competition.

From across the Channel, other European PTTs are pondering somewhat nervously the changes confronting one of the leading members of their "club." None is yet

Heinz Nixdorf, chairman of the board of Nixdorf AG.



certain how the British experiment will work out in practice. But most are uncomfortably aware that it could have wider repercussions which would affect their own positions.

In fact, a number of them have already been quietly trimming their monopolies in response to market demand. In both Belgium and the Netherlands, the rules have been bent more than once to meet the requirements of big multinational companies which hinted gently that they might consider locating elsewhere if they could not obtain the services they wanted. In France, which is investing heavily to modernise its telecommunications network and introducing new facilities like videotex information services, the monopoly over subscriber equipment has been relaxed. A wide selection of receivers can now be purchased off-the-shelf at retail stores.

Germany continues to enforce one of the strictest regimes in the EC, but pressures for relaxation are growing there, too. Earlier this year, the national monopolies commission accused the Bundespost (German Post Office) of distorting market forces and impeding innovation

This electronic home information system providing news, information, and in-home shopping, was given a trial run last year in Coral Gables, Florida.

Courtesy AT&T



by pursuing excessively restrictive practices. Similar objections have been made by manufacturers. One of the most vocal critics is Heinz Nixdorf, head of the rapidly-expanding Nixdorf Computer. He has complained that the Bundespost took so long to approve one of his company's new products—an ingenious telephone terminal—that it was out of date by the time it was allowed to be sold. He has also indicated that Nixdorf's decision to start manufacturing in Massachusetts a few years ago owed much to liberal US policies.

Many experts believe that PTTs will have to amend their practices further in response to pressure from influential business users. Good communications is becoming increasingly vital to the international competitiveness of companies, which are now demanding more sophisticated facilities—and greater freedom to use them flexibly—than have been available in the past.

The PTTs will have to make a massive effort to meet these demands. To do so will mean wholesale modernization of the ground-based communications networks which constitute their main assets. But ripping up millions of miles of copper wire and replacing it with advanced transmission circuits made of optical fiber will take many years.

The cost will be huge and will continue to rise as the pace of technological change accelerates. The gap between each new "generation" of telephone exchanges has already shrunk in the past decade to less than 10 years from about 25, with dramatic implications for the conservative depreciation policies of the PTTs. Many of them will probably be forced into closer collaboration on equipment purchases in the future. British Telecom and the German Bundespost are already discussing coordinating their orders for optical fiber to maximize economies of scale.

Most European governments have smiled on PTT monopolies because they have been highly profitable. But it is uncertain whether attitudes in national capitals will remain as complaisant if the PTTs are forced to make politically controversial increases in subscriber charges and to borrow heavily on crowded capital markets to sustain rising investment programs. The future of their iron-clad monopolies will look even less secure if it can be demonstrated that allowing private competition freer rein to operate services on their networks would increase their revenues by generating extra traffic.

Britain's experiment in liberalization goes to the heart of these issues. However it turns out, it seems clear that Europe as a whole is in the grip of powerful new economic and technological forces which will transform the face of its communications industry during the rest of this century. €

Guy de Jonquieres reports on high technology for the Financial Times.

SEMICONDUCTORS: JAPANESE CHALLENGE

chips: high stakes

Howard Banks suggests Europe and the United States may need to collaborate.

Microelectronics—implanting tiny pieces of silicon with thousands of miniature transistors and other circuits to make a computer or memory on a chip—was invented in America. And the American industry, unsurprisingly, dominates the world market, supplying over 60 percent of the \$16 billion of all sorts of semiconductors estimated to have been purchased in the world in 1980.

Sometimes, however, the public could be forgiven for believing that the American semiconductor business was about to be swallowed whole by the Japanese, whose microelectronics business supplied 22 percent of total world consumption last year. The public statements of many leaders of the American industry, at first blush, sound like nothing less than pleas for protection from Japan. Their complaints spill over into general criticism of European countries, for protection, sheltering public markets like the postal services, and so on.

What worries the Americans is the very rapid growth of the Japanese industry, which has developed from next to nothing over the past 10 years. In 1967, Japanese production of the all-important integrated circuit chips was just \$7 million and, according to the American Semiconductor Industry Association, just \$137 million in 1970. It reached \$2 billion last year. The semiconductor makers do not want to end up like their opposite numbers in the consumer electronics industry, which is now eclipsed by Japanese and other Asian makers. In some sectors, like videotape recorder/players, and domestic hi-fi equipment, imports and sets assembled in America from foreign-made parts hold 100 percent of the American market. Even where American-owned firms still supply the major part of the market, as in color television sets, most of them are now made abroad in countries with lower wage costs.

More specifically, Americans are concerned at the extraordinary growth of Japanese sales in the fastest growing and more important sectors of the market. For instance in the latest versions of random access memory chips, which can record up to 64,000 pieces of information and which are used in large numbers in today's computers, the Japanese have 70 per

cent of the world market. This was a technology invented in America.

The takeover was partly America's own fault, since its microelectronics industry cut back investment in the 1974-75 recession and was then caught with too little capacity in the 1978-79 boom. But the Japanese capitalized doubly on this failure by supplying American users with circuits of higher quality than they could get from domestic suppliers, thus retaining market penetration after demand for random access memory chips slowed as a result of recession.

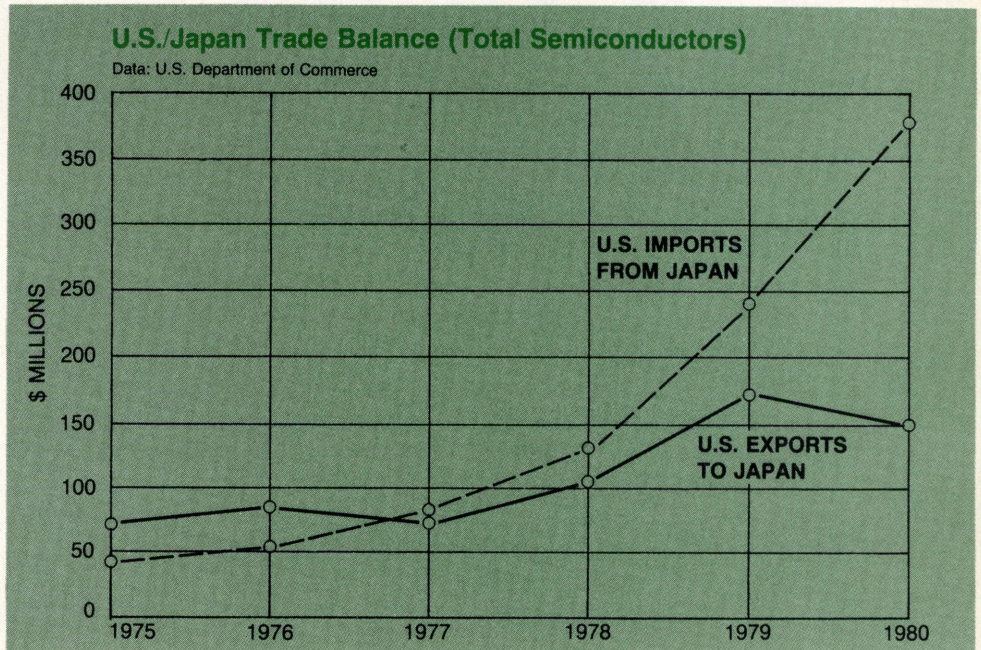
Already direct exports of Japanese semiconductors to the United States exceed American sales to Japan. Wrong, say the Japanese, but they include all semiconductors imported from American-owned companies, wherever they are located. The recession in America has, however, trimmed the trade imbalance a little in the first part of this year. Imports of Japanese semiconductors into the United States are down by around one-fifth over a comparable period last year, while American exports to Japan have declined barely at all.

Negotiations by the American semiconductor makers with Washington are based on asking for equal treatment in Japan with Jap-

anese companies, in much the way that foreign companies are treated in the United States. As part of the General Agreement on Tariffs and Trade negotiations, the Japanese agreed to reduce the present 10 per cent import duty on semiconductors to 4.2 per cent by 1987. The United States would reduce its present 5.8 per cent duty in step. American chip makers want that timetable shortened considerably, while they are strong enough to take advantage. Government-to-government negotiations are already under way, with a notional deadline of next spring.

Pleading free trade sounds good in President Ronald Reagan's Washington, of course. And it is accompanied by requests for more tax breaks on research and development spending, to help the American industry stay ahead technologically. But there has been a subtle shift in the American industry's tack recently. The complaints about Europe's policy to protect its own high-technology industry, about the EC's 17 per cent import duty on semiconductors, and about preventing non-European makers from competing for contracts for telecommunications equipment, have been put a little to one side. How about the Americans and the Europeans getting together in some way to beat the Japanese?

There are dark, but unspecified, hints that this might involve horse trading over some other trading difficulty between the Americans and the Europeans (steel trigger prices, for example, or textiles). The idea seems to be to stop the Japanese expanding the 5 per cent market share they now have in Europe, a share built up in only five years. The Americans, including their numerous plants in the Common Market, have around a 70 per cent share and the Europeans the remaining 25 per cent or so.



Carping about which country subsidizes its semiconductor industry more has become muted in recent months. The Americans point to the program funded by the ministry of international trade and industry to develop large-scale integrated circuits, where \$50 million a year is being spent, and the latest scheme to develop Japan's software industry.

The Japanese politely point out that the United States has funded a very similar-sounding scheme to develop large-scale circuits for military use (spending \$210 million over four years). The EC has proposed a \$140 million scheme, to run through 1985, to create a common basis in design and production of large-scale integrated circuits, to investigate computer-aided design (an important tool in designing modern circuits), and for seed money to start an equipment industry for making semiconductors. The West German, French, and British Governments are also spending money directly (for example, Britain's Inmos investment) or indirectly through research and development funding.

Raising capital is a much thornier subject. The American industry constantly claims the Japanese makers have a clear advantage because of the nature of the Japanese financial system, which places much less emphasis than in the United States on quarterly financial returns to investors. Because the systems are different a resolution of this gripe may be impossible.

Integrated circuits will be to the last part of the 20th Century what steel was to the 19th Century. They seem likely to become one of the industrial world's largest commodities, with a total output of \$75 billion or so by 1990. For the discovering country, America, to find that Japan is intent on taking over as leading producer must be something of a shock. Gnostic Concepts, an industry consultant with considerable experience with the Japanese semiconductor industry, reckons that, by 1990, the Japanese industry worldwide could just have overtaken the American industry worldwide in total output. By them Gnostic expects that the Japanese could have a one-third share of the American market.

A recent announcement of a massive investment by Nippon Electric in a factory to make microelectronic chips in California is merely the first. This \$100 million plant, which will be one of the most highly automated in the world, will be followed by others owned by Hitachi, Fujitsu, and Toshiba. Already these companies are assembling in America (and Europe) chips that have been fabricated and processed in Japan.

For those at the receiving end of Japan's push to export its chips and the factories to make them, the fundamental problem is getting equal access to the Japanese market. As other industries (steel, cars, ball bearings) have shown, once a Japanese industry gets larger it also invests to become more efficient, until

there is little hope for a foreign import to compete in the Japanese home market. In the meanwhile, the Japanese use non-tariff trade barriers, and sometimes highly unofficial barriers, to keep out imports.

According to American officials, one method being used with semiconductors involves customs valuation, and a trick called uplift. Japanese customs increase the value for customs (and tariff) purposes where they believe that the declared price is lower than it should be for an arms-length deal, which they equate to the price being charged by an American supplier to a Japanese customer. Where an American supplier is selling to a subsidiary in Japan and the chips are to be used in making some product in direct competition with Japanese industry, uplift is, it is claimed, used with vigor.

Access to Japan's home market is, however, not totally impossible. Texas Instruments is making chips there, though it is the only American company doing so. IBM is investing in a plant to make memory chips for its own use (it is to open in 1983), and Siemens of Germany has a joint venture with Fuji Electric which is due to start making chips this autumn. Those in the know say that getting a plant started in Japan is, for example, no harder than taking a majority share in a microelectronics company in, say, France. €

Howard Banks is West Coast correspondent for The Economist



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EXPORT CREDITS

can a finance war be averted?

ANNE VORCE

Whenever the international economic climate turns cold, countries seek the warmth and the rewards of foreign markets with renewed competitive vigor. Thus it is not altogether surprising that international attention should be focused now on one of the more arcane and least understood elements of the global trading system—the financial subsidy of exports. What was less predictable, however, to all but a handful of experts was that the conflicts, philosophical and practical, between the industrialized world's three power blocs, the United States, the European Community, and Japan, would be as divisive as it is turning out to be.

Export credit subsidies are the various finance arrangements supported by Governments to promote the sale of their national exports, particularly capital goods. The financial arrangements offered in an export package have become as important to the international competitiveness of the package as price and quality. As a result, many governments have become increasingly aggressive in promoting exports through financial competition. The Organization for Economic Cooperation and Development (OECD) has estimated that export credit subsidies of the industrialized countries totaled roughly \$5.5 billion in 1980 and may reach \$6 billion in 1981.

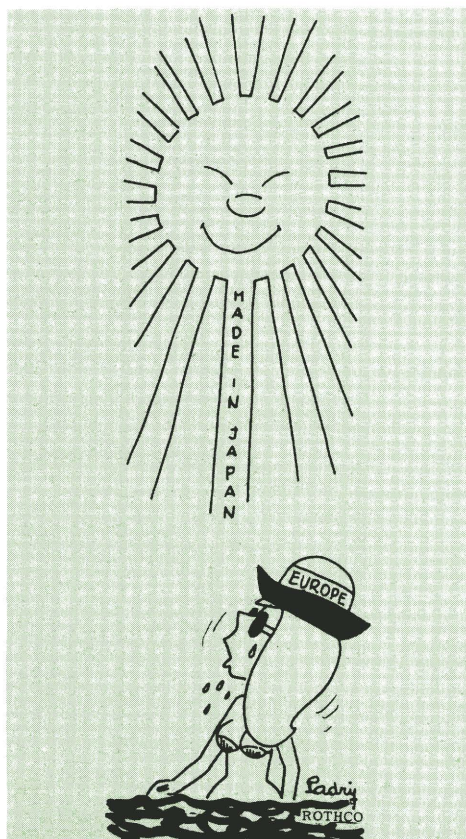
The industrial nations have been seriously negotiating in Paris under OECD auspices since the early 1970s to establish coordination of the diverse national export credit policies. The issue dates back to the 1950s when Governments began to support the financing of increasing capital goods exports, such as manufacturing equipment and plants. At the time the private sector was unable to assume the risk and lengthy period of financing for these products.

Increasingly fierce competition for markets in the 1970s led to the adoption of a consensus in 1976 and the refinement of that agreement in 1978. However, certain participants—notably the United States—have felt that the arrangement is inadequate and are threat-

ening to wage an export credit "war" by disregarding the guidelines (referred to as "derogating") if no accord is reached by the time of the next formal meeting in Paris scheduled for early October.

The existing guidelines set minimum interest rate levels, maximum repayment periods, and minimum down payments for subsidized credit. The guidelines distinguish between rich and poor importing countries, with the less developed countries receiving the best financial terms. The arrangement does not cover agricultural commodities, aircraft, military equipment, nuclear power plants, and ships that are subject to a separate OECD understanding. The guidelines are in the form of a gentlemen's agreement and parties who do not observe them are expected to notify the other participants to allow competition under the new terms.

"I'm suffering from too much sun!" © Padry, Le Hérisson, Paris



The basic dispute is among the European Community, the United States, and Japan over whether the existing guidelines should be changed. In a general sense the debate is based on disagreements over the role of Government in trade matters and the importance of exports to their respective economies. The Community has taken the position that the existing guidelines are adequate and that it would prefer to maintain these minimal regulations that permit member states relatively independent conduct of their policies.

The United States and Japan feel that the guidelines are only the first step toward reform of the system and have supported proposals for major changes. Although the United States would prefer to eliminate export credit subsidies on the grounds that they create trade distortions, the United States is willing to accept fundamental changes in the arrangement that would link the guidelines to market forces.

The Community has opposed this view of the role of market forces. The Americans have stated that they will aggressively compete if their proposals are not accepted. The United States has already selectively derogated from the guidelines by extending its loan maturities beyond the accepted limit. Japan has argued that special provisions for low-interest-rate countries should be adopted as well.

For over a year negotiations have floundered on the question of raising interest rate floors, currently in the range of 7.50 to 8.75 per cent, depending on the national income of the importing country. Although market interest rates were relatively low and nearly uniform when minimized subsidized levels were first adopted in 1976 (and revised slightly upward in 1980), they are now at record high levels and are widely divergent. As a result, the cost of official support has sharply increased among countries according to national interest rate levels and the extent of official credit support.

The interest rate question is linked to other fundamental considerations in the negotiations. The European Community has opposed a major increase in interest rates in the short run because it does not want to concede the US position that subsidized interest rates should be related to market rates and currency fluctuations. Similarly, the Community does not want to agree to Japan's proposed exception for low-interest-rate countries since this would also suggest an acceptance of the central role of market rates.

In addition, the Japanese case is sensitive because the Community does not want to give Japan an advantage in low interest rates at a time when Japanese penetration of European markets and competition with the Europeans in third markets continue. Nonetheless, the United States hopes to win a concession by the Community on its market-rate point by

THE 1978 CONSENSUS

INTEREST RATES AND MAXIMUM REPAYMENT TERMS from July 1980

	2-5 years	5-8.5 years	8.5-10 years	PARTICIPANTS
For countries which are:				
Relatively rich	8.5	8.75	na	Australia
Intermediate	8.0	8.5	na	Austria
Relatively poor	7.5	7.75	7.75	Canada
				EC countries
				Finland
REPAYMENTS	Every six months			Japan
BUYER'S DEPOSIT	15 per cent			New Zealand
EXCLUSIONS	Ships (separate understanding)			Norway
	Aircraft			Portugal
	Nuclear power plant			Spain
	Military equipment			Sweden
				Switzerland
				U.S.
				making 22 nations

supporting the Japanese position. The Japanese issue has been the main stumbling block in the negotiations since December, according to knowledgeable Reagan Administration officials.

The second major area of disagreement between the Community and the United States concerns mixed credits, which combine export credits with Government foreign aid. For example, a Government may provide foreign assistance for the down payment, which usually does not exceed 25 per cent of the total financial package. The resulting financial arrangement undercuts the export credit guidelines by offering a "blended" interest rate that is lower than the accepted interest floor. The current guidelines require notice to all participants if the grant element reaches a certain level.

The Community opposes any changes,

whereas the United States wishes to eliminate all mixed credits at a certain level. The United States has been especially critical of France, which first used the device and which has used mixed credits to finance about 5 to 10 per cent of its capital goods exports, mainly to developing countries. The French regard mixed credits as an important trade policy tool. An increasing number of countries are beginning to use mixed credits to remain competitive.

The negotiations over export credit subsidies reflect an attempt to balance national interest with the need for international co-operation. The key to the disagreements are the differences in national philosophies, economic structures and current conditions, exacerbated by present economic conditions.

The Community position is based on the importance of capital goods exports to the EC member states' economies. Despite the

large increase in Government cost to subsidize interest rates and mixed credits, the EC countries generally feel that the added competitiveness is well worth the price. The extent of subsidization and attitudes toward subsidies vary within the Community, although the member states are negotiating together in the interest of EC unity. Germany has a limited program, while France and the United Kingdom have the most extensive programs. For example, the French export credit subsidy program has played a major role in French industrial expansion over the last decade.

The export sector has been a French priority, particularly in recent years as imported energy prices have created balance-of-payments problems. France's use of subsidies is based on the traditional French distrust of market forces, which is precisely the opposite of the United States philosophy.

The basis of the American position is a philosophical dislike of Government intervention, a traditional free-trade policy, and the Reagan Administration's fiscal austerity program. There has been disagreement over policy inside the Administration between those who want to diminish the role of the United States Export-Import Bank in line with the general reduction of Government spending and those who feel that the United States must seriously compete to avoid hurting important industries and ultimately to win any concessions from the Europeans.

Although the early Reagan approach created some confusion, current policy is a compromise between the two sides. While the United States has unilaterally raised its subsidized interest rate to 10.75 per cent to minimize next year's anticipated losses for the Ex-Im Bank, it plans to target certain projects for fierce competition, probably directed against the French.

The outlook for further agreement is uncertain. With new French and US presidents, there are signs that some accord may be reached at the October meeting. The subject was raised by Reagan at the Ottawa summit in July, and French President François Mitterrand indicated that he would agree to certain changes, although the details are unclear. Following Ottawa, US Assistant Secretary of State for Economic and Business Affairs Robert Hormats stated he was "cautiously optimistic" about the October meeting. The EC member states are currently negotiating a mandate for the next session. According to most parties, this will be the final opportunity to ward off an export credit "war." However, even if an agreement is reached at that time, the issues are complicated and problems will undoubtedly remain for further negotiation. ☪

Anne Vorce is a consultant on international economic issues. She is based in Washington.

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The Dutch political summer is proving long and fractious. That a center-left coalition will succeed one of the center-right has been in the cards since the elections last May 26. But political marriages are rarely easily arranged and Holland has had to endure months of protracted bickering and bargaining, during which the country has been left in essence without a Government at precisely the time when important foreign and domestic policy decisions are begging to be addressed.

On July 21 three key political leaders agreed to offer their parties a proposal for a new centerleft coalition Government with a program which they felt could be honored by all. Approval of the proposal, completed after two months of negotiations, would allow formation of a new three-party coalition reflecting the outcome of the May 26 national elections. Under the plan, Christian Democratic Premier Andries Van Agt would return as head of a Government including the Labor Party and the smaller Democrats '66 with a broad majority of 109 seats in the 150-seat lower chamber of parliament.

The conservative partner in Van Agt's center-right Government over the past four years, the Liberal Party would be excluded from the coalition. First Van Agt and Labor leader Joop den Uyl, whose parties would get six cabinet posts, endorsed the proposal drafted by negotiators appointed by Queen Beatrix. But D-66 leader Jan Terlouw said he had some reservations about the three ministries set aside for his center-left party. After Van Agt consulted his Christian Democratic Party, it too called for new negotiations on the draft proposal.

Both Terlouw's D-66 members and the Christian Democrats felt that former Socialist Premier Joop den Uyl, proposed as minister for social affairs, would be taking over far too much power in the field of social-economic planning. The proposal was that den Uyl, as minister of social affairs, would

handle problems concerning employment and social assistance. It implied that den Uyl's portfolio would cover matters concerning investments and taxes, which was just too much for the Christian Democrats. It also irked Terlouw who was proposed as economics minister. Terlouw said it would denude his portfolio of the essentials of economic planning.

Under the proposed three-party coalition the Christian Democrats and Labor each would get six ministerial posts and the smaller D-66 would have three. Labor would also get the foreign affairs portfolio, probably awarded to former Foreign Minister Max van der Stoep, while Terlouw would have economics and D-66 also would get defense.

The Christian Democrats said they also had reservations on the proposals for defense and nuclear armament. These call for stepped-up Dutch pressure within the North Atlantic Treaty Organization (NATO) for a slowdown in the arms race as well as moves to reduce the current Dutch arsenal of six types of nuclear weapons.

The Dutch Government would have to explain to its allies that Holland could not accept, under present circumstances, the 48 NATO cruise missiles slated for Dutch soil. Rather than say "no" next December, the Government would have to postpone a final decision until the conclusion of US-Soviet disarmament talks scheduled to begin by the end of the year.

Den Uyl meanwhile had added a footnote to the plan stating that his party would stand by its campaign pledge to reject the

Dutch Premier Andries Van Agt.



long-range theater nuclear weapons, virtually ruling out approval by a cabinet including Labor.

"If there is to be a second Van Agt Government on the basis of the draft proposal of the three political leaders—Ruud Lubbers and Jan de Koning, both Christian Democrats, with Joop van Thijn of Labor, as now submitted to the parties, our country will be saddled with a monstrosity having more flaws than virtues," the right wing newspaper *Het Financieel Dagblad* wrote.

The same paper, in an editorial, underlined the need for mutual trust of the key figures and pointed out that it is well known that Joop den Uyl and Van Agt do not like each other. "A certain degree of mutual confidence is a necessity and that is not true of the proposed government," the paper said.

On the other hand politicians point out that there is no alternative. A coalition of Christian Democrats and Liberals can hardly count on a majority in Parliament. A combination of Christian Democrats and Liberals with D-66 appears to be excluded because Terlouw has stated he will refuse such a combination.

The leading independent daily *NRC Handelsblad* in an editorial said of the proposed three-party coalition: "Mistrust, even animosity, characterizes the present relationship between Christian Democrats and Labor, parties condemned to cooperate on the basis of the election results," adding that such coalition in a Van Agt Government with D-66 can hardly be called "a hearty coalition." NEL SLIS

Athens

A cartoon published recently in an Athens Sunday newspaper showed a bleary-eyed vacationer scrambling out of his tent to find it covered in political slogans. It was scarcely an exaggeration for although politics in Greece often lie dormant during the summer months, the campaign for this fall's parliamentary elections has already begun. The contest promises to be close. Not least because Greek voters appear ready for change after seven years of rule by the conservative New Democracy Party, swept into power after the collapse of the Colonels' junta.

Some Greeks believe the moment is ripe for the country's first ever Socialist government, and political pundits say a narrow victory at the polls for the main opposition Panhellenic Socialist Movement (PASOK) under its founder, Andreas Papandreu, is a feasible forecast.

Papandreu, the son of Greece's most

popular liberal Prime Minister, once taught economics at the University of California at Berkeley. As a fiery orator both in parliament and on the hustings, he has advocated removal of American bases from Greece, and an end to Greek participation in the North Atlantic Treaty Organization (NATO), and also showed marked lack of enthusiasm for Greek entry to the European Community.

Such policies have in the past caused concern among Greece's Western partners fearing that a strategically important ally might be drawn by PASOK into a third world limbo. But as the prospect of power comes nearer, PASOK has moderated its stance appreciably. Its manifesto, published in July, reiterates the party's long-term determination that Greece should withdraw from NATO for strategic reasons and join the nonaligned nations. But no timetable is mentioned and the chances are that a PASOK Government would not seek an early confrontation with Greece's NATO allies. On the EC, Papandreou speaks less often of a referendum on Greece's continued membership, more of reexamining its commitments to the Community.

While PASOK's social welfare program, which emphasizes increased pensions and improvements to hospitals and the rudimentary national health system will appeal to voters, a large question mark hangs over its plans for "socialization" or worker representation in ownership and management of industry. Yet many Greeks may feel justified in taking the Socialist plunge while Konstantinos Karamanlis, who took over as President last year after six years as Prime Minister, is still in charge.

PASOK's obvious aim is to draw voter support from the fragmented center of the Greek political spectrum. Four years ago at the last elections for the single 300-member chamber, New Democracy took 42 per cent of the vote while PASOK almost doubled its share to 22 per cent forcing the center into third place, barely ahead of the Communist Party.

But the New Democracy politicians claim they are by no means finished. Under George Rallis, another Prime Minister's son who succeeded Karamanlis as Prime Minister, the present Government is campaigning on its record—bringing Greece back into NATO, ensuring seven years of stable, though recently curtailed, growth and, arguably its major achievement, bringing Greece into full membership of the EC at a fast clip.

It may still be too early to gauge the effects of EC entry on the electorate, but few Greeks are unaware that they are net beneficiaries of the Community this year to the



Greek Prime Minister George Rallis. Courtesy of Embassy of Greece

tune of \$270 million. The Government is convinced that Greece will register economic growth of more than 1 per cent this year, and that it can make a substantial dent in the inflation rate, running at more than 24 per cent last year, twice the EC average.

Prime Minister Rallis has succeeded in unifying New Democracy behind him. Defense Minister Evangelos Averoff-Tossizza, his rival for the party leadership after Karamanlis became head of state, recently agreed to become deputy prime minister. This move has aroused optimism that ultra-conservative Greek voters, among them Greece's royalist minority, may return to the New Democracy fold on polling day.

KERIN HOPE

Paris

As the rest of the French capital turns to thoughts of the approaching fall and winter months, a small band of rag-trade designers are deep into cool, summer thoughts of 1982.

Twice a year the ready-to-wear Paris designers stage elaborate and costly productions to enforce their control over what lands in the closets of women. The designers are dedicated to the belief that what was chic, creative, and comely last season is now dated, dull, and dowdy. In the \$300 million Paris ready-to-wear industry, change is the name of the game.

The spring and summer designs are being trotted out this fall for buyers and press at fashion shows more commonly referred to as "The Collections." They are pure theater of the absurd. The designers spend an estimated \$80,000 to produce a single 40-minute show. But for an industry that likes to envelop itself in an aura of class and elegance, their shows sometimes take the ap-

pearance of a mismanaged rock concert.

The larger shows can seat as many as 2,000 persons. The crowd often begins forming as much as an hour before the show starts, with a mass of pushing, shoving people waving "strictly personal" invitations in the air and contained only by police barricades.

Once inside, there is cramped seating in a stuffy and smoke-filled atmosphere. The lucky guests have numbered seats and the privilege of stumbling over dozens of pairs of knees until they reach their assigned plastic seats. The unlucky ones have no marked places and are herded to the back of the room where they often must compete



© Keystone Press Agency

with pillars for a view of the runway.

The shows are almost always a fashionable half-hour late in getting under way. If the delay is much longer, the impatient crowd begins to stomp feet and clap hands like Saturday matinee kids waiting for the movie to begin.

One can fill the time by eavesdropping on the conversations of the "strictly personal" invited guests, which besides fashion buyers and writers include representatives of button, textile, and fashion accessory industries, as well as spies from other fashion houses and friends of friends of those in the Paris ready-to-wear world.

"I can't stand that girl there," one guest at a recent show said, pointing to a dolled-up usherette shoving an unfortunate "unassigned" guest to the back of the room. Responded her companion, "I don't even know her and I hate her."

With a sudden blast from gigantic speakers, the music begins and the show goes on. The crowd's reaction is mixed. There are fashion groupies who ooh-and-aah and moan so much over the new creations that

it sounds like the soundtrack of an X-rated film. A few less sturdy types are unable to cope with the stifling heat. They faint and are dragged off. Others, perhaps overcome by one of the free, late-night bashes thrown by the fashion industry, nod off into dream land.

Some of the outfits paraded by the tall, pencil-thin models are mere attention grabbers and are not meant to grace public sidewalks. One such outfit consisted of a flimsy hip-high slit skirt and plastic breast-plate complete with belly button indentation.

Toward the end of the show, the evening gowns begin to appear on the runway. In recent seasons this often has meant transparent materials and a parade of breasts and thighs. As one observer noted, "never have so few worn so little for so many" or, as one fashion writer recently quipped, "there's enough skin being bared to drive a heterosexual man wild. Fortunately, there aren't many of them around."

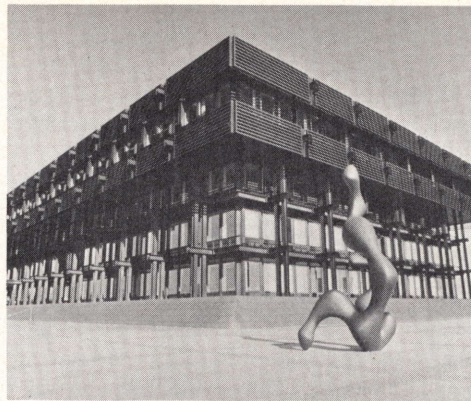
CAROLYN LESH

Luxembourg

Just as Luxembourg's hold on the European Parliament looks like it's slipping irreversibly away, the growth of Euro-buildings on the Kirschberg plateau just outside the city is booming remarkably. The most recent in what is turning out to be a kind of shop window of modern architecture is the new headquarters of the European Investment Bank. Saddest must be the newly-built chamber for the European Parliament apparently doomed to idleness at least in its original role. But the most spectacular is surely still the building housing the European Court of Justice, admittedly more like a modern art museum than a supreme court with its trimmings of what look like giant matchsticks, but still an eye-opener for most visitors.

Yet having exclaimed over its design these same visitors invariably end up asking "What does it do?" when told who lives in it. Far less well known than the International Court of Justice in The Hague or the European Court of Human Rights in Strasbourg, the European Court of Justice is the least conspicuous of the Community institutions even if many officials will tell you it is potentially the most influential of all. In a real sense here is the supreme court of the European Community; but because its role is the interpretation and enforcement of the treaties of the Community, and all legislation flowing from them, the scope for human interest newspaper stories is clearly limited.

In fact while it is open to national courts,



member states, private citizens, and the EC Commission, the bulk of the cases coming before the court are those handed up by national courts requiring the application of the final glosses of Community law. Defendants are often companies or institutions but the most newsworthy judgment in recent years have probably been those where the court has found against a member Government. Verdicts against the French Government over its ban on mutton and lamb imports from Britain and against London on questions of fishing and tachographs (devices for automatically measuring truck drivers' working hours) are among the better known of recent years.

Given the nature of the court's legal stock-in-trade, as it were, its judgements inevitable have political overtones and for long it has been under attack in some member countries for what is regarded as an overtly federalist leaning. Its defenders say it merely upholds the doctrine enshrined in the treaties that Community law prevails over national law but that is more or less admitting the accusation. What is surely true is that of all Community institutions the court has done most to promote the cause of Europe over and above that of the individual member Governments. There has been some speculation that under its new President, Gaston Thorn, the EC Commission might have been readier to use the legal avenues provided by the court to further the cause of European integration. But if that is true it has yet to show itself.

Working briskly by the standard of many senior courts, the European court can dispose of a relatively straightforward case in eight months or so. Normal procedure is for a petition with facts to be presented followed by written and oral procedures leading to an oral "comment" on the case by one of the advocates-general who is not a prosecutor but is expected to represent the "general interest." The red-robed judges then deliberate in strict secrecy, usually, but not always, following the lines recommended by the advocate-general.

Until last year such judgements were routinely accepted by Governments even though the court has no powers to enforce compliance. However France's refusal to accept the ruling against it on lamb imports dealt this practice a serious blow and there are many who doubt that Governments faced with an unwelcome verdict against them will be so acquiescent in the future. It was held to be one of the strengths of the British Government's tactics in trying to win a reduction in its EC budget contributions last year that it claimed to be willing if necessary to defy the court and withhold part or all of its payments.

After a long struggle, the court has now been expanded to 11 judges—one from each of the member countries and one to be "rotated" among the larger members—while there will be five advocates-general. Demands by officials for judges were attacked in many member countries where for obvious reasons the court is not the most popular of EC institutions. In Britain, during a parliamentary debate on the proposed expansion, it was claimed that the court devoted far too much time to trivial staff cases.

Ironically as the court moves increasingly into the legal and political evolution of the Community in the mid-1980s, one of its most exacting and complex tasks could result in its own reduction in size. For with the major opposition Labor Party in Britain now pledged to withdrawing the United Kingdom from the European Community, lawyers and jurists are beginning to study the legal and constitutional problems involved, recognizing that these could be among the most momentous international legal issues since the Community was formed. ALAN OSBORN

Brussels

Differing approaches by the two main coalition partners toward the problems posed by Belgium's huge budget deficit have made it an uneasy summer in Brussels. This isn't the sort of country where a politician dare not go on holiday for fear of a coup but nevertheless there has been a recurrence of election jitters this year and a growing feeling that new elections cannot be long delayed, if indeed they have not been called by the time this appears.

As has been the case for over a year now, the direct source of disagreement within the coalition is the handling of the economy though given the configuration of the main parties, language divisions are never far below the surface. But the economy, and es-

pecially the linked issues of the budget deficit and the national debt, have become the dominant theme in political debate and the touchstone by which the coalition's survival chances will be measured.

The immediate issue is to devise a budget for 1982 that will not impose intolerable new burdens on the country's indebtedness, already of monumental proportions. Specifically it is recognized that with a national debt equivalent to more than \$50 billion at the end of last year, the authorities cannot present spending plans that will add more than \$6 billion to the deficit in 1982. There are differing views on the likely deficit this year but a general consensus that at least



Belgian Prime Minister Mark Eyskens. Courtesy of Belgian Embassy

\$3 billion has got to be found, either through savings or increased revenues.

One of the more unexpected achievements of the previous Government led by Prime Minister Wilfried Martens was to win parliamentary approval for a modest package of tax increases. Almost certainly taxes will have to be raised again if the 1982 targets are to be reached but even this will not be enough and ruthless Government spending cuts seem almost inevitable. Part of the compromise package emerging would be a stepped up offensive against tax cheats, though the revenue yield here is not likely to be very great in terms of the amounts needed.

Is the long-term answer to be found in scrapping or modifying Belgium's sophisticated wage indexation—the process by which wage earners get automatic increases in pay to compensate them for rises in the cost of living? With pressure also coming from the EC Commission in Brussels, a growing number of economic authorities as well as the employers, the Social Christian Party, and opposition liberals believe that Belgium simply cannot afford indexation on

the scale practiced at the moment. It has been calculated, for instance, that the extra \$1 billion or so raised in taxes earlier this year will be almost exactly matched by the increased wages the state will have to pay to public-sector workers as a result of changes in the cost-of-living index.

Disputes over moves to change the indexation system led the rifts in the previous coalition and the resignation of Martens in April. The new leader, Mark Eyskens, who is also a Flemish Social Christian, is undeterred in his ambition to reform the system which his party claims is frustrating every effort by the Government to take economic initiatives. But the Socialists, both French and Dutch-speaking, strongly oppose any changes either in the basic mechanism of the system or in the composition of the cost-of-living index and they are powerfully supported by the trade unions.

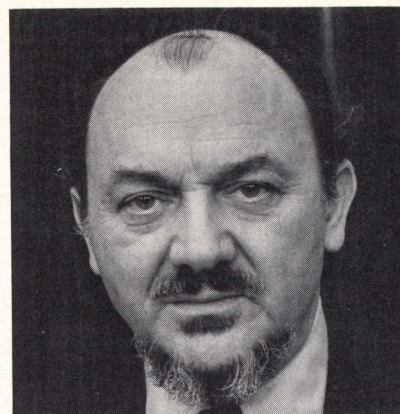
In spite of the growing tendency in EC circles (not to mention the United States) to single out indexation as a root cause of the inflation afflicting the Community there is little sign that the Belgian public is yet ready to give its assent to any change in the practice. However this does not make the issue an automatic vote-getter for the left since there is also evidence—which seems likely to turn up sharply this summer—that inflation is a major election priority for many voters.

Pundits are not therefore predicting a repetition in Belgium of the recent turn toward the Socialists in France, though it is widely accepted that no useful predictions can be made until the condition of the economy in the autumn is revealed. But if a budget compromise package can be stitched together and holds tight over the next few months then one possibility is that the present coalition of French and Flemish speaking Social Christians and Socialists that has, apart from small changes in composition, governed Belgium since the 1978 elections, will continue to hold power. ALAN OSBORN

Copenhagen

Danish Prime Minister Anker Joergensen approaches foreign policy in the same straightforward manner as he does domestic policy. Tell it as it is, cut out the diplomatic niceties. But as any professional diplomat will tell you, this is not always advisable for bigger powers, and for nations of 5 million people—like Denmark—it is more often than not a luxury with a prohibitive price tag.

At the summer meeting of social democratic parties, the Socialist International,



Danish Prime Minister Anker Joergensen

Joergensen expressed full support for a Norwegian proposal that the use of nuclear weapons in Scandinavia should be banned, a proposal similar to one the Soviet Union has been trying to sell for years. As Denmark and Norway, though members of the North Atlantic Treaty Organization (NATO), have both refused to allow the deployment of such weapons on their territory, and there are no nuclear weapons in Sweden and Finland, the whole issue may seem academic.

But the fundamental question is that of solidarity of the Western alliance. What the Danes and Norwegians will do in the event of war, or a situation where war seems imminent, is a delicate question they prefer not to answer, but it is nevertheless critical. Quite apart from the fact that the Soviet proposal does not include a ban on any weapons on Soviet territory adjacent to the Nordic countries, it will deny the Governments the options of nuclear defense in return for nothing more than a one-sided verbal declaration.

At the very least, as the Finns have proposed, any new status for the Nordic countries must be guaranteed by both the United States and the Soviet Union. The Danish Prime Minister pointedly remarked that Danish foreign policy is not subject to review by the United States, and Denmark's noted political scientist, Erling Bjoel, asked if this was not the first step toward a Danish withdrawal from NATO.

After several days silence Joergensen had second thoughts. He maintained that there is no change in Danish foreign policy. However, the opposition parties are not convinced; they cite the unwillingness of the Government to allow any growth in real terms in Danish defense spending as further proof that the majority of the governing party is shirking its responsibilities toward NATO. Certainly, President Ronald Reagan's Administration will find very little comfort in developments in Denmark.

LEIF BECK FALLESEN

Rome

With what woman would Italians like to spend the rest of their life on a desert island? Their mother? No, it's Gina Lollobrigida, but at least the most popular Italian song is "Mamma." Well, the most important food in Italy is spaghetti, right? Again no. It's bread. And the film voted most often as favorite by Italians is not by Fellini, Visconti, or Antonioni. It's "Gone With The Wind."

These are some of the results from a national survey by the Doxa research group. The intention was to find what Italians really like and dislike and compare the choices with the traditional Italian image. There are some hits but a number of misses as well. "O Sole Mio" is the Italian song first picked by 10 per cent of those interviewed, but "Mamma" was the hit liked by 11 per cent, with "Volare" finishing way down at number four with only 4 per cent of the vote.

A strong 22 per cent of the population thinks "Gone With The Wind" is the best film in cinema history, followed by "The 10 Commandments" and "Ben Hur." But the book from the film is only the seventh most popular in the country. At the top is the Bible, followed by the Divine Comedy and *Promessi Sposi*, Italy's first ever major novel.

The Doxa researchers tried to interview as accurate a cross section of the population as possible. Half the respondents were men and half women, the gender division of the country; 30 per cent lived in the Lombardy, Piedmont, Liguria industrial triangle, 20 per cent in the north east, 19 per cent in the central regions and the others in the south or the islands. Other factors such as age, education, work, and income were also considered, but, as Doxa director Ennio Salamon admits, this type of breakdown shows only what the majority hold dear, not what is actually selling big at the moment or what is directing national trends.

For example, half the population is over 50 years of age, so their tastes are largely reflected. This shows up in the category of most popular movie, where relatively old films were chosen, films probably not seen by many of the 15 per cent of the population aged between 15 and 24. It's this age group, however, which spends most at the movies.

In another example, 11 per cent of Italians said teaching was the most desired profession for them. This doesn't mean Italy is a land of high academic priorities. Explains Salamon: "Fifty per cent of the population, and therefore of those interviewed, were women who today still see the teaching profession as the only one which allows them to combine work with being a housewife, which many women by tradition or conviction are still attached to."

Another twist in the survey results was that a whopping 34 per cent of Italians believe that bread is the food or drink most necessary to man. The loaf beat out milk at 20 per cent, and meat at 18 per cent. Pasta made only fifth place with 4 per cent of the vote, just behind water. This seems strange because Italians and pasta are inseparable, but it seems that how Italians eat is more important than what they eat, and bread is a vital part of the ritual. Says Salamon: "Have you ever seen a family, on a Sunday (when shops are shut) for example, without bread? You could have a refrigerator full of meats, cheeses, and eggs. But without bread they wouldn't be eaten. And when we Italians go to foreign restaurants and find the bread absent or in small portions we gaze around as if lost."

Home and its comforts have always been important to Italians. Asked what they would like if they were to receive a valuable gift, 8 per cent of those interviewed said a car, 10 per cent a fur coat, and another 10 per cent said jewelry. But the biggest sector, 13 per cent, wanted a color television set. Asked if their greatest wish could come true, what would it be, 15 per cent said they wanted to travel, 12 per cent

wanted good health, 7 per cent a nice home, another 7 per cent money, and 6 per cent wanted to win the football pools. Only 5 per cent wanted simply a serene life.

Italians see as their major fault a disinclination to work, followed by dishonesty and talking too much. On the plus side, they said their best attribute was cordiality followed by adaptability, goodness, and creativity. Finally, if Italians had to make a choice about living abroad they would prefer to live in France, according to a significant 30 per cent of those interviewed. Twenty per cent liked Switzerland, 12 per cent England, 11 per cent Germany, 7 per cent Spain, and 3 per cent Holland.

MALCOLM FARR

London

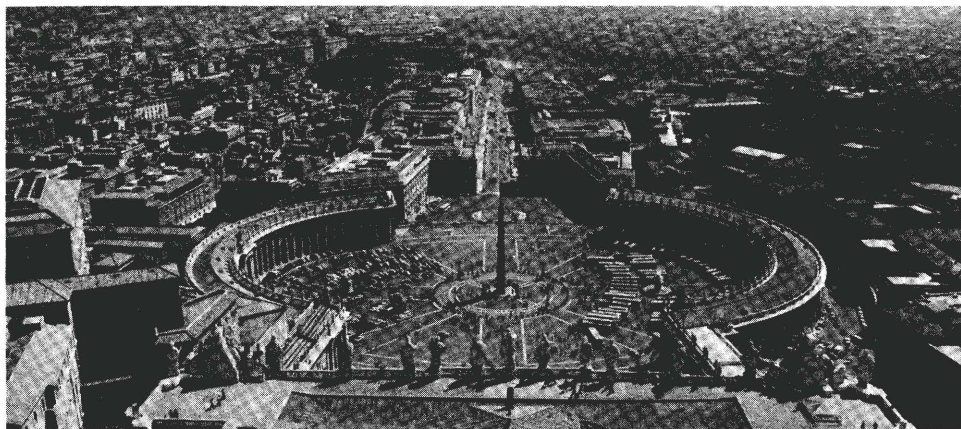
Once again the cost-conscious Government of Prime Minister Margaret Thatcher is trying to silence some foreign language services of the British Broadcasting Corporation (BBC). Once again it may fail. Public outcry over the proposed cuts is even more vociferous than two years ago when it forced Whitehall to put away the ax.

This time, as before, the targets are broadcasts in French and Spanish to Europe, in Portuguese to Brazil and the entire services in Italian, Maltese, Burmese, and Somali. Newly threatened is the BBC's Transcription Service (TS) a major worldwide purveyor of British culture, ideas, and standards.

Not in danger is the BBC's world service in English. Its news bulletins command the respect of huge audiences throughout the globe. Also safe are Spanish broadcasts to Latin America and broadcasts to Africa in French.

The proposed cuts would save about \$6 million in the \$124 million annual budget for BBC External Services (ES). They would take effect sometime next year. The money saved would be used to replace or improve transmitters and relay stations. The Government argues improved audibility is more important than keeping the seven language services it wants to terminate—better, it says, that fewer programs are heard properly than more heard inadequately.

BBC officials say that although the Russian language service would be improved, most other services would benefit very little and there would be an unfortunate breakup of the intricate short-wave frequency schedules crafted since World War II. "Such a savage cut will undoubtedly endanger the worldwide standing and effectiveness of the BBC's External Services," said its chief Douglas Muggerridge. "The policy is not



only shortsighted but could bring a serious decline in the reputation of the External Services and of the British voice overseas.

Although editorially independent, the External Services are financed by a parliamentary grant administered through the Foreign Office. The BBC broadcasts in 40 languages, the United States in 45, and the Soviet Union in at least 80. BBC French, Italian, and Spanish services in Europe reach an estimated 4.5 million people. In Italy the BBC has the largest audience of any foreign station although it broadcasts just seven hours a week in Italian against 115 hours from its Soviet bloc competitors.

The BBC Transcription Service last year sold 20,000 hours of taped radio programs

to stations in over 100 countries. Each year it produces 500 hours of the best of BBC radio, reflecting the entire spectrum of British cultural and intellectual achievements in music, drama, literature, comedy, science, and education. Letters to *The Times* of London insist its abolition would inflict "incalculable damage" on British interests abroad.

What worries the BBC most, though, is the principle of it all. This would be the seventh straight cut in eight years in the External Services budget. Yet all other major international broadcasters are steadily increasing the resources of their overseas services.

The recent spate of urban violence in

mainland Britain's cities put new strain on the country's decaying and overcrowded prisons. More than 1,000 rioters had to be incarcerated. A parliamentary committee said in the wake of the rioting that the jails, some built a century ago, need about \$20 billion spent on them in the 1980s to keep them from "collapsing around our ears."

The 120 prisons in England and Wales have almost 46,000 inmates—there are places for only 38,747. More than 17,000 live two or three to a cell built for one in Victorian times. Rather than try to rebuild the prisons the committee recommended a series of reforms to ease the prison population. €

PETER J. SHAW

Parliamentary Notebook

DAVID WOOD *columnist for The Times of London.*

In July the European Parliament celebrated its second anniversary since the first direct elections of 1979—and celebrated it in more ways than one. Pierre Pflimlin, who is not only a vice president but also mayor of Strasbourg, of course took the chance to join with the prefect of the Lower Rhine to stage a *soirée champêtre* in the medieval wine village of Molsheim.

The 434 members of the Parliament, or most of them, celebrated by staging debates and votes on high questions such as the seat, or working place, of the Parliament and its interrelationship with the EC Council of Ministers and the EC Commission. And leaders of the Parliament's political groups (in order of strength: Socialist, Christian Democrat, Conservative, and Liberal) began to maneuver for the election in December of a President to succeed Simone Veil in the chair.

Perhaps the less said to American readers about the delightful *soirée champêtre* (Alsatian folk dancers, a fire-brigade guard of honor, regional food and wines) the better, because the European Parliament still smarts from the CBS television film, "The Gravy Train," shown on "60 Minutes" just before the arrival in Washington of a parliamentary delegation. Strasbourg judged it, after a videotape showing, outrageously tendentious and unfair; in fact, the last unkindest cut after some critical political reporting in Europe.

Yet Pflimlin, the prefect, and the French Government, as well as hoteliers and restaurateurs of Strasbourg, really had a genuine victory to celebrate. The day before Molsheim, a campaign within the Parliament to move

the monthly plenary sessions from Strasbourg to Brussels had been crushed by 201 votes to 108. The Anglo-Danish Conservative group, with a majority of the Socialist group, had been the prime movers for the change, but they failed to carry the Christian Democrat and Liberal groups, nor of course French members of Parliament.

In theory, then, the Parliament has confirmed that it does not want to meet any more in Luxembourg, the administrative headquarters of its more than 2,000 staff, and also that committee meetings shall be held in Brussels, near to the Commission headquarters. But, in practice, some questions remain to be answered.

Above all, it is for the Council of Ministers, under Article 216 of the Treaty of Rome, to determine the seat of Community institutions, and it was only in March, at the Maastricht summit of the European Council, that heads of Government declared for the status quo and renominated Luxembourg, Brussels, and Strasbourg as the provisional working places. That was the curt answer to Parliament's challenge to the Council of Ministers a year ago refusing to continue to be a "traveling circus," with all the expense and inefficiency a nomadic life made unavoidable. Incidentally, nearly one sixth of Parliament's budget goes for maintaining three working places, though Strasbourg offers the best value for money.

Next, there is the question of what happens to the parliamentary staff, which with the entrance to the Community of Portugal and Spain will soon rise to about 3,000. Their homes are in Luxembourg; their children are schooled there. Are they now to be split, as some members of Parliament say, between Strasbourg and Brussels, leaving Luxembourg with empty offices and chambers, not to say a property slump? No wonder Luxembourg threatens to have the law on the Parliament before the European Court of Justice, sited in

Luxembourg and which ensures that the EC treaties and all that flows out of them are observed by member States and Community institutions. Luxembourg may fairly claim that nothing has altered the Council of Ministers' decision of April 1965, that Luxembourg, Brussels, and Strasbourg should all remain provisional working places. Yet the fact remains that the Parliament no longer wants to use Luxembourg, and some of the more militant parliamentarians say that a Parliament denied the right to choose where it shall work can be denied all important power.

The fact is that, for many members of Parliament, Strasbourg is a symbol, simply because it has been in and out of French and German possession during the past century and therefore stands peculiarly for European unity. It was a British foreign secretary who, immediately after the war, proposed it as the seat for the Council of Europe, the original occupants of the hemicycle in which the European Parliament now sits.

No less, the presidency of the European Parliament is a symbol. Two years ago Simone Veil, a distinguished minister in French President Valéry Giscard d'Estaing's Administration, became the first President of the new directly elected Parliament, on the understanding that she would hold the post for two and a half years. Now the politicking is on behind the scenes among candidates to succeed her.

Sir James Scott-Hopkins, leader of the Anglo-Danish Conservatives, is already in the field. Egon Klepsch, Christian Democrat leader, also wants the honor, and Leo Tindemans, former Prime Minister of Belgium and another Christian Democrat, is much favored. Members of the Socialist group are expected to run an official candidate, and probably a freelance younger candidate, Pieter Dankert from Holland, who would get some cross-group support. By October we shall know the runners. €

EATING BY APPLE

Roman Meals

R. W. APPLE JR.

Italy, like Germany, came late to nationhood: Only in 1871 were the numerous states of the peninsula united under the house of Savoy. The preceding centuries of political diversity, together with a geographical variety exceeding that of any other country in Western Europe, have left their mark on Italian cuisine. The cooking in Lombardy, based on butter and rice, has little in common with that of Sicily, which centers on fish and superb fruits (oranges) and vegetables (eggplant). Local specialties are truly *local*: you are as unlikely to find the wonderful *zampone*, or pig's trotters, on a menu in Venice as you are to find *fegato*, or calf's liver, on one in Modena, though the two cities are only 90 miles apart.

The cooking of Italy has spread around the world; I have eaten it in Tangier and Kansas City and Hong Kong and Lagos, as well as more cosmopolitan centers such as New York and London. (I once ate a *pizza* in Kiev, but that is a gastronomic adventure best forgotten.) Even with the best will in the world, it transplants badly, often so badly as to be unrecognizable. Verdi can be Verdi in many settings, but *polenta* is *polenta* only at home. So there are only two ways to know the regional cuisine of Italy in all its rich abundance and variety: you can spend a great deal of money and a great deal of time in delightful travels from one end of the boot to the other—or you can take advantage of the fact that Rome, like many another capital, offers restaurants of almost every regional persuasion. This first article in an occasional series is intended to help you do the latter, in the hope that doing so will persuade you to do the former.

As A.J. Liebling used to say, there is no free lunch anymore, and you will not eat Venetian food in Rome that is as good as that in Venice (nor will the setting be as well matched). But it will be good enough, especially if you remember Apple's first law of Italian eating: With very rare exceptions, you should avoid

restaurants with starched and snowy napery, heavy silver, and flawlessly polished crystal, because they will almost certainly be pretentious palaces of flambéed fiascos or sadly over the hill. Examples in Rome: **Sans Souci**, **Passetto** and **Ranieri** (all with Michelin stars), **George's**, **Hostario dell'Orso**.

Now some specific suggestions for our eating tour of Italy by taxi:

El Toula, via della Lupa 29, telephone 678-6471 or 678-1196, closed Saturday lunch, Sunday, and August. How better to avoid charges of rigidity than to begin with an exception to the eponymous law cited above? El Toula is Rome's best Venetian restaurant, an elegant installation with buff-colored walls, deep banquettes, and soft lighting from chandeliers, not far from the via Condotti. Choose simple things, nonetheless, from a menu bursting with them—*risotto* with champagne, grilled *radicchio* (a bitter red lettuce grown around Treviso), *scampi* in various guises. Drink the excellent Pinot Grigio from Friulia. **Cesarina**, via Piemonte 109, telephone 46-0828, closed Sunday and August. Despite the address, Cesarina specializes in the cooking of Bologna, which is to Italy as Lyons is to France and New Orleans to the United States. A suggested menu in this simple, cozily middle-class establishment: mixed *pasta* to start (including Rome's best *tortellini*—filled noodles said to resemble Venus's navel), then a *bollito misto* (mixed boiled meat, better than it sounds), then a *semifreddo* (a soft ice cream) to finish.

Chianti, via Ancona 17, telephone 86-1083, closed Sunday and part of August. A Tuscan place, better in my judgement than two better-known ones, **Nino** and **Giarrosto Toscano**, which seem to me to have lost their touch recently. It is located near the Porta Pia at the northeast edge of central Rome. The same family has run the restaurant for 75 years. Ask them to recommend a Chianti: Order either a T-bone steak (*fiorentina*) or the de-

villed 'pigeon. If it's a steak, ask for some lemon to squirt on it and ignore the waiter if he protests.

Coriolano, via Ancona 14, telephone 86-1122 or 844-9501, closed Sunday and August. Right across the street from **Chianti**: If you're in the mood for wretched excess, have lunch in one and dinner at the other. Not strictly speaking a Piemonte restaurant, it nevertheless offers the two great joys of Turin: white truffles in the fall and great Piemonte wines. I owe my knowledge of this place to Loren Jenkins of *The Washington Post*, and I suggest you do as he does: Ask the owner to make a menu for you that will show off his extraordinary cellar. He will give you Barolos that will make you forget Bordeaux, Burgundy, and the Napa Valley for several days.

Taverna Giulia, vicolo dell'Oro 23, telephone 656-9768, closed Sunday and August. Don't let the appearance put you off, even if the exterior does look like a *pizza* joint that's been closed since World War II. A block or two from the Vittorio Emanuele Bridge leading to the Vatican, this is the place to go for the pleasures of the best tables of Genoa—especially *pasta* with *pesto*, the delicious sauce made from basil, pine nuts, and oil, and something with the piquant name of *stincino di vitello* (veal shin, in our own less poetic language), which is the best roast veal, I think, on this bountiful planet.

Carmello alla Rosetta, via della Rosetta 9, telephone 656-1002, closed Sunday, Monday lunch, and August. Stand with your back to the noble facade of the Pantheon, walk across the square, and take the leftmost of the two little streets that lead out of the other side. Then look for the tiny sign that says Rosetta. In whatever language you can muster, ask the Sicilian waiter in this, the best Sicilian and the best fish restaurant in town, to bring you some Corvo Bianco and whatever is fresh.

And then there are the Roman places, and I'm running out of room. Don't miss **Moro** (vicolo delle Bollette 13, telephone 678-3495, closed Sunday and August), a classic *trattoria* near the Trevi Fountain, or **Papa Giovanni** (via dei Sediari 4, telephone 656-5308, closed Sunday and August, near the Piazza Navona), the best restaurant in Rome at the moment, with a brilliant if zany kitchen that blends French *nouvelle cuisine* with Italian tradition, or **Severino** (Piazza Zama, telephone 75-0872, closed Sunday dinner, Monday and August), which looks like a fried-clam shack on Cape Cod but serves the best Sunday lunch in Rome, with wonderful baby lamb, and revels in a proprietor who looks like a monk and does magic tricks for the Italian families who go there. €

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NEWS

OF THE COMMUNITY

AID

Development Conference Set

While all developing countries face serious economic problems, the difficulties facing the least developed states require special and immediate action. The specific economic and development problems of the least developed states are being studied in Paris this September at a special conference organized by the United Nations.

The Paris meeting is expected to endorse a "substantial new program of action" designed to help the least developed states in their fight against hunger, their efforts to slow down their increasing balance of payment deficits, and in resolving problems provoked by soaring energy bills and rocketing transport costs. The United Nations has identified about 30 countries that fall into the least developed category. These nations have three common features: per capita gross domestic product (GDP) is lower than \$100, the share of industry in the GDP is below 10 percent, and only 20 percent of the adult population is literate. Some 22 of these states are linked to the Community through the Lomé Convention.

In a report forwarded recently to EC foreign ministers, the Commission recognized that while critical problems facing the least developed states should be dealt with immediately, a long-term strategy will be necessary if the difficulties are to be attacked at the root.

Development Projects Funded

European Development Fund decisions were recently announced by the EC Commission for development of infrastructure, agricultural, and industrial projects in developing countries. Upper Volta was granted a total of nearly ECU 19 million to improve and asphalt a section of road 108 kilometers long which links Upper Volta to Mali. A grant of ECU 650,000 was made to Rwanda to complete the construction and equipping of the Butaré medical school.

For a sewerage and drainage project,

Gambia was granted ECU 3.5 million. Uganda is to receive a loan on special terms of ECU 3.5 million for modernization of the hoe factory there which will help improve agricultural production. Dominica is to receive grants totaling ECU 200,000 to help reorganize the essential oils industry there. All countries in tropical Africa will benefit from a grant of ECU 2.25 million for the first phase of a project to improve the strains of rice, maize, niébe, and soybean grown there.

For assistance to small- and medium-sized enterprises, a loan on special terms for ECU 450,000 was granted to the Guyana Cooperative Agricultural and Industrial Development Bank. The funding will enable the bank to increase its lending to national industrial firms. Zambia was granted ECU 300,000 as reimbursement for the building costs of a temporary railway diversion after the destruction of two rail bridges in 1979.

Financing Decisions Made

The EC Commission approved in mid-June the first financing decisions to be funded out of the ECU 150 million allocated in the 1981 budget for aid to non-associated developing countries. Thailand was granted ECU 2.2 million as a contribution to the construction of a center for the production and distribution of improved strains of rice seeds in the province of Phattalung. This brought the Community's commitments in Thailand to ECU 24.4 million for projects financed since 1977.

ECU 2.7 million was approved for Pakistan for participation in an emergency program to supply drinking water to refugee camps and villages in those areas of the country most affected by the influx of Afghan refugees. The total cost of this project is ECU 6 million. The Association of Southeast Asian Nations (ASEAN) was granted ECU 2.8 million for a scientific and technical cooperation program financed entirely by the Community. It is a two-year program involving training, technical assistance, and the organization of seminars on energy resource development and planning, measures to protect the environment, and manpower training. This is the first time an operation on this scale has been carried out for ASEAN, whose five members are Indonesia, Malaysia, the Philippines, Singapore, and Thailand.

Special Regional Fund Aid

For the first time, four special programs were approved by the EC Commission in June as eligible for aid from the non-quota section of the Regional Fund. Two of these programs will help improve the economic and social situation in the border areas of Ireland and Northern Ireland; one will reinforce economic structures in the southwestern regions of France; and one will improve the energy supply in the mountainous areas of the Mezzogiorno in Italy through the use of hydroelectric

power and alternative energy sources. Up to ECU 95 million will be contributed over five years to these four programs.

This action marked the first stage of five specific Community regional development measures adopted last year under the non-quota section of the Regional Fund. The measures are to be implemented in the form of special multiannual programs, not as aid to individual projects such as those financed under the quota section of the fund. Another important innovation is that different kinds of programs are eligible, such as market research projects, advisory services for small businesses, and agencies to promote innovation.

EC Aids Projects in Mideast

The EC Commission made several financing decisions in early June in accordance with the EC-Maghreb/Mashreq cooperation agreements. ECU 31.5 million was granted as cofinancing with the Netherlands and Egypt for a project costing over ECU 125 million for the construction of a waste-water disposal network south of Cairo. The facility would serve a number of towns and industrial estates in an area on the east bank of the Nile.

Egypt also received a grant of ECU 2 million for a project aimed at supporting Egypt's "open door policy" for industrial cooperation with foreign countries, in this case EC member states. The funding covers training schemes, technical assistance, and investment operations.

A grant of ECU 2.5 million was approved for a project in Jordan to supply equipment, technical assistance, and training facilities required by the science department at the University of Yarmouk at Irhid. Tunisia was granted almost ECU 4 million as a contribution to a project to supply technical teaching equipment and technical assistance to three vocational training centers. In addition, Morocco is to receive ECU 1.2 million to improve the operation of a research laboratory in Casablanca.

Loan Granted to Help Italy

The first phase of about ECU 1 billion foreseen in aid for the regions in Italy struck by the earthquake last November came in the form of a loan agreement signed in mid-June between the Community and Italian authorities. The 75-billion lira loan goes toward the repair of transportation systems.

About half of this first installment is earmarked for the reconstruction of the highway from Salerno to Reggio Calabria which covers about 900 kilometers. The rest is to go toward repairing about 1,100 kilometers of railway, tunnels, and communications equipment.

Regional Fund Grants Made

The EC Commission approved in July the second allocation of Regional Fund grants for 1981 which came to a total

of ECU 201 million for 335 investment projects. ECU 32 million was approved for 105 projects in the industrial and services sectors, and ECU 169 million was granted for 230 infrastructure projects. Recipient member states were Belgium, Denmark, Germany, Greece, Italy, Ireland, and the United Kingdom.

The major projects include telecommunications, road work, and several industrial parks for Greece; further work to prevent water pollution in the Bay of Naples and the first part of a water supply program for irrigation in an area between Naples and Caserta in Italy; and continuation of construction on an urban rail network in the northern United Kingdom, involving 54 kilometers of rail and 41 stations.

EXTERNAL

OECD Annual Meeting

Central issues of the annual ministerial meeting of the Organization for Economic Cooperation and Development (OECD) in Paris in mid-June included the problem of coordinating monetary and financial policies among the major industrialized nations and the continuation of the North-South dialogue. EC Commission President Gaston Thorn addressed the meeting on the need for progress in the North-South discussions to avoid new tensions in the world.

EC Commission Vice-President François-Xavier Ortoli, in charge of economic and financial affairs, who also attended the meeting for the community, noted the recent emphasis in the Community on national and EC policies to stimulate jobs as well as combat inflation. Other representatives from the Community and Japan commented on the need for discussion of the US policy of high interest rates which affect other countries' currency rates and investment patterns. The meeting was attended by ministers and representatives of the 24 OECD member countries and other special status parties such as Yugoslavia and the European Community.

Anti-dumping Actions Taken

The EC Commission announced in late May two moves aimed against the dumping of American products on the Community markets. A 38 percent temporary levy on US textured polyester cloth was imposed as a result of complaints from European industries that US prices lower than actual cost were damaging EC industry. The Commission also increased from 4 percent to 14.8 percent a duty levied on styrene monomer, a plastic industry chemical.

The two actions were the latest in a series of moves in the Community related to the petrochemical industry. European firms have charged that US competitors have had an unfair price advantage because of government-controlled low prices of US petroleum and natural gas.

EC, SELA Eye Cooperation

Opportunities for cooperation between the Community and Latin America were discussed in early July when the permanent secretary of the Latin America Economic System (SELA) visited the EC Commission. The Commission stressed the value it attaches to integration in Latin America and said it was prepared to examine means of stepping up cooperation at technical level between its departments and the SELA Secretariat in Caracas.

Possible directions include structured contacts for examining specific problems, cooperation via SELA action committees, the creation of cooperation channels for businessmen, and improved information services for them.

EC Attends ASEAN Meeting

EC representatives attended the annual meeting of foreign ministers of the Association of Southeast Asian Nations (ASEAN) in Manila in late June. The Community and the ASEAN countries became associated through a treaty of economic cooperation and development that went into force last October.

The meeting focused on a number of important regional and international issues of interest to Southeast Asia. It has become customary for representatives from major trading partners to attend, such as Canada, Australia, New Zealand, the United States, Japan, in addition to the Community.

EC, Latin America Consult

Representatives of the European Community and most Latin American countries met three times in May and June to talk about trade, textiles, and energy matters. The Latin American ambassadors to the Community expressed their concern about Community trade and agricultural policies that adversely affect Latin American interests.

On energy, it was suggested that the Latin American states evaluate their needs and priorities as a first step toward enlarging energy cooperation with the Community. A report was also given on the international economic situation in view of the renewal of the North-South dialogue. Earlier discussion on textiles had been tagged to the resumption of negotiations on the international Multifiber Agreement.

Japan Surprises Commission

The EC Commission said it was "extremely surprised" to learn in early June of Japan's pledge to limit car exports to Germany to 10 percent above the 1980-81 figure. Later that week reports emerged that another arrangement might be concluded covering the Benelux countries. The news surfaced during the first parts of a European tour by Japanese Prime Minister Zenko Suzuki.

Japanese car shipments had been a burning issue for several months dur-

ing which both Europe and the United States had reacted with concern to surges in imports of Japanese cars. The United States had worked out an arrangement for limiting Japanese car imports before reports of any similar arrangements with European countries.

Tin Agreement Discussed

In a report forwarded to the EC Council of Ministers last June, the Commission urged member states to join the International Tin Agreement, even if the United States refuses to do so.

Current negotiations for the conclusion of a sixth international pact to replace the existing agreement, which expired at the end of June 1981, have run into obstacles linked to demands made by the United States. US consumption of tin has been as high as 27.5 percent of world production. Major producing countries, including Malaysia, Thailand, Bolivia, Indonesia, Australia, Nigeria, and Zaire, have rejected American demands regarding supply and stocking policies to be followed under the terms of the international pact.

EC Scandinavia Confer

High-ranking EC officials visited Sweden and Norway in late June to discuss international and bilateral economic issues with each country. It was the first such meeting between Commission officials and Swedish and Norwegian Government delegations.

All parties agreed that the existing free trade agreements were functioning smoothly and that contacts and cooperation should continue to develop. In Sweden an assessment of international trade policy gave rise to discussion on what could be done to counter protectionist tendencies. Discussion of this topic in Norway led to agreement on the need to resist protectionist tendencies and to further integrate the developing countries into the multilateral trading system.

EC Plane Finishes Air Race

"The Great European Traveller," an Italian-built Partenavia P 68, finished twelfth in the roundtrip, transatlantic Air Transat race in mid-June. The fliers took off from the Paris Air Show at Le Bourget airport outside Paris and flew to Bridgeport, Connecticut, and back via Iceland, Greenland, and Labrador. The EC plane carried a letter of good will from EC Commission President Gaston Thorn to US President Ronald Reagan.

The pilots, Herbert Allgeier and Elda Stifani, both employed by the EC Commission in Brussels, were in the air 51 hours and 31 minutes. The smallest twin engine in the race, "The Great European Traveller" flew at an average speed of 265 kilometers per hour and covered 13,660 kilometers. Bad weather reports delayed the flight in Greenland, and the crew encountered strong head winds, ice, and fog during other parts of the journey. Asked if they would do

it again, however, both pilots replied yes.

INSTITUTIONS

European Council Meets

The European Council, or heads of state of the 10 EC member countries, met in Luxembourg in late June. The group discussed in depth the social and economic situation in the Community and dealt with the need to preserve and strengthen the Community's internal market. In particular, the problem of mass unemployment was a preoccupation. There was agreement that the highest priority should be given to co-ordinated action against unemployment and inflation, including efforts aimed at structural adjustment.

Investment in energy conservation and production was emphasized, and it was noted that considerable growth potential was to be found in small- and medium-size enterprises. Investment should be directed to industries with a high innovation potential, said the Council; optimal use should be made of the Community's financial instruments and of the European Investment Bank; and efforts should also be made to secure a larger economic benefit from research activities under way in the Community.

In discussing steel, the Council agreed that prices in the Community need to be raised to a more remunerative level. The Council urged the EC Commission to do all in its power to see that the steel industry takes the necessary action. The Council also agreed that preparations for the new round of global negotiations in the North-South dialogue be completed as soon as possible.

May 30 Mandate Progresses

The "May 30 mandate" issue dates back to May 29 and 30, 1980, when the EC Council of Ministers had to resolve the difficult problem surrounding the British contribution to the EC budget. The United Kingdom had complained about contributing more than it received from the budget. A temporary solution was adopted whereby the United Kingdom would be reimbursed a significant portion of its net contribution to the 1981 and 1982 budgets. But this measure could not be renewed or extended beyond this period, and a definite solution had to be found to prevent a similar situation from developing again with this or another member state.

It was in this light that the Council of Ministers asked the EC Commission on May 30, 1980, to permanently resolve the problem, a mandate to be fulfilled before the end of June 1981. In the ensuing year the EC Commission examined the options and completed drafting recommendations.

Generally, the Commission wants to go beyond a strict interpretation of the mandate. It seeks a wholesale reform of Community spending and a shift in priorities of the joint policies. EC Com-

mission President Gaston Thorn said recently, "The conflict inside the Community on the subject of its finances is a political crisis which puts into question the unity of our projects and which risks leading to a paralysis of our institutions. Public opinion . . . should be clearly aware of what is at stake."

The May 30 mandate is especially linked to a problem that has become acute during the past two or three years: the exhaustion of the Community's financial resources. These resources come from the customs duties levied on products entering the Community, levies applied on imported agricultural products, and from a portion of the value-added tax (VAT) collected by the member states. This percentage is currently limited to 1 percent, which locks the Community budget within bounds that have become too tight to allow the development of new common policies required because of the economic crisis.

By itself, the Common Agriculture Policy (CAP) absorbs nearly three-quarters of the Community's resources and prevents the social, regional, industrial, or other policies from increasing in importance. As a result the Commission discussions were leaning toward two major points. One was the recommendation that at some point the financial resources of the Community be increased by raising the 1 percent limit of VAT collections contributed to the budget. In this way new Community policies and programs could be launched or existing ones expanded without having to disrupt the CAP. The other approach emphasized the need to reduce agricultural expenses in order to balance the funds currently available for other Community activities.

The Commission is seeking a compromise between two extreme views. It suggests certain modifications of the agricultural programs, but also an increase in the spending for other activities. The United Kingdom's contribution to the budget, and especially farm spending, would also be reduced since that country benefits little from the activities of the Community agricultural fund.

Regional Guidelines Set

The EC Commission has drawn up regional policy guidelines and priorities, it was announced in July. This step was taken in response to the first periodic report in January 1981 on the social and economic situation of EC regions. Regional policy is to be updated on the basis of these periodic reports.

In the field of employment, the document called for absolute priority in creating productive jobs. Emphasis must be placed on promoting labor-intensive industries in the weaker regions to prevent further disparities between labor markets in the strong and weak regions. Additional help for the weaker regions, said the Commission, could be obtained by improving productivity and realizing the potential existing within

the region itself, such as in the latent capacities of small business, craft industries, rural tourism, and environmental resources. The guidelines also called for support in the form of research, market analysis, management, and technical assistance, in addition to the current form of physical investment.

Among other remedies, the Commission called for cohesion between regional and other policies in the Community to ensure that separate measures do not clash. In coordinating EC regional with national regional policies, the Commission said national multiannual regional development programs should be submitted to the Commission; national aid should be assessed both in relation to the member state concerned and in relation to the Community as a whole; and regional fund aid for individual projects should be gradually replaced by the co-financing of national infrastructure investment programs and national aid schemes for productive investments.

In the Regional Development Fund annual report, also released in July, assistance totaling over ECU 1 billion for 2,563 investment projects was reported for 1980 out of the quota section, which accounts for 95 percent of the fund's resources. Compared to 1979, the total amount of 1980 assistance increased by 22 percent and was allocated to a smaller number of projects, demonstrating a tendency to concentrate the fund's resources on fewer projects and thereby enhancing the impact of each operation.

1982 Budget Shifts Proposed

In the 1982 budget proposed by the EC Commission in late May, the aim was to shift the emphasis of Community activities away from agriculture to the social and economic sectors. The total budget comes to ECU 23.9 billion in commitments and ECU 22.3 billion in payments, increases of 15 percent and 16 percent respectively over the 1981 budget.

The portion of spending for agricultural programs amounts to 62.3 percent of the 1982 budget; increases of 25 percent and 40 percent are recommended for the Regional Fund and the Social Fund respectively.

ECONOMY

Italy Adopts Import Measures

The EC Commission studied measures recently adopted by the Italian Government to cope with that country's mounting balance of payments and currency problems. The measures included a deposit scheme requiring importers to pay a 30 percent unredeemable payment on the value of planned imports three months in advance of shipment.

Italian authorities said these steps conform with EC rules permitting

member states to take emergency and precautionary measures that might under normal circumstances represent trade restrictions. The plan would exclude certain products, such as cereals and energy products. Italy adopted similar measures several years ago and later lifted the requirements.

Automobile Industry Studied

A study on the structure and prospects of the European automobile industry was adopted by the EC Commission in June. The study contains detailed analysis of the problems in international competition, and it sets guidelines for coordinated action to improve competitiveness, facilitate adjustment, and develop a suitable economic environment.

The Commission is convinced that the European car industry must adjust its industrial and commercial base, rationalize its apparatus of production, further develop technology, and improve sales networks in order to compete in the international market. These steps it believes, are the responsibility of the individual firms. The Commission sees its own contribution to be providing a suitable economic environment in which to carry out the needed adjustments.

To achieve this, four broad measures are being considered by the Commission: strengthening the internal market; encouraging structural development; making it easier to change jobs; and developing the dialogue with EC trading partners. Strengthening the internal market calls for steps such as ironing out disparities in the tax and energy fields. To encourage structural development in the industry, a new system of post-monitoring state aids will be introduced that will draw attention to any risk of excess capacity or protectionist measures.

Steel Merger Approved

The formation of a new joint company called Allied Steel & Wire Ltd. was approved by the EC Commission in early July. British Steel Corporation and Guest Keen & Nettlefolds are to combine their steel wire rod, reinforcing bar, and reinforcement engineering interests in an effort to rationalize production and sales programs. Both companies have already reduced their wire rod and bar capacity.

British Steel will continue to be the main producer of other steel products in the United Kingdom. Guest Keen will stop producing general steels while remaining in the market as a steel stockholder and a producer of special steels.

The new company will represent about 4 percent of total Community capacity for wire rods and about 2 percent of capacity for reinforcing bars. The merger also includes two activities that fall within EC jurisdiction, reinforcement engineering for the construction industry and steel wire man-

ufacture. The creation of Allied Steel & Wire is not likely to affect trade in these areas between member states, and therefore, the Commission concluded, the merger does not constitute abuse of a dominant position under Community competition rules.

ECSC Reconversion Loans

Two European Coal and Steel Community (ECSC) loans for a total of over ECU 31 million in favor of South Wales, the United Kingdom, and France were approved by the EC Commission in mid-July. This brought the total for 13 ECSC reconversion loans in 1981 to nearly ECU 142 million.

During the six years from 1975 through 1980, the Steel and Coal Community had already assisted many new and expanding enterprises in areas affected by closures and decline in the coal and steel industries. This assistance was given in the form of soft loans with an interest rebate related to the number of jobs created suitable for former miners and steel workers. The loans went to help provide a planned 49,000 jobs which indicated a job replacement rate of about one-third for that period.

ENLARGEMENT

Turkey to Seek Accession

The Turkish ambassador to the Community announced in early June that his country would formally renew its request for EC membership as soon as parliamentary democracy was restored there.

The announcement was made during the joint EC-Turkey association council meeting in Brussels where the Community delegation called for a return to elected government in Turkey as soon as possible. The economic situation there and specific aspects of aid and agriculture were also discussed.

The civilian Government in Turkey had indicated last year that the country would seek EC membership, but that Government was overthrown by military officers attempting to end political terrorism. The new leaders vowed a return to civilian rule as soon as a new constitution was prepared.

Spanish Accession Pursued

EC Commissioner Lorenzo Natali, in charge of enlargement negotiations, held a series of conversations with top Spanish leaders in early June. During his visit there Natali reconfirmed the Community's commitment to Spanish entry.

The negotiations had run into difficulties in recent months because of the anticipated impact of Spanish accession on the Community's agricultural sector, for one, and because of the process of review and reform of the EC budget and agricultural policy which Spain was watching with interest. Many in that country had been urging accel-

eration of the entry process in order to gain outside support for democracy in Spain following the recent political upheavals.

Position on Portugal Finalized

The Community's position on the customs union to be adopted in the accession negotiations with Portugal was finalized in the Council of Ministers meeting in mid-July.

Talks that took place in Brussels in mid-May covered transportation and Community law and were also reported to include the customs union, textiles, the automobile industry, and the alignment of tariffs. Newspaper reports on European Parliament President Simone Veil's visit to Lisbon at about the same time said she had indicated that nationalist tendencies in some Community countries were making the accession talks more difficult.

AGRICULTURE

Action Taken on Hormones

Agriculture ministers meeting in late July agreed to compromise on the use of hormones in animals raised for human consumption. The decision confirms the principle of a general prohibition on the administration of hormones to stimulate meat production.

Stilbenes and thyrostatic substances, which have been proved harmful to human health, were prohibited effective immediately. The prohibition includes the administration of these substances and marketing of meat containing these substances, as well as the marketing of the substances themselves. Other substances with hormonal action were also prohibited, except for use in therapeutic treatment. Still other substances are yet to be considered. In the meantime, stricter national systems already in force concerning these substances are to remain applicable.

Aid for Agriculture Granted

The EC Commission recently granted several parcels of aid from the European Agriculture Guidance and Guarantee Fund (EAGGF). From general appropriations, aid of almost ECU 54.9 million for 194 projects throughout the Community was granted, with Italy receiving the highest allocation of nearly ECU 12 million. Over ECU 25.5 million for 39 projects on the Mediterranean in France and Italy and over ECU 3.7 million for six projects in west Ireland were also granted.

For forestry projects in Mediterranean areas, six special programs in Italy and four in France were awarded financing. The projects include reforestation, improvement of neglected woodland, forestry roads, fire prevention, and related works. In the fishing sector, the Commission approved two programs for developing the process-

ing industry and for marketing fishery products in Ireland and the United Kingdom.

SOCIAL POLICY

Jobless Problem Studied

A record unemployment level of about 8.5 million in the Community, with prospects for increasing unemployment in the future, was the subject of an expanded Council of Ministers meeting in early June. Social, economic, and finance ministers met together to seek common approaches to the problem.

The meeting took place just after the new French President had been elected with promises of major changes in economic policy, including the introduction of a shorter work week, expansionary programs, and raises in benefits and salaries. The EC ministers discussed all these approaches, along with recent anti-inflation and austerity policies that have surfaced throughout the world. Except for representatives from the United Kingdom, the EC ministers agreed that the priority given to anti-inflation in the past should be tempered with the need to stimulate jobs and investment.

Social Fund Report Given

The 1980 Social Fund report was approved by the EC Commission in July. The document outlines the fund's expenditure by category, underlines the deteriorating employment situation in the Community, and stresses the regional impact of the fund.

The two largest categories for aid are regions and training young people; the other areas are agriculture, textiles, migrants, women, technical progress, groups of firms, handicapped persons, industrial conversion, and pilot schemes. The labor market continued to deteriorate in 1980, according to the report, with unemployment going from an average of 5.6 percent of the population in 1979 to 6.2 percent in 1980 and still rising. Job losses last year exceeded the total for the previous four years. The worst hit sectors were mining, steel, shipbuilding, textiles and clothing, footwear, and mechanical engineering.

Social Fund grants approved last year totaled over ECU 1 billion, 31 percent more than in 1979, and benefited about 1.5 million people in the Community. Approximately 88 percent of the aid was for training, retraining, and resettlement of workers. Regional aid and young people accounted for 42 percent and 39 percent respectively of Social Fund aid.

Consumer Program Adopted

The second Community consumer action program was adopted by the EC Council of Ministers in mid-May. The five-year plan continues the grounds,

objectives, and principles of the preliminary program adopted in 1975. The five basic rights of the consumer continue to be: the right to protection of health and safety, the right to protection of economic interests, the right of redress, the right to information and education, and the right of representation.

The new program takes into account the present economic situation and the revival of protectionist tendencies in its aim to protect and educate the consumer. Means other than legislative measures will be sought in implementing certain principles, such as special agreements between parties.

HARMONIZATION

European Passport Adopted

More than a decade will have passed between the proposal in 1974 for a uniform European passport and its realization if the January 1, 1985, deadline is met. The EC member states adopted a resolution last June to begin issuing the passports by then at the latest.

Seen as a symbol of Europe, the plan had to be reconciled with the wish of some member states to introduce the new machine-readable card recommended by the International Civil Aviation Organization. As a result the member states will alter the appearance of their national passports so that all have the same format, are the same color (lilac), and present information on the cover in a particular order and in all official EC languages. Particulars regarding the passport holder are to be shown in the language of the issuing state and in French and English.

ENERGY

EC Oil Bulletin

The Community's average increase in free-on-board prices of crude oil between December 31, 1978, to July 6, 1981, was 171 percent as a result of decisions taken by the oil-exporting countries.

The pre-tax consumer prices of the principal oil products (crude oil and imported finished products) increased by an average of around 86 percent over the same period. If these prices had been in line with the Rotterdam spot prices, the figure would have been 91 percent instead of 86 percent.

This information was contained in the weekly oil bulletin published by the EC Commission.

British Sunburst Design Wins

A sunburst design submitted by an artist at the British Central Office of Information in London won the competition for the exterior design of the EC pavilion at the 1982 World's Fair. The design was inspired by a photo-

graph of an eruption on the sun and thereby evokes the main theme of the World's Fair, which is energy. Inside the pavilion, the United Kingdom, Germany, France, Italy, and the EC Commission will jointly exhibit, among other things, principal activities in the field of energy in the Community.

Fusion Review Panel Reports

The Fusion Review Panel set up by the Commission last year was asked to review: the present status and progress of fusion research and development in the Community fusion program; prospects for further development of fusion as an energy source for the Community; and plans for the Community fusion program. The panel presented its recommendations in July.

Five main recommendations were set down by the group of 11 experts: to push ahead as fast as possible with the construction, operation, and upgrading of the Joint European Torus (JET); to initiate a substantial program in fusion technology mainly focused on the problems of the Next European Torus (NET); to continue to concentrate work in the associated laboratories on newer and larger Tokamaks; to implement two new projects on magnetic confinement systems alternative to Tokamaks; and to maintain a sufficient level of activity on inertial confinement.

The panel also recommended that efforts be made to attract industrial participation in the NET technology program at an early stage.

ENVIRONMENT

"Seveso Directive" Blocked

Environment ministers meeting in early June were unable to settle differences concerning a proposal that would establish a common system of safety inspection and reporting to reduce the risk of major pollution accidents such as the Seveso, Italy, chemical plant disaster in 1976. The "Seveso Directive" has been blocked for two years. The main stumbling block has been the French Government's disapproval of provisions requiring member states to inform others of potential risks close to a common border.

In other action during the meeting, the environment ministers agreed to set up a data system on oil pollution risks at sea and means of combatting the problem. The ministers also discussed automobile emissions and a report on the reduction of the use of chlorofluorocarbons in aerosol sprays.

Nuclear Risk Study Published

A special meeting of nuclear experts was hosted by the EC Commission in mid-June to discuss the first part of the German Risk Study on Nuclear Power Plants which was published recently. The meeting allowed participants to question the German experts about

technical features of the study, and it also provided feedback from specialist organizations in the Community to the German team.

The German study is at the mid-way point. The first part was completed using accepted risk analysis methods and currently available data. The second part will refine the work already completed and provide in-depth discussions of individual problems.

Chemical Inventory Required

A recent amendment to an EC directive relating to dangerous substances calls for the establishment of an inventory of existing commercial chemical substances on the Community market. The Commission announced in mid-June that it was making available basic documents for the establishment of the inventory.

The documents contain the European core inventory of about 34,000 chemical substances which exist on the EC market, a compendium of known substances of about 15,000 chemical substances, and procedures for making declarations of existing substances.

FINANCIAL

EIB To Double Capital

More money will be available for lending as the result of the European Investment Bank's (EIB) decision in mid-June to double its subscribed capital to ECU 14.4 billion. This will allow for a corresponding increase in the lending capacity, which is limited to a percentage of the subscribed capital.

The increase allows the EIB to meet the expanded financial and investment needs in the EC countries during this economic crisis period. The move comes after a year of growing loan activity with investments in the Community still concentrated in Italy, Ireland, and the United Kingdom. An appreciable upturn in lending also has occurred in Belgium and Denmark. Loans from EIB own resources increased by 20 percent for EC countries in 1980, and nearly ECU 20 million was channeled through the New Community Instrument for borrowing.

Projects receiving EIB assistance last year were estimated to have created or safeguarded about 49,000 jobs in the member states, including about 16,000 jobs in Ireland alone. Most loans went for regional development in areas with unemployment rates above 25 percent. Projects included industrial development, irrigation, water supply and sewage treatment, telecommunications, electricity, gas supply, and transport. The EIB also lent almost ECU 550 million for industrial, mining, energy, and infrastructure investments in 30 developing countries associated with the Community through the Lomé Convention and other agreements.

Recent Books

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

Dumping: A Manual on the EEC Anti-Dumping Law and Procedure. By Clive Stanbrook. European Business Publications, London, 1980. 162 pages. \$50.00.

Practical guide to procedures and principles of EC anti-dumping policy; includes details of the anti-dumping code of the latest Tokyo round of trade negotiations and the EC regulations adopted in December 1979.

Industrial Democracy in Europe. By Industrial Democracy in Europe International Research Group. Oxford University Press, New York, 1981. 449 pages. \$59.00.

A systematic international comparison of the effects of national schemes for employee participation; covers 10 West European countries plus Yugoslavia and Israel. Investigates how formal rules and regulations for participation affect the distribution of influence and power, how the changes in law bring about changes in structure and behavior, and what conditions make for the success and failure of legislation to increase worker participation.

European Industrial Relations. By Industrial Democracy in Europe International Research Group. Oxford University Press, New York, 1981. 278 pages. \$45.00.

An analytical study of the effects of national schemes for employee participation in industry. Discusses the relationship between industrial relations and industrial democracy in Europe with reference to existing and possible future sets of institutions and processes.

Energy Statistics 1980: Consumption of Energy Sources of the European Chemical Industry for Feedstock and Fuel. European Council of Chemical Manufacturers' Federations, Brussels, 1981. 2 Volumes.

Volume 1 reviews the energy consumption of the European chemical industry for feedstock and fuel uses in the years 1974 to 1979, focusing on the member states of the EC. Volume 2 forecasts to 1989 the use of energy sources for feedstock and fuel by the chemical industry.

Employment, Trade and North-South Co-operation. Edited by Geoffrey Renshaw. International Labor Office, Washington DC, 1981. 263 pages. \$15.70.

A study consisting of a broad analysis of the problems of employment and North-South trade in the 1980s, and a review of the adjustment poli-

cies pursued in four advanced industrialized countries in the past decade.

EC Competition Law: A Practitioner's Textbook. By Alan Cambell. North-Holland Publishing Co., Amsterdam and New York, 1980, 357 pages, \$53.75.

Reviews development of EC anti-trust law up to January 1, 1980. Describes, for the practitioner, the law as it has evolved through Commission, Court of Justice and national court decisions. Includes a table of cases and an index.

The Future of the World Motor Industry. By Krish Bhaskar. Nichols Publishing Co., New York, 1980. 385 pages. \$42.50.

Describes the background and structure of the world motor industry, identifying the mature, emergent, and infant markets; examines the economic, political, and social constraints on producers; and analyzes the effects of local market forces, the energy problem, and the effects of the cyclical shifts in production on the industry.

Industrial Relations in International Perspective. Edited by Peter B. Doeringer. Holmes & Meier Publishers, Inc., New York, 1981. 425 pages. \$35.00.

An introduction to industrial relations in advanced market economies and reference guide to the important works in the field. Provides a comprehensive review of research and policy studies on industrial relations and multinational issues in eight major industrial nations.

The Reluctant Ally: France and the Atlantic Security. By Michael M. Harrison. Johns Hopkins University Press, Baltimore, 1981. 304 pages. \$24.00.

Evaluates French alliance policies through the Fourth and Fifth Republics; provides an extensive discussion and analysis of the Socialist Party with focus on French President François Mitterrand; examines the present status of NATO in light of political and strategic problems such as those posed by independent allied nuclear forces and the uncertain environment of détente.

Quest for World Monetary Order: The Gold-Dollar System and its Aftermath. By Milton Gilbert. John Wiley & Sons, New York, 1980. 255 pages. \$21.95.

An analytical history of the international monetary system from the

Bretton Woods Agreement of 1944 to the late 1970s; evaluates the ideas that governed US policy toward the dollar after 1960 and outlines the roots of the US deficit.

La Pensée Européenne et Atlantique de Paul-Henri Spaak (1942-1972). Edited by Paul-F. Smets. Fondation P.-H. Spaak, Brussels. 1,251 pages, 2 volumes.

An anthology of selected papers and speeches by Paul-Henri Spaak on the construction of the European Community and the integration of Europe; provides insight into the ideas and thoughts of Paul-Henri Spaak through personal letters, notes, memos, speeches, drafts, articles, and conferences.

Director of European Associations. Part 1: National Industrial, Trade and Professional Associations. Gale Research Co., Detroit, 1981. 504 pages. \$175.00.

Provides updated information on approximately 9,000 national associations, organizations, and regional groups; covers a wide range of industries and activities such as advertising, banking, data processing, and electronics; offers most information in English, French, and German.

The E.E.C. Grain Market Regulation 1980/81. By Alfred C. Toepfer International, Hamburg, 1980. 83 pages.

A practical brochure providing information on EC grain market regulation; explains its basic features, offers impressions, and analyzes the major changes applying in 1980-81.

The Challenges of the New International Economic Order. Edited by Edwin P. Reubens. Westview Press, Boulder, CO, 1981. 298 pages. \$26.50 hardcover. \$12.00 paperback.

Collection of papers presented at a conference on the New International Economic Order at CUNY in April 1979. Explores the issues involved in the current proposals in the United Nations for reconstructing the existing economic relations between less developed and more developed countries.

European Community Law and National Law: The Irreversible Transfer? By John Usher. Allen & Unwin, Inc. 1981. 96 pages. \$15.95 cloth, \$6.95 paper.

Explains the legal mechanisms by which Community rules become enforceable within the Member States and how they relate to national laws; examines how Community powers have developed in the Common Agricultural Policy, the common commercial policy, and the harmonization of law.

Policies for Interdependence. By James Elles. Conservative Political Centre, London, 1980. 63 pages.

A pamphlet on the debate concerning UK membership of the EC, from day-to-day issues to wider political

considerations. Concentrates on the concept of interdependence in relation to external as well as internal policy. Examines how the EC and the Commonwealth can strengthen the ties between their member countries to their mutual advantage.

International Litigation. Edited by Steven J. Stein. Practising Law Institute, NY, 1980. 557 pages. \$25.00.

A comprehensive guide to international litigation; covers international litigation and federal subject matter jurisdiction, selection of the appropriate US forum, foreign evidence proceedings, international commercial arbitration, enforcing arbitral awards, the Iranian assets litigation, and the Westinghouse uranium litigation.

Foreign Corrupt Practices Act: Three Years After Passage. Edited by Wallace L. Timmeny and Robert B. von Mehren. Practising Law Institute, New York, 1981. 495 pages. \$25.00.

An extensive study of the Foreign Corrupt Practices Act of 1977; focuses on the international aspects of the accounting provisions of the act, the provisions against bribery expediting and facilitating payments, corporate misconduct, enforcement developments, and a company's responsibilities under the accounting provisions.

West Germany: Politics & Society. By David Childs and Jeffrey Johnson. St. Martin's Press, New York, 1981. 231 pages. \$25.00.

A comprehensive and up-to-date review of the political, social, and economic aspects of West Germany, focusing on the basic law, parties, Bundestag, and Government. Also covers education, the armed forces, welfare services, the role of women, the economy and industrial relations, and the mass media. Provides a bibliography at the end of each chapter.

Studies in International Law. By R.C. Hingorani. Oceana Publications, Dobbs Ferry, NY, 1981. 115 pages. \$30.00.

Analyzes the controversy of Europe-oriented international law and its binding or non-binding effects upon the newly independent states. Covers areas such as recent developments in the regime of the sea, trends in air laws, and laws of war.

The Italian Communist Party. By Grant Amyot. St. Martin's Press, New York, 1981. 252 pages. \$25.00.

Studies the development of Eurocommunism and the Italian Communist Party's (PCI) strategy from 1926 to 1956, the rise and fall of the Ingrao Left, the Manifesto Affair, and other events and topics relating to the formulation of the PCI.

Legal Aspects of Doing Business with Japan. Edited by Isaac Shapiro. Practising Law Institute, New York, 1981. 227 pages. \$25.00.

A practical guide to doing business with Japan; covers legal aspects such as the protection of industrial property rights, foreign investment, acquisitions, labor-management relations, trade barriers, dispute resolution, bank policies, and foreign exchange law.

Muir of Huntershill. By Christina Bewley, Oxford University Press, New York, 1981. \$24.95.

A biographical account of the extraordinary and adventurous life of Thomas Muir, the Scottish political reformer of the late 1700s; sets out the achievements of the movement for reform in Scotland.

Foreign Tax Planning 1981. Edited by Marshall J. Langer and Roy Albert Povell. Practising Law Institute, New York, 1981. 776 pages. \$25.00.

A course handbook on foreign tax planning addressing such topics as new income tax treaty developments, expatriation, foreign investors in US real estate, foreign charitable organizations, and the Foreign Investment in Real Property Tax Act of 1980.

The Integration of the European Economy Since 1815. By Sidney Polard. Allen & Unwin, Inc., Winchester, MA, 1981. 109 pages. \$15.95 cloth, \$6.95 paper.

Describes the process of economic integration in Europe since 1815 in a chronological sequence; demonstrates how open frontiers speeded progress; focuses on the spread of industrialization from Britain to the Continent.

Romania in the 1980's. Edited by Daniel N. Nelson. Westview Press, Boulder, CO, 1981. 313 pages. \$24.00.

A compilation of essays addressing the subject of Romania's development as a Communist state; analyzes the leaders and citizens in Romanian politics and discusses the country's foreign and economic policies.

Eastern Europe in the 1980's. Edited by Stephen Fischer-Galati. Westview Press, Boulder, CO, 1981. 291 pages. \$26.95 cloth, \$11.50 paper.

A collection of essays by 10 East European specialists on political and economic developments in Eastern Europe, focusing on agriculture, industrialization, trade, education, and cultural development.

Domestic and International Licensing of Technology 1980. By Tom Arnold and J. Thomas McCarthy. Practising Law Institute, New York, 1980. 686 pages. \$25.00.

A course handbook analyzing domestic and international licensing of technology; focuses on topics such as patent license restrictions, US anti-trust and misuse law for licensors and licensees, patents and trade secrets, and the new copyright act.

Legal Aspects of Doing Business with Black Africa. Edited by Donald R.

Allen. Practising Law Institute, New York, 1981. 1,180 pages. 2 volumes. \$25.00/volume.

A comprehensive analysis of the legal aspects of doing business in Africa; covers problems such as contracting with Governments in black Africa, large and long-term investments, small investments, settlement of disputes, and the problems of enforcement in the host and third countries.

Exploring Europe. Edited by Colin Joy. Sussex European Research Center, University of Sussex, Sussex, England.

A magazine devoted to studies of topics of importance in contemporary Europe such as rural depopulation, nuclear power, human rights, and the European Parliament; written for the secondary school level.

Drafting Documents in Plain Language 1981. Edited by Richard A. Givens. Practising Law Institute, New York, 1981. 312 pages. \$25.00.

A practical guide to incorporating plain language into the legal system; covers the New York "Plain Language" law, plain language in consumer contracts and insurance, drafting regulations in plain language, and defenses against charges of violation of "Plain Language" law.

Everyman in Europe. Volume I: The Preindustrial Millennia. By Allan Mitchell and Istvan Deak. Prentice-Hall, Inc., Englewood Cliffs, NJ, 1981. 450 pages. \$10.95.

A compendium of essays presenting an account of the life, leisure, and work of ordinary people in Europe from classical times to the present. Focuses on the daily existence of peasants, laborers, women, and youths; volume I covers ancient Greece and Rome to early modern Europe.

Everyman in Europe. Volume II: The Industrial Centuries. By Allan Mitchell and Istvan Deak. Prentice-Hall, Inc., Englewood Cliffs, NJ, 1981. 450 pages. \$9.95.

An anthology of essays by social historians, providing an account of the life, leisure, and work of ordinary people in Europe from the Industrial Revolution to the present. Focuses on the daily existence of laborers, women, and youths.

The Sea Fisheries of the European Community in the Context of Enlargement. By David I.A. Steel. White Fish Authority, Edinburgh, 1977. Available from Unipub, New York. 22 pages.

A report on the fisheries question in the negotiations leading to the accession of Spain, Portugal, and Greece; highlights the relative importance of the fishing industry in the aspirant member countries, in particular Spain; presents related statistical information.

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- The EEC-Israel Cooperation Agreements.** *Europe Information: Development*, Commission, Brussels, 1980, 34 pages free
History of the agreements signed between the EEC and Israel and details on their implementation.
- Tenth Report on Competition Policy.** Commission, Brussels, 1981, 209 pages \$11.00
General view of antitrust policies during 1980. Covers application of this policy to enterprises, state aids, and the development of concentration in the Community.
- Steps to European Unity: Community Progress to Date, A Chronology.** Commission, Brussels, 1981, 70 pages free
Second edition. Brochure giving principal dates and commentary on the Community's development up to January 1981.
- The Court of Justice of the European Communities.** *European Documentation No. 1/81*, Commission, Brussels, 1981, 43 pages free
Booklet on the powers, composition, and operation of the Court of Justice.
- The European Community's Transport Policy.** *European Documentation No. 2/81*, Commission, Brussels, 1981, 37 pages free
Brochure on the aims and achievements of a common transport policy.
- The Community and the North-South Dialogue.** *European File No. 14/81*, Commission, Brussels, 1981, 7 pages free
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- EC Raw Materials Balance Sheets 1975-1978.** Statistical Office, Luxembourg, 1981, 263 pages \$17.50
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- European Investment Bank Annual Report 1980.** European Investment Bank, Luxembourg, 1981, 100 pages free
Review of the Bank's borrowing and lending operations in the Community, the Mediterranean, and the African, Caribbean, and Pacific countries belonging to the Lomé Convention. Includes the balance sheet and profit and loss account.
- Report from the Commission of the European Communities to the Council Pursuant to the Mandate of 30 May 1980.** *Bulletin of the European Communities, Supplement No. 1/81*, Commission, Brussels, 1981, 23 pages free
Commission paper reviewing the operation and funding of Community policies.
- Scientific and Technical Communication.** Commission, Luxembourg, 1981, 28 pages free
Description of the role of the Commission in the publishing and dissemination of scientific and technical information. Includes a brief bibliography of publications.
- European Development Fund Procedures.** *Development Series No. 4*, Commission, Brussels, 34 pages free
- The Key to Information in Europe.** Commission, Luxembourg, 1981, 10 pages free
Pamphlet on the Euronet DIANE information network.
- Forestry Statistics 1973-1977.** Statistical Office, Luxembourg, 1981, 143 pages \$11.00
1981 yearbook.
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1980 yearbook. Detailed results for 1974 of the gross value added by industrial sectors, agriculture, and services in the principal administrative regions of the member states.
- Economic and Social Position of Women in the Community.** Statistical Office, Luxembourg, 1981, 347 pages \$21.00
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