MARCH 1986

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EUROPE

CHANNEL TUNNEL WILL LINK BRITAIN TO THE MAINLAND

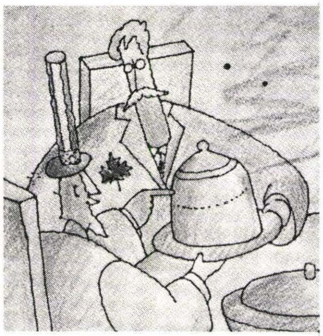
A FRENCH PROPOSAL FOR MONETARY REFORM

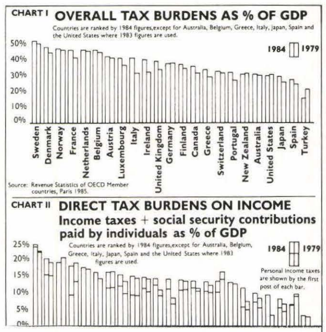
DO U.S. TAXPAYERS GET BETTER BREAKS THAN EUROPEANS?

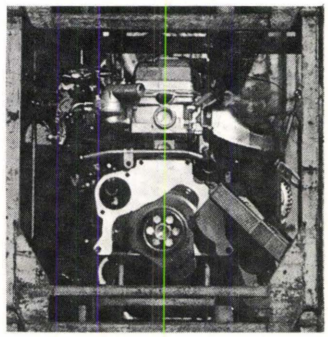
MARCH 1986 NUMBER 254

EUROPE

MAGAZINE OF THE EUROPEAN COMMUNITY







COVER: Road vehicles will be loaded onto rail shuttles for the 31-mile trip (see page 26). Illustration by William Ersland.

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PUBLISHER'S LETTER

Perhaps it was inevitable—people have been talking about bridging the English Channel since the time of Napoleon, and literally dozens of schemes for a fixed link between Britain and the Continent have been dreamed up over the years. But the decision to go ahead with actually building a tunnel took almost 200 years to reach, and was only possible now because of the enormous changes that have taken place in Europe over the past three decades: changes that are allowing some of the most traditional and intractable barriers between European countries finally to be crossed.

I'm speaking, of course, of the progressive integration of Europe, the building of the European Community out of the contentious and mistrustful Europe of the past. With the development of European institutions, the dismantling of trade barriers and the increasing coordination of national policies and interests, the suspicion and insularity that marked relations between many European countries in the past have become more and more anachronistic. The process of change in the E.C. sometimes seems painfully slow and difficult, with incessant wrangling over details and minor points of policy. But the realization of a project like the Channel tunnel brings home how far we've really come. Europeans know how closely their futures are tied together and welcome the building of the Channel tunnel as a symbol of commitment to the ideal of a fully integrated Europe. The best European barriers, after all, are the ones we're able to bridge.

The *Financial Times'* John Wyles takes up the fascinating "Chunnel" project in our cover story this month, examining its history, how it will operate and its economic effects. "Our generation needs to do something exciting," Margaret Thatcher recently said of the project. Judging by Wyles' article, this could indeed be it.

Elsewhere this issue, a number of our contributors look at some of the shifting patterns of international trade, and how they are shaping our societies. Axel Krause of the *International Herald Tribune* talked to Japanese corporations investing in Europe—and to Europeans adjusting to new Japanese factories and work habits—and found that "internationalizing" the regions of Europe is not always a simple task. Jeffrey Simpson, Ottawa columnist for the *Globe and Mail,* examines the reasons why Europe is declining in importance to Canada as a trading partner and why America's northern neighbor is turning increasingly to the Pacific rim for trade. And *Europe*'s Stephen Brookes asks whether there's not more smoke than fire in the recent exchange of unfair trade lists between the E.C. and the United States.

Our ongoing series of articles on the E.C.'s Common Agricultural Policy and its effects on world trade continues this month with Mark Clinton, MEP and former Irish Minister of Agriculture, giving a European perspective. Also this month, Janet Renshaw joins us again for a delightful review of the Impressionist show at the National Gallery in Washington, D.C.; the OECD's Jeffrey Owens asks whether American taxpayers get a better break than their European counterparts; and Leif Beck Fallesen, economic director of *Borsen,* explores the politics behind Denmark's sometimes stormy membership in the European Community.

AROUND THE CAPITALS

DUBLIN

A New Party Is Born

The rapid rise of a new political movement, the Progressive Democrats, is worrying the traditional Irish political parties as they prepare for national elections which must take place sometime before the fall of next year. Launched on the first day of the year, the new party, with its emphasis on economic reforms, struck an immediate chord among the highly taxed middle classes and disillusioned youth facing record unemployment rates.

Within a week, the party—which started off with two backbench members of the Dail, a bank loan of $10,000 and a modest office in a side street—was overwhelmed with 5,000 applications for membership and almost $40,000 in donations. In that short time the Progressive Democrats had outstripped in grassroots membership the Labor Party, Ireland's oldest political party, and the junior member of the current coalition Government. Irish politics had seen nothing comparable since the foundation in the mid-1920s of what is now the country's largest party, Fianna Fail.

Ironically, the Progressive Democrats are essentially a break-away group of Fianna Fail disillusioned with the leadership of Charles Haughey. The leader of the new party, Desmond O'Malley, and the co-founder, Mary Harney, were both expelled from Fianna Fail, mainly for opposing Haughey's hard-line policy on Northern Ireland.

A series of highly successful meetings around the country has now boosted membership to over 10,000 and produced two more defectors from the Fianna Fail parliamentary party. One is a former minister, Bobby Molloy, with a powerful base in Galway city. His switch caused real alarm in Fianna Fail which had earlier been assured that he would not move. The other defector is Pearse Wyse who has strong personal support in the city of Cork. Another boost for the party came when the latest public opinion poll to test their support revealed that 25 percent would vote for them, a figure which amazed political commentators.


COURTESY EMBASSY OF IRELAND

PD leader Desmond O'Malley, T.D.

O'Malley, a former Justice Minister and Industry, Trade, Commerce and Tourism Minister in previous Fianna Fail Administrations, failed on several occasions to mount a successful challenge to Haughey for the leadership of the party. Three years ago, almost half of the 75 members of the Fianna Fail parliamentary party were ready to replace Haughey with O'Malley. Since that bid failed, however, the latter's influence inside the party has greatly diminished and few of his colleagues have opposed his subsequent expulsion.

Nevertheless, this expulsion for speaking out on Northern Ireland policy and favoring Government policy on liberalizing contraceptive laws shocked a large segment of the rank and file membership and drew support from many non-political persons who admired his courage. It is these people who are now flocking to join his new party.

Of these early recruits, half have had no previous connection with a political party, and the rest are defectors in equal numbers from Fianna Fail and the main Government party, Fine Gael. There's a "Yuppie" look to many of the eager Progressive Democrats. They are impatient, even scornful, of Irish traditional politics still tinged with civil war divisions of 65 years ago. O'Malley's "progressive" pitch to combine less state interference with more liberal and secular attitudes to social and moral issues appeals to a country in which half the population is under 25. And that scares the established parties.

So far, O'Malley has refused to go into detail on his party's policies. His newspaper advertisement lists the country's main problems as "unemployment, high taxation, violence and emigration." To tackle these problems, the country needs "a new kind of politics." Critics point to the vagueness, but the appeal to help him in "building a new Republic" has worked for the moment.

With only four seats at the time of writing out of 166 in the Dail, it is to the next election that the Progressive Democrats must turn to make a real impact on Irish politics. The opinion polls were that Fianna Fail, now in opposition, will be returned with an absolute majority. Crippling taxation and record unemployment continued to dog the present Fine Gael-Labor Coalition. But if the early enthusiasm for the new party can be maintained and translated into seats, the next election could see the Progressive Democrats holding the balance of power in the Dail as Labor does now.

The normally cautious O'Malley is even speaking about a possible 40 seats for his party coming out of the next election. This would be a powerful base from which to bargain with Fianna Fail or Fine Gael about building a new Republic. O'Malley relishes such a prospect. The skeptics point to a series of new political parties which flickered briefly and then disappeared, but this one seems to have the right mix at the right time.—Joe Carroll

PARIS

On Saving The Language

Mon Dieu! French has become an endangered language. That word comes from no less an authority than the President of the Republic. It is threatened by creeping *franglais* that is encouraged by the high-tech world of computers. And there is a move in France to do something.

President François Mitterrand chose a speech to the venerable Académie Française to voice his concern about the future of French. For 350 years, the Academy has been guardian of the French language. The institute is comprised of 40 "immortals," so-called because they are elected for life (average age, 71). The academy celebrated its three and a half centuries by announcing progress on the ninth edition of the French dictionary. Since volume eight was completed 50 years ago, the academicians have been working on an updated version. So far since 1935, they have completed the letter A and part of B. But the ninth edition, the academy says, includes many new words that must be debated and defined. Among the additions to the official French vocabulary will be *le blue jean, le gadget*

COURTESY FRENCH EMBASSY PRESS AND INFORMATION DIVISION

The Académie Française has been guardian of the French language for 350 years.

and *la garden party.*

Even if the academy is prepared for such liberal inclusion of foreign words, Mitterrand and many others see the use of such anglicisms as dangerous. Furthermore, with the computer age, English threatens to make further inroads. "What has happened to our imperfect subjunctives," Mitterrand asked the academy. "Either our language must learn to master technology or in a very few years, [it] will cease to be one of the great means of world communication."

As a first step to solve the problem, Mitterrand announced the creation of a new center for terminology and translation which will coordinate efforts in schools, government and industry to keep French pure. And he announced he would host a long-delayed summit of the world's 40 francophone nations to discuss the future of French.

The fight for French, however, is not being left entirely to the heads of Government. A private group called the General Association for Users of the French Language seeks out travesties and brings suits against those who violate the French language law. The law prohibits use of non-French words to sell products unless there is no French equivalent word. The Paris Opera was fined for selling programs in English at an English-language musical. Evian, which sells mineral water, was found guilty of advertising *"Le Fast Drink des Alpes,"* as was TWA for handing out English-language boarding passes for its Paris flights. The fines are minimal, but the point is made in the prosecutions.

A weekly television program does its part to develop French language purists from an early age. The General Commission for the French language sponsors the show, which proposes unacceptable English words and gives prizes to the child who comes up with a suitable French alternative. Awards have gone for substituting *auto-maison* for *camper, saucipain* for *hot dog* and *croque-haché* for *hamburger.*

The Commission also has funded a new publication billing itself as the first magazine of the French language to discuss the finer points of the mother tongue as it has developed in such far-flung spots as Quebec, Cairo and Saigon. The publication is not a bestseller yet, but it hopes to hit the popular market soon.

The preservation of French has moved from the hallowed, domed structures of the Académie Française on the left bank to become a current debating point. Minister of Culture Jack Lang was moved to write the head of the broadcasting authority to complain—in a tongue-in-cheek letter written in English—that American performers were getting preference over French artists on the airwaves. A major weekly magazine ran an in-depth report on the worrying disappearance of the French language and culture abroad.

And, as in all serious issues in France, the debate moved to the pages of *Le Monde.* The French newspaper of record reported that an article in *The New York Times* had complained about France's obsession with the purity of its language. A New York professor argued that Americans should consider a counterattack and ban quiche, verve, panache and chauvinism.—BRIGID JANSSEN

LUXEMBOURG

A Boom For Banking

A remarkable statistic is within Luxembourg's reach. Later this year, although more probably in 1987, more people will be employed in banking in the Grand Duchy than in its steel industry. Fifteen years ago, when six out of every 10 working Luxembourgers were in the steel industry, such a development would have been unthinkable. Today it is difficult to judge which is the more surprising—the grim recession in steelmaking that has cut employment in that sector to little more than a third of its peak—or the astonishing explosion of the banking sector throughout the 1970s. There are now an estimated 10,000 bank employees in Luxembourg and their numbers are growing rapidly, while the steel industry's work force will be down to 12,500 within a year and still shrinking.

The odd thing is the recent and projected growth in banking sector employment. It is worth remembering that Luxembourg bankers have never been greatly charmed by the notion of "Main Street" banking. They do not badger you to open an account with promises of a free toaster—frankly, in a country with a total population smaller than hundreds of towns and cities in Europe alone, this would not be very successful.

Banking in Luxembourg consists almost wholly of mysterious financial techniques of which the Eurodollar business—the deposit and relending of dollars held outside the United States—has been easily the most conspicuous in recent years. Skeptics might argue that Luxembourg's command of these markets was thrust on it almost by accident in the early 1970s when banks in the Federal Republic of Germany sought a nearby base from which they could operate outside of the tough reserve requirements and lending rules imposed by their own central bank. True or not, Luxembourg seized the opportunity and paraded its attractions so successfully that, within a decade, it became Europe's biggest Eurodollar center, with the establishment of over 100 foreign banks.

To say that "the bubble burst" about three years ago is misleading and unfair, although the phenomenal growth of Eurolending did begin to slacken from 1980 onward and has slowed to a virtual trickle in recent years. At the same time, a perennial threat to the Grand Duchy is now dangerously close to being carried out—namely the liberalization of German banking laws which would at one stroke neutralize most of the appeal of Luxembourg for its neighboring bankers. Why then are the Luxembourg banks taking on more staff members?

They are, to put it simply, out to create a fresh image, drawing on the country's reputation for competence, discretion and flexibility in the banking world, but gearing it toward different customers. "Don't call it down-market," said a government treasury official recently, "but do say that we want to become more accessible to individual clients."

This does not mean, however, that the Luxembourg bankers are out to woo the "toaster" customer. "Individual clients" is a kind of bankers' jargon for people with at least $100,000 to deposit—though preferably five to 10 times as much. There are a surprising number of them in Europe—people unwilling to leave such sums lying around in their own countries yet not really up to the Swiss numbered account business.

In short, Luxembourg bankers are switching from lending money to managing it. This calls for different techniques and, most importantly, more staff. You can process a $1-million Eurodollar loan with half a dozen people, but 10 portfolio accounts with the same aggregate value might need at least twice as many.

The activity is still in its early stages and its future is by no means assured. One headache certainly is the possibility of a harmonization of banking laws throughout the E.C. which could force Luxembourg to cut back on some of the perks it offers its investors. But the Government is actually promoting the diversification and encouraging the formation of "captive" insurance companies which manage insurance portfolios on behalf of large industrial concerns. Nobody believes that such activities will yield annual profits growth of 20 percent or more, as seen in the 1970s, but if they manage only to keep bankers ahead of the game, no one will be dissatisfied.—ALAN OSBORN

ATHENS

A Homeless Minority

When official visitors from Albania cross into Greece at the Kakavia frontier post the first building they see is a Greek Orthodox chapel. It serves as a reminder that the Orthodox Church is still deeply concerned about an ethnic Greek minority living in the south of Albania, which proclaimed itself the world's first atheist state 19 years ago.

In Greece, the mountainous region of southern Albania adjoining the northwestern Epirus province is known as "North Epirus." The Greek-speaking minority there numbers at most 90,000, according to official Albanian figures but the Orthodox Church is convinced the figure is far higher. When Albania shut itself off from the rest of Europe in 1946, there were 200,000 ethnic Greeks. Since then, however, the country's population has doubled.

Closing the border with Greece left dozens of families divided, and it split Bishop Sebastian of Konitsa's diocese of Dryinopolis, Pognoniana and Konitsa in two. In 1967, Albania outlawed religion. Roman Catholic and Greek Orthodox churches were closed along with mosques and priests and muftis were jailed. According to fugitives from Albania who arrive in Greece, making the sign of the cross is still punishable with seven years in jail.

Bishop Sebastian and a group of influential Greek conservatives have founded a new organization to press for the protection of human rights in Albania in international fora. Bishop Sebastian's book about repression there, "North Epirus Crucified," has recently been translated into English for circulation among the Greek-American community in the United States.

About 30 Albanian political refugees slip across the frontier every year or swim a narrow channel to the Greek island of Corfu. When they first arrive, they are usually offered shelter by the Bishop. Most emigrate to the United States within a few weeks, but the members of the Greek minority become Greek citizens automatically.

But Bishop Sebastian's right-wing campaign conflicts with the Socialist Government's policy of building confidence and establishing "good neighborly relations" by boosting commercial and cultural contacts with Albania as Ramiz Alia's regime takes a closer, but still cautious, look at the outside world.

A few dozen elderly villagers are now permitted to cross the frontier at Kakavia to spend summer vacations with relatives on the Greek side of the border. Unofficial visits by Greeks are less frequent, but several Cabinet ministers have visited Tirana, the Albanian capital, and a stream of local officials from Epirus have toured the picturesque towns of southern Albania. Furthermore, Greek and Albanian military officers agreed last year to erect new border markers along the frontier to prevent straying Greek hunters and shepherds from being fired on by Albanian frontier guards.

Despite the rapprochement, however, Greece and Albania remain officially at war, a situation left over from World War II when Italian troops invaded Greece through Albania. The Greek Foreign Minister, Karolos Papoulias, himself a North Epirot by birth, has said that peace must be declared, but Bishop Sebastian and his pressure group say they are determined to delay a peace treaty until the Greek minority in Albania is better protected.

In the meantime the Albanians have made a goodwill gesture of their own by offering to repatriate the remains of an 18th-century Greek Orthodox saint, Agios Kosmas, who was executed by a local Ottoman ruler in southern Albania. Greek experts have visited Albania and verified that the bones in question were indeed those of Kosmas, an itinerant preacher who founded schools and missions in Epirus to keep orthodoxy alive.

But the church has not yet decided whether to accept the relics and return them to Kosmas' birthplace in central Greece. Many clerics, including Bishop Sebastian, believe their removal from Albania would deprive the North Epirots of one of the few remnants of their orthodox heritage.—KERIN HOPE


©CALLIOPI TOUFIDOU-MITSIS

The border that cuts through North Epirus has divided many families.

BONN

A Year Of Elections

Everyone is in agreement that the German national election campaign began the moment politicians returned from their year-end vacations, and that it would go on for 12 long, exhausting months until January 25, 1987, when the Federal Republic of Germany's 45 million eligible voters will choose a new Bundestag.

Before that date, however, four more polls are scheduled, beginning with communal elections in the northernmost state of Schleswig-Holstein in March, followed by polling for a new legislature in Lower Saxony in June, with Bavaria and Hamburg following suit in October and November, respectively. This means that no further legislation, excepting the 1987 budget, can be expected to be approved by the Bundestag summer.

COURTESY GERMAN INFORMATION CENTER

Counting votes after the 1983 election.

The balloting in Lower Saxony is the most significant. At present, that state is controlled by Chancellor Helmut Kohl's Christian Democrats, but there is a good chance that a coalition of Social Democrats and the ecological Green Party could come to power there after the June election, now that they have managed to form a ruling coalition in the state of Hesse in December 1985 after three years of political stalemate. The capture of Lower Saxony by a "red-green" coalition would change the balance of power in the Bundesrat—the upper house of the federal government whose members are representatives from the 11 federal states—against Kohl's Government.

The outcome in Bavaria is not in doubt. Bavarian Minister-President Franz Josef Strauss' Christian Social Union—the sister party of Kohl's Christian Democrats—definitely will win and regain control. The only question is whether it can keep up the percentage of the vote it won in the last state election four years ago, for, in a country with an electoral system based on proportional representation, a loss of two or three percentage points in Germany's second-most populous state (after North Rhine-Westphalia) could bode ill for Kohl's own chances in 1987. Hamburg will be significant mainly to confirm trends developed in the earlier polls, but by itself is too small to make much national difference otherwise.

For the first time, the final phase of the campaign leading up to the national election will be fought in the winter, with polling day itself sandwiched between Epiphany (a religious holiday in Germany) and the celebration of Fasching, or carnival, which ties things up in the Rhineland and other Catholic areas for several weeks preceding Lent.

Willy Brandt, chairman of the Social Democratic Party, says a winter campaign should be less costly than the usual summer and autumn struggles, if only because the parties will not have to hire the expensive musical groups normally employed to draw and hold the huge crowds required for outdoor meetings. But one unusual problem, according to Brandt, is that the paste normally used to fix campaign posters will not adhere in the lower temperatures of winter, so that everyone is going to have to find a new glue.

Time on the publicly-owned television and radio stations cannot be purchased, but is allocated by interparty agreement, and the costs of producing such spots are minimal. What does, however, worry the opposition parties a little is that, for the first time, the hottest phase of the campaign will be interrupted by the Christmas and New Year holidays, a time when they may lose momentum while Kohl will still be able to go on national television with political statements camouflaged as the Government chief's traditional seasonal addresses to the country.

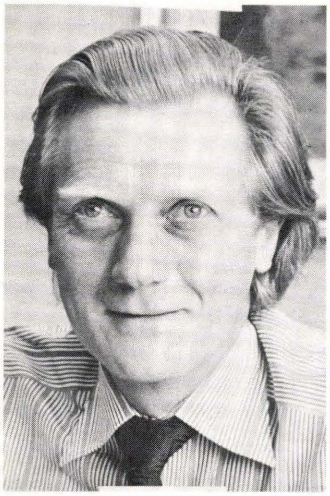
The campaign could get violent if the left wing of the labor union and student movements continues to use rough tactics to break up speeches by Christian Democrats as it did in Frankfurt and Göttingen in January. On the other hand, in a country where Christian Democratic Union founder Konrad Adenauer won several elections with the slogan "no experiments," such violence against the governing party could well be turned to its advantage at the polls.—WELLINGTON LONG

LONDON

Crisis Over Helicopters

By the time this is read the political upheaval caused by the so-called "Westland Affair" may seem to have been no more than a sharp squall which temporarily dismantled the Thatcher Government. While no one can tell how enduring the political consequences of the Westland affair will be, it has dealt a grievous blow to Prime Minister Margaret Thatcher's political standing. Her reputation for competence may never recover. Through resignations, she lost one Cabinet minister, Defense Secretary Michael Heseltine, because she failed to ensure that her Government was rallied around a single policy, and another, Home Secretary Leon Brittan, whose malign and selective leaking of a private government letter suggested that the Prime Minister tolerates standards of behavior between political rivals in her Cabinet which would certainly be frowned upon in the toughest dock-side barroom.

However, anyone concerned about Britain's attitude to Europe may draw some very disturbing conclusions about the Government's handling of the affair. The most important thing to remember is that despite 13 years of E.C. membership, this British Government, like others before it, seemed unwilling to put the requirement for a European solution above its other concerns.



COURTESY BRITISH EMBASSY

Former Defense Minister Michael Heseltine.

For those who need a reminder of the background, the story is a fairly simple one. Westland Helicopters is a relatively small manufacturer and the only remaining British presence in this important defense sector. The company has been struggling for some time both because it lacks a successful product and the financial and technical resources to develop one.

Urgently seeking a financial restructuring the company's board reached out for a solution involving Sikorsky of the United States and Fiat of Italy. Although these two would jointly take a 30-percent stake in Westland, Sikorsky's technical and material involvement in its future would be much greater than that of Fiat.

Heseltine, while still Defense Secretary, battled successfully for the formation of a rival consortium involving British, French, Italian and West German aviation companies, but failed to swing the British Government behind this solution, with Thatcher insisting that the Government must be publicly neutral and that the choice between the two rival consortia must be decided by Westland shareholders alone. There are strong grounds for believing, however, that Thatcher and her then Minister for Trade and Industry, Leon Brittan, favored the Sikorsky-Fiat bid, thus thwarting Heseltine's efforts to swing the Government behind the European consortium. Ambitious but impetuous, calculating but emotional, Heseltine resigned his office in dramatic protest.

His commitment to the European solution for Westland was in line with his genuine and respectably fruitful efforts over the last two years to boost European collaboration in the development and procurement of weapons. It was unusual to see a British minister playing such a prominent role in one aspect of the historic attempt since the end of the last war to build a European identity capable of standing as a "twin pillar" in the Atlantic alliance which would not be wholly dependent on U.S. technology, weaponry and political leadership.

Though there are several elements in Heseltine's failure to carry the Government with him over Westland—his known ambition to succeed Thatcher being an important one—the lack of a sure European instinct within the Government undoubtedly forms a vital part of the explanation. Quite simply, any Government with such an instinct would inevitably choose the European solution when confronted with two such evenly matched proposals as in this case.

This aspect of the Westland affair could prove to be an enduring complication in Britain's relations with its European partners. It is a fact that there is strong mistrust of the depth of Britain's European commitment which owes more to events between 1945 and 1961 than to Britain's conduct as a member of the E.C., although the country's record here has not been particularly impressive, either.

In the formative years, Britain refused all attempts to persuade her to participate in the European experiment, be it in the shape of the European Coal and Steel Community, the European Defense Community or the European Economic Community. The British attitude was one of skepticism that Continental efforts to Europe would actually achieve anything and a mistaken belief that links with the Commonwealth and the United States precluded the adoption of a narrowly European role.

The application to join the E.C. by Prime Minister Harold MacMillan's Government in 1961 represented a belated acknowledgement that the European experiment was likely to work, and that if it did, Britain had no alternative but to seek a part in it since neither the Commonwealth nor the United States offered a comparable political and economic partnership.

From the late 1940s, Jean Monnet, the founding father of the Community, frequently said that Britain would only seek to join in European collaboration when it could actually see it working. This skepticism about the European partnership clearly remains deeply engrained in British attitudes and is one of the reasons for the Government's conduct in the Westland saga.

The pragmatism for which the British are celebrated can provide all kinds of detailed justification for the Government's conduct and the frustrations of Heseltine. But when it comes to European partnerships, that pragmatism has consistently put Britain on the wrong side of the argument. The result is that the Continentals have written the rules, and adaptation has always cost Britain more dearly than if she had been in at the creation.—JOHN WYLES

BRUSSELS

A Nightmare For Motorists

Bilingual road signs all over Belgium are often confusing for drivers.

There is a junction on the Rue Belliard in the middle of Brussels where the "walk" sign flashes for just 10 seconds before traffic turning in from the busy avenue des Arts gets a green light. A moment's hesitation on the part of the pedestrian means a five-minute wait or a terrifying scramble for safety on the other side. And yet, according to those who study these things closely, this may not be the worst spot for pedestrians: according to them, the traffic circle in the front of the E.C. Commission building, the Rond Point Schuman, is unmatched throughout Europe for its lethality. "This must be where they trained Rambo," a surviving American tourist panted recently after a frantic crossing. One of the richer ironies so far this year in Brussels is that the European Road Safety Year was devised and launched less than 200 yards from this spot.

The Belgians have been called Europe's worst drivers—a judgment that has to be subjective, but which is nonetheless supported by the death toll statistics. These have risen sharply in recent years, in marked contrast to the pattern elsewhere in the Community. A trick learned by long-time Brussels residents waiting at a pedestrian crossing is to spot an approaching British car—it is the only one likely to stop.

Life is not easy for Belgian motorists, however. The fact that sign posts change the name of the cities according to the linguistic community in which they are placed (for example, "Bergen" replaces "Mons" when the road runs through a Flemish-speaking commune) is something you quickly get used to. Much more hazardous, illogical and frightening is the "priority-from-the-right" rule which al lows vehicles from the meanest of side streets to swing unchecked onto the major boulevards from the right. The police argue that this discourages drivers from using the major roads as race tracks. In practice, it means that drivers inch along with half an eye on the road ahead, but most of their attention focused on the treacherous inlets from the right. The cost to car bodies and human life and limb is staggering.

Belgium is not the only country to maintain a priority-from-the-right system, but it is upheld there with a unique, almost religous, fervor. The chances of getting Belgians to change it in the interests of the European Road Safety Year are about as good as trying to persuadethe British to drive on the right. But the go-ahead earlier this year for a cross-Channel tunnel between Britain and France has focused attention on the differences in national road transport systems, and for the first time the possibility of changing the priority system is now being discussed by the Belgians themselves rather than exclusively in the columns of English-language magazines—though not with any great enthusiasm, it has to be admitted.

In the meantime, however, it is not necessary to use the roads to get around in Brussels. As befits a country with more than a century of railway manufacturing tradition, the Brussels underground is swift, reliable and very reasonably priced. It is also maintained in immaculate condition—in striking contrast to the pedestrian sidewalks above. Some trains run both above and below ground—a temporary, but effective, expedient while full extension of the underground system is awaited. Nevertheless, visitors should be warned that entering a tram on the street carries unexpected pitfalls: You may not use just any of the doors, as two Danish visitors found out recently when they tried to get in through the season-ticket holders' entrance. They were fined \$30 each.—ALAN OSBORN

ROME

The Longest Bridge

From the time of the ancient Romans to the present day, the inhabitants of the Italian peninsula have had a flair for public works. The modern *autostrade*, or highways, that snake magnificently over the wildly uneven mountains of central Italy are the natural successors of the Roman roads that first tamed the continent of Europe. Now the Italian state is contemplating what would be one of the most stupendous public works of all time: a suspension bridge across the Strait of Messina which divides Italy and Sicily.

The central span of the bridge would be 3,300 meters long—more than twice the size of the longest existing suspension bridge in the world, the 1,410-meter structure which spans the river Humber in Britain. The towers at each end would rise 400 meters into the sky—one and a half times the height of the Eiffel Tower in Paris. And, unique among all suspension bridges in the world, this one would take trains as well as road vehicles.

The bridge would be built in one of the most seismic areas of the world, where in 1908 an earthquake, whose epicenter was in the center of the strait, destroyed the cities of Messina in Sicily and Reggio Calabria on the mainland and killed more than 60,000 people. Not only would such a bridge have to resist seismic shocks registering more than 7.5 on the Richter scale; it would also have to stand up to gusts of wind that can reach 100 kilometers an hour. But since its piers would both be on dry land it would avoid the tidal currents which surge up and down the strait at six knots.

Nevertheless, despite these obvious natural disadvantages, this is the project that the Strait of Messina Company, a state-owned institution, believes is the best way of creating a fixed link between Sicily and continental Italy. Its view is supported by 30 committees of experts in different fields, and was submitted to the Government of Prime Minister Bettino Craxi a few weeks ago.

The project for a fixed link across the Strait of Messina, discussed at regular intervals for decades, has suddenly come to command the enthusiasm of both Government and industry. Craxi has pronounced himself convinced that the project for a fixed link is feasible, economically beneficial and affordable. It further fits in with the Government's desire to find new ways of assisting the poor south of the country and of improving Italy's dilapidated public transport system.

It is quite possible—although the cynics say very unlikely—that the Government will make a decision to build a bridge in the next few months. If final design work and contract preparations went through in record time, not to mention getting an act through parliament, work on the bridge could begin in 1989. The bridge, it is said, would take eight years to build, would cost around $3 billion and would consume 620,000 tons of steel.

However, almost no one thinks that things will move as quickly as that. Italian governments have a bad record in getting major projects off the ground and then sustaining them with regular finance, and the Messina bridge project has seemed likely to go ahead on several occasions in the past without ever leaving the drawing board. There is, however, a new will in Italy to create impressive public works after years of economic retrenchment, and no one doubts that a bridge would bring considerable benefits to Sicily, now linked at the strait only by a ferry service which, allowing for waiting, loading and unloading, can take two hours.

Before the proposed suspension bridge can go forward, however, the Government will have to be satisfied not only that it is feasible but that it is the best way of crossing the strait. The Strait of Messina Company, whose task it is to study, construct and operate the fixed link, but which will naturally employ contractors, believes that there is no alternative. A bridge with piers in the water would be exposed to higher seismic risk. A tunnel under the sea bed would be similarly at risk and would require long access roads and railways.

The only other proposal which stands any chance of being considered is the design of a British engineer, Alan Grant, for a concrete tunnel that would be submerged below the surface of the water, attached to the sea bed by cables, and relying on the water for buoyancy. It is a novel idea using technology tested in offshore oil exploration and would have the advantage of avoiding the high winds that would affect a suspension bridge, as well as being—it is argued—about half as expensive.

Grant and his Italian partner, the Messina ferry operator Elio Matacena, raise serious doubts about the feasibility of the vast suspension bridge scheme. They do not believe that it is possible to extrapolate suspension bridge design in such great leaps, and they foresee great difficulties in passing heavy trains across a structure which can only cope with the weight of road traffic because this is more diffused.

But they have had a difficult task even getting their views considered. Professor Gianfranco Gilardini, managing director of the Strait of Messina Company, and an engineer with great experience in bridges, is quite convinced that his scientific methods are unassailable, while the submerged tunnel represents a quite unknown technology. And there is the basic fact of human nature that if one is creating a spectacular engineering structure, one's achievement is much more obvious if it towers elegantly above the water, rather than slips discreetly underneath it.—JAMES BUXTON

COURTESY ITALIAN CULTURAL INSTITUTE

Messina would be joined to the Italian mainland if plans for a bridge are approved.

MADRID

A Bullfighting Dilemma

Spaniards expect many changes in their way of life now that they are members of the European Community, but there is one area where they do not intend to budge: bullfighting, or *fiesta nacional*, which is a useful term because one must never call it a sport or an entertainment.

The phrase is indicative, for, to many Spaniards, bullfighting at its best is the expression of an essential part of their national consciousness. As Professor Enrique Tierno Galvan, a former Mayor of Madrid once wrote: "In my view, should bullfighting ever become for Spaniards only a mere spectacle, then the foundation of Spain as a nation will have been transformed."

While the lengthy negotiations about the terms of Spanish entry were still going on, there were nasty rumors that some of the Governments of the Ten might be induced by animal lovers' pressure groups in their countries to veto Spanish entry unless bullfighting, or at least the violent killing of the bulls as a mere public spectacle, was suppressed. Such rumors were treated with Olympian contempt, but after a few Members of the European Parliament (MEP) in Strasbourg also made threatening noises and one British MEP was actually bold enough to bring his campaign right to Madrid, speaking of Spaniards as "emerging from their Iberian darkness into the light." He was treated nastily by bullfighting critics who can use their pens as witheringly as film and theater critics elsewhere.

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COURTESY NATIONAL TOURIST OFFICE OF SPAIN

Two of Spain's leading novelists, Camilo Josē Cela and Miguel Delibes, are agreed that the long history of bullfighting, which started as a pastime of the nobility, attained its marked popular character from the 18th century onward, and has withstood prohibition and other social upheavals since, must be protected from the "interference" of European animal loving groups at all costs. There does exist, in Spain, a society for the prevention of cruelty to animals, but it is a rather small organization which maintains only a tiny set of offices in Madrid.

Nevertheless, bullfighting has undergone marked change from within, reflecting changes in Spanish society. As this year's bullfighting season begins in March, the country's bullfighters are engaged in a battle with the Madrid Government over projected reforms of their social security and pension rights. The tradition that great bullfighters are destined to die in the ring is enshrined for every Spaniard in the legendary death of the greatest of them, Manolete, at Linares in Andalusia in 1947. Ten more bullfighters have died since then. But the Spanish professional bullfighters' federation, very much like any other European trade union, has been stubbornly negotiating for its members' rights and for better protection for their families.

This column is written with a certain trepidation as Ernest Hemingway once pronounced that every foreign journalist covering Spain writes one piece forecasting the imminent decline of the *fiesta nacional.* But as the 50th anniversary of the beginning of the Spanish Civil War approaches, Hemingway's views on Spain are undergoing a certain revision and those on bullfighting can hardly be immune.

It is not that bullfighting is sick economically. Spaniards spent some $100 million on it last year, buying 32 million *sol* or *sombra* tickets. The *torero* Francisco Rivera, the 36-year-old son of a slaughterhouse attendant, died dramatically after being gored by a bull in September 1984—reviving all the old glories of bullfighting. It was revealed subsequently that he left a personal fortune equivalent to that of Richard Burton who died within a month of him.

The top dozen Spanish bullfighters do earn a lot of money, but the majority of the bullfighters' union members want to know that they have a comfortable state pension when they retire at the age of 55. They particularly object to Government plans to treat them as self-employed, with their earnings during their last eight active years deciding pension rights—just the years when a *torero's* physical prowess is in decline. Demands by bullfighters for better medical facilities at the bullring again reflect the changed approach to a dangerous profession.

Most of Spain's great bullfighters this century came from humble and hungry backgrounds, which has made Vicente Sabala, one of Spain's foremost writers on the sport, wonder recently why, with three million unemployed, more youngsters were not coming forward to prepare to be tomorrow's bullfighters.—RICHARD WIGG

LISBON

The European Challenge

Economic difficulties and a long sequence of important political events are certainly among the explanations for the cool reaction of the Portuguese to their country's long-awaited accession to the E.C. Since last June, when the ruling coalition of Socialists and Social Democrats was disrupted, Portugal has been living in a state of almost permanent political campaigning. There were general elections on October 6, 1985, local elections on December 15 and, finally, two rounds of voting for a new President on January 26 and February 16 (won by Socialist leader Mario Soares).

By itself, this "overdose" would be enough to outshine anything else. But the feeling that a new economic and political cycle was emerging from such a marathon has strongly contributed to boost an atmosphere of political passion and expectancy. Political leaders know that the moment is particularly favorable for an ambitious modernization drive in the economic and financial areas, as well as the political system and the global administrative structure. The main parties and the candidates for the presidency persistently have stressed the key role that E.C. integration will play in this modernization effort, both as an instrument and as a motive for change.

In the so-called "European challenge" lies the essential ingredient of what opinion leaders like to present as the best opportunity for development that the country has seen this century. The Portuguese seem prepared to give their leaders another chance, although they are prudent—not to say skeptical—about the possibility of real change which visibly affects their standard of living. In the aftermath of a contradictory revolution and severely hurt by the economic crisis, the common citizen does not believe too much in promises anymore. Having lived several failed experiences, he prefers to wait and see.

This helps to explain the generally distant and "rational" reaction to E.C. membership, which comes almost eight years Portugal originally asked to join in 1977, when everyone except for the Communist Party was welcoming the "European choice."

One can hardly fault this cool stance. Having lived through a serious monetary crisis at the end of 1982, Portugal subsequently implemented a tough stabilization program which it had negotiated with the International Monetary Fund (IMF) aiming at a dramatic curb of the current account deficit and the pace of external indebtedness. Considering its main targets, the program was undoubtedly successful, fostering moderate, sustained growth in subsequent years.

For the majority of the population, however, the pill was not easy to swallow: real wages were falling sharply and the "real economy," exhausted by a decade of accumulated difficulties, suffered the biggest recession since World War II. Unlike the majority of its European partners, Portugal delayed its response to the oil shocks for too long and is now learning that this is not the time for easy-going policies.

A slight recovery has taken place in the last year and will certainly continue to do so this year, with estimated real growth of 4 percent in gross domestic product (GDP). There also has been a significant decrease in the rate of inflation, which, it is hoped, will be brought down from 19 percent to 14 percent in average terms. E.C. Regional Fund monies will have a significant impact in 1986, contributing to an ambitious program of public works and stimulating local investment. In a short-term perspective, this is where the immediate benefits of E.C. membership will be most visible for the population.

What the "European challenge" really means, however, is the shaping of a new specialization pattern for the Portuguese economy,in a context of increasing inernationalization of production, technology and trade. This implies the deep, long-lasting and probably painful process of structural change that Portugal has avoided facing for the past decade. Political stability, social dialogue and adequate macroeconomic management would help greatly to make things easier and this is why the string of elections was so eagerly disputed in a country that, just a few months ago, was said to be "tired of politics."—JOSE AMERAL

AMSTERDAM

The Right To Die

The popular leader of the Dutch Christian Democratic Party, Ruud Lubbers, last week opened the election campaign with an unusual plea: He appealed to the nation to relinquish plans for legislation to regulate the question of euthanasia.

Since the early 1970s, there have been calls for such legislation and, in the last few years, this has grown into a political issue of some substance, to the extent that it actually became a part of the national election campaign. Lubbers told the nation that Parliament would make a grave "historical error" if it were to pass a draft bill submitted by the left-wing Democracy '66 (D'66) Party, and supported by the Labor Party as well as by a few other small left-wing parties.

Lubbers cautioned his Liberal partners in the coalition Government against rebellion, and said that the Christian Democrats would not go along with the proposed D'66 legislation, as it would "put the accent on self-determination by the patient," when death is not necessarily imminent. However, Lubbers did concede that his party could go along with legislation establishing that a doctor should not be punished for euthanasia in cases where terminally ill patients suffered untenable pain and requested death—if it could be established that further treatment could serve no purpose. At the same time, the D'66 proposes that euthanasia be permitted if a patient and two doctors are of the opinion that the patient's situation is "untenable" and wishes to die. "Such legislation," Lubbers said, "sets criteria for the degree of suffering to be determined by the patient, thus giving the patient the autonomous right to end his or her life while death is not necessarily in sight."

Dutch public opinion and political interest in the subject has been stirred by a number of cases in recent years. In 1973, a woman physician ended her mother's life at her request. The court case ended when the daughter was given a symbolic sentence of one week's imprisonment, on probation. Last April, a court case in The Hague sentenced a 33-year-old physician who admitted to having administered lethal doses of insulin to three nursing-home residents at their request. The physician was imprisoned for one year by the district. Several years ago, a Dutch physician helped a 35-year old woman suffering from multiple sclerosis to her end at her insistent request. This case is still pending.

The Dutch Parliament has scheduled another full day for debate on this controversial issue. As Lubbers told the nation recently: the Netherlands is the "only country in the modern western world to call for such precise legislation on euthanasia."—NEL SLIS €

U.S.-E.C. EXCHANGE ACCUSATIONS OF UNFAIR PRACTICES

EUROPEANS CITE EXPORT SUBSIDIES, IMPORT LICENSING AND "BUY AMERICAN" PLANS.

STEPHEN BROOKES

The trade weather in Washington D.C. has been a lot calmer in recent weeks than it was during those stormy days last autumn, when the halls of Congress thundered with protectionism and trade-deficit alarm bells were clanging in every office. Things have quieted, but it may only be the eye of the storm. The debate on a new U.S. trade bill will pick up again soon, and most of the conditions that led to the protectionist fervor are, unfortunately, still around.

The merchandise trade deficit hit a record high in 1985; a dropping but still strong dollar continues to erode U.S. exports and make imports cheap; changes in the shape of the world economy are shifting comparative advantage in certain industries away from the industrialized world; and a shift in the American economy toward services—for which little international trade law exists—has created a pressing need for a new round of trade negotiations. The effect these conditions have had on the domestic economy, and especially on employment in certain industries, has made trade for the first time a high-profile (and highly emotional) political issue. Frustration with the complexity of the causes of the trade imbalance, together with widespread popular misunderstandings about the supposed benefits of protectionism, led to the drafting of hundreds of protectionist "solutions" in Congress last fall that, like the Smoot-Hawley Tariff of 1930, threatened to wreak havoc on both the American economy and the whole world trading system.

In the face of this onslaught, the Administration stood squarely by its free trade guns. But it had to act quickly to defuse the protectionist powderkeg, and did so by adopting a tougher, more aggressive policy that was designed both to punish those players on the international trade field who were competing unfairly, and to improve the working of the whole multilateral trade system. Rather than wait for an industry to petition for protection, as it had in the past, the Administration acting under Section 301 of the Trade Act of 1984 would itself initiate and process complaints against countries it suspected of improper or unfair trade practices.

In order to counter foreign export subsidies that were depriving American companies of fair access to world markets, a "war chest" of some $300 million was to be set up. Cabinet-level officials would participate in a special "strike force" that would identify unfair traders and decide on a counterattack, and a 214 page indictment of "unfair or unreasonable" trade practices aroud the world was drawn up. These practices, the Administration said, would be eliminated through bilateral negotiations, aggressive enforcement of U.S. law or challenges at international trade organizations. "Our trading partners," said U.S. Trade Representative Clayton Yeutter when the report was issued in late October, "must face up to their international obligations."

> The E.C.'s list of 23 unfair U.S. trade practices "allows the Community to assert to the United States that the notion of fair trade must be applied in the same way on both sides of the Atlantic."

Fully 15 pages of the report focused on European Community trade practices and barriers. Among them:

- tariffs on kraft paper, softwood plywood, cigars, aluminum products, semiconductors, halibut and salmon;
- variable levies for agricultural products;
- tariff preferences for European Free Trade Area (EFTA) countries;
- E.C. and EFTA rules of origin;
- import licensing for high quality beef;
- standards, testing and labeling for telecommunications, triple-phosphate fertilizer and oak wilt;
- export subsidies for farm products and tied aid credits (mixed credits);
- "Buy National" policies of E.C. member states;
- Processing subsidies for canned fruit;
- Unfair practices by Airbus Industrie.

Not surprisingly, this critique of E.C. trade practices met with little appreciation in Europe—but it was hardly a fair and balanced assessment of the way the E.C. handles its trans-Atlantic trade relations are conducted, or of the seriousness with which it takes its international responsibilities. As Sir Roy Denman, head of the E.C. Commission's Washington Delegation, remarked at the time: "International trade should be fair. But fairness is often in the eye of the beholder." Other E.C. officials point out that the problems that have arisen in U.S.-E.C. trade have tended to be in areas where trade policy is not well defined, in grey areas where the law is subject to differing shades of interpretation or in areas where no set policy has been established at all. And when a dispute is actually sent to the General Agreement on Tariffs and Trade (GATT), the settlement process can often seem arduous and infinitely slow—but it has worked successfully in a great number of cases.

This is not to deny that unfair trade exists in the world—it does, and it ought to be corrected. But the size of the problem has to be kept in perspective. Paula Stern, the head of the International Trade Commission (ITC), estimated last year that if all the charges of unfair trade brought before the ITC were sustained, less than 5 percent of 1984's $350 billion in imports would have been challenged. Other Administration officials estimate that, at most, only 10 to 15 percent of the U.S. trade deficit can be attributed to unfair trade practices.

The decision by the Administration to focus on unfair trade had, then, two main effects: It exaggerated the size and scope of the problem out of proper proportion, and it implied that the United States alone was playing by the rules in international trade. More heat was injected into an already emotional issue. And in Europe, whose trade with the United States has topped $100 billion for the past two years (prompting Secretary of State George Shultz to comment, "We must be doing something right"), the reaction was predictable. The E.C.'s Commissioner for external relations, Willy De Clercq, said the Administration's trade complaints fostered the notion that "the United States was the only nation to respect the rules of the game of world trade."

In late December, De Clercq released the E.C.'s own list of 23 unfair or unreasonable practices it accused the United States of engaging in, ranging from direct export subsidies to import licensing to "buy American" practices—in short, a list that mirrored many of the complaints the United States had raised to the Europeans. "Our list is certainly not exhaustive," De Clercq told Yeutter, "but it allows the Community to assert to the United States that the notion of fair trade must be applied in the same way on both sides of the Atlantic. I hope that we and the United States can work together to eliminate these trade barriers."

Specific examples cited in the Commission's list include:

- U.S. tariff reclassifications which led to tariff increases without compensation (a possible violation of Article II.5 of the GATT);
- Import restrictions on agricultural products including cotton, peanuts, dairy products and sugar, and on foreign-built dredges and other work vessels used in coastal traffic;
- Import licensing procedures requiring goods under restriction to be landed in U.S. ports before import authorization can be applied for—a possible breach of the GATT licensing Code;
- Government procurement practices which are contrary to the Government Procurement Code;
- Direct or indirect export subsidies such as the Export Enhancement Program, which has operated in such a way as to undercut prevailing market prices;
- Certain taxes, such as unitary taxation (which is in violation of internationally agreed tax principles and can lead to possible double taxation), and the aircraft fuel tax (where there has not been respect for international agreements on reciprocity concerning exemptions);
- U.S. anti-dumping and countervailing duty legislation, where the E.C. considers a number of aspects of U.S. law and practice to be not in conformity with GATT codes.

What De Clercq was doing was not just reminding the Administration of the old adage about stones and glass houses, but also that sniping on one's closest trading partners was less helpful than cooperating on improving the running of the world trading system. And, in fact, the Administration's war on unfair trade has had few successes. The $300-million "war chest" has gotten caught up in the Gramm-Rudman confusion, and the Cabinet-led "strike force" has launched only one major initiative, an anti-dumping complaint against Japanese semiconductor makers. The Administration has discovered that it's very difficult to define and prove certain practices, and that the policy that at first glance seems to be unfair may be linked to broader political and economic goals that are desireable to the United States.

Concern over the future of the U.S. trade deficit and the "tilted playing field" remain strong, however, and Congress-watchers expect more ***sturm und drang*** on Capitol Hill as the debate over a new U.S. trade bill begins again this year. Changes to section 301 of the 1984 Trade Act, designed to require more forceful presidential action against trade barriers, will be pushed in both the House and the Senate, and more protection for individual industries will probably be sought as well. The debate may, in fact, be as intense as it was last fall, fueled by both the record, $148.5-billion 1985 merchandise trade deficit and election year pressures from home-state industries.

But fishing in the shallow and muddy waters of unfair trade is unlikely to produce a better catch this year than last, no matter how exciting a sport it may be. The United States and Europe have bigger fish to fry, anyway: the outstanding economic fact of the past decade, unmatched and envied throughout the world, has been the creation of about 20 million new jobs in the United States. *Nine out of 10* of these—some 18 million—have been in services, and this is an area that must be brought under international trade law if the increasingly complicated world trade scene is to be kept in balance and America's future trade interests are to be preserved.

The E.C. has been working closely with the United States to bring about a new round of multilateral trade talks that will address the question of services; a Preparatory Committee has already been established in Geneva. Continued cooperation is needed in other areas as well, from agriculture (where both Europe and the United States are trying to reduce their farm surpluses and government spending) to economic policies (including economic expansion in Europe that would raise currencies and imports and help correct the trade imbalance) to the increasingly important issues of protection of intellectual property and control of high technology. Improvements in the world trading system may come slowly, but if they come at all it will be through cooperation among the leaders of that system. The issue of unfair trade should be put where it belongs: well down the list of American trade priorities. €

Stephen Brookes is a contributing editor of *Europe.*

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One item on the E.C.'s list is the U.S. Export Enhancement Program, which has been used to subsidize American wheat sales overseas.

E.C.-CANADA TRADE SUFFERS SLOWDOWN

10TH ANNIVERSARY OF FRAMEWORK AGREEMENT FINDS COMMONWEALTH NATION TURNING SOUTH AND WEST.

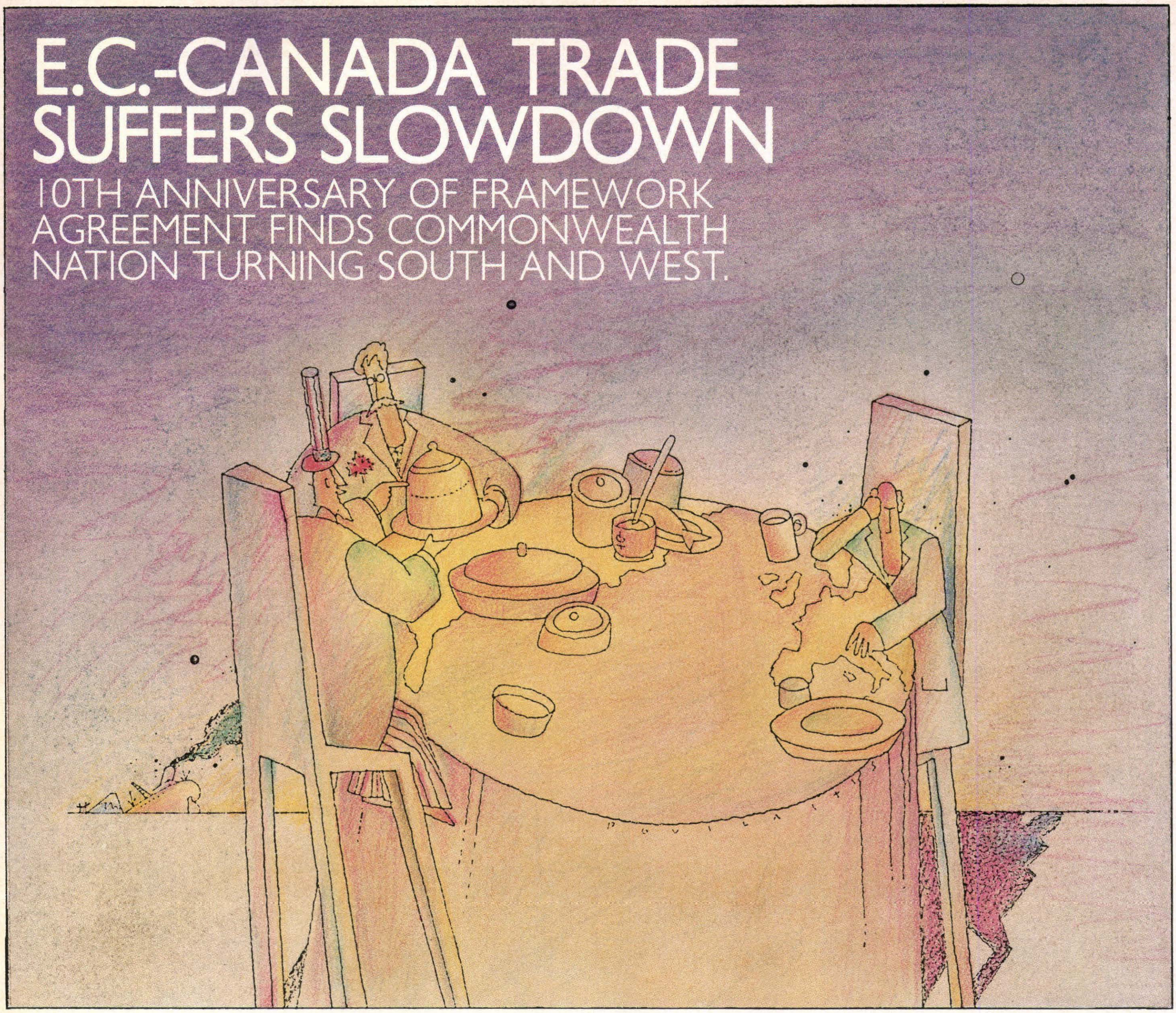

ILLUSTRATION BY DAVID POVILAITIS

JEFFREY SIMPSON

The 10th anniversary of a framework agreement between Canada and the European Community finds Canadians slightly disillusioned with the way relations have unfolded. Compared with the raging rows between the E.C. and the United States or Japan, disputes with Canada have been decidedly small potatoes, but there have been enough of them to make Canadian policymakers wary of a sudden burst of new trading opportunities.

After investing many hopes in a deeper economic relationship with Europe a decade ago, Canadians have turned to the United States and the countries of the Pacific Rim. For the first time in Canada's history, trade with Pacific Rim countries last year eclipsed that with the Community. The focus of the conservative Government, which was elected in September 1984, remains first on the United States, second on the Pacific Rim and only third on the Community.

The slight sense of disillusionment is as much as Canada's fault as the Community's. Canada never adequately defined what it hoped to achieve from the 1976 framework agreement. It kept complaining to the E.C. about various protectionist practices while it engaged in some of its own. When major government purchasing came for such big-ticket items as airplanes and military hardware, the Canadians invariably chose American companies over European ones.

The framework agreement, which remains in place, flowed from a Canadian request. In the early 1970s, the liberal Government of Pierre Trudeau decided to seek counterweights to the preponderant influence of the United States in Canada's economic and cultural life. The E.C. seemed a logical place to turn for such a counterweight. Political will, however, could not resist the pull of international economic forces. The entry of Britain into the E.C. changed that country's trading pattern, reducing the importance of Commonwealth suppliers. The Common Agricultural Policy (CAP) impeded potential Canadian agricultural exports and pushed Canada slowly into the camp of the third-country critics of the CAP.

More importantly, the pull of the lucrative American market proved overwhelming. The United States traditionally took about two-thirds of Canada's exports; by 1984, the United States attracted 78 percent. The soaring U.S. dollar during the Reagan years pulled the Canadian dollar in its wake, increasing its value against European currencies and rendering Canadian exports to the E.C.

more difficult. The intensification of Canadian-U.S. trading patterns recently has merely reinforced existing European perceptions of the Canadian market—indeed of Canada itself—as an extension of the United States.

The fond hopes of the mid-1970s largely faded. The Airbus consortium tried and failed to crack Air Canada's preference for Boeing. European companies bid on Canada's new fighter aircraft, but the Government chose a plane from McDonnell-Douglas. The Canadian federal Government pledged at the last round of the General Agreement on Tariffs and Trade (GATT) to persuade provincial Governments to drop discriminatory pricing policies against European wines. That, too, failed as large provinces such as Ontario and British Columbia continued to protect local grape-growers and wineries. Canadian shoe quotas, which hurt European exports, lasted for eight years and have been only recently partially dismantled.

A fisheries treaty for 1982-1987 became politically unpopular in Canada's four Atlantic provinces. The treaty granted the E.C. (in practice, the German long-distance fleet) fish quotas within Canada's 200-mile limit in exchange for tariff concessions on certain varieties of cod. Canada was sufficiently unhappy with the implementation of those tariff concessions to reduce quotas for a while. The treaty is now working much better, but Canadian fishermen bitterly resent yielding fish within the country's territorial waters. The chances for Canadian renewal in 1987 look distinctly problematic. The accession of Spain and Portugal, countries with which Canada has had a series of fisheries irritations, will complicate matters further.

The E.C. ban on the importation of baby seal skins, a temporary ban now extended indefinitely, effectively ended the commercial sealing industry in Newfoundland. The industry was worth only Canadian $12 million, but it deeply affected the lives of hundreds of Newfoundlanders living in the country's poorest province. From the Canadian perspective, the E.C. decision was long on moralizing and short on scientific justification since the weight of international evidence suggested the seals were no longer in danger of extinction. Indeed, consideration is now being given to a deliberate cull of seals whose voracious appetite for fish has alarmed fishermen about future harvests. Other disputes involved Canadian exports of newsprint and E.C. exports of beef, both of which have been temporarily resolved.

At least the framework agreement gives both sides a chance to discuss these problems in a civilized and ongoing fashion. Twice a year, groups of senior officials meet either in Ottawa or Brussels to review a change of bilateral issues. Relations do remain generally good between Canada and the E.C., even if they have not met the hopes that Canada brought to the framework agreement. Since 1959, for example, Canada and the E.C. have cooperated closely on the development of nuclear power, Canada providing the E.C. with about one-third of its natural uranium needs.

European investment in Canada totals about Canadian $8 billion, twice as much as Canadian investment in the Community. British, German, Italian and Dutch investment in Canada has always been sizeable, but French investment has lagged. Indeed, despite mutual pledges to do better, French-Canadian trade relations have remained stagnant, a victim of the countries' competitive economies and government purchasing policies.

In 1984, the E.C. experienced a $1.1-billion trade surplus with Canada after years of finding itself in a large deficit position. That switch mainly reflected the strength of the Canadian dollar against European currencies. The E.C. export surge to Canada stopped, albeit briefly, a trend reflecting a weaker economic relationship. From 1979 to 1983, Canada took a declining percentage of E.C. exports—from 8.9 percent to 7.2 percent. Canada's own shipments to the E.C. fell from 11.2 percent of the country's total in 1979 to 6.8 percent in 1983.

Dietrich Hammer, head of the E.C. Commission's Delegation in Ottawa, neatly summed up the trend last December. "We have experienced a relative weakening in the E.C.-Canadian relationship. This can be measured in declining trends of two-way trade, decreased investment flows, opportunities for economic cooperation foregone and recurring instances of trade friction," he said. Hammer and other E.C. officials are now observing with more than a passing interest the Canadian attempt to negotiate a new trade package with the United States. Last October, Prime Minister Brian Mulroney announced that Canada would seek a new liberalizing trade agreement with the United States. He carefully avoided using the words "free trade" since this phrase carries with it a host of controversial interpretations in Canada.

It will be several years at least before anyone knows whether these negotiations will succeed in the face of the strong protectionist sentiment in the U.S. and doubts about the political, cultural and economic consequences for Canada. The Europeans, like the Japanese and other third parties, have already indicated to Canada that their interests must not be compromised by any bilateral deal. Specifically, the Europeans will resist any preferential treatment accorded Canada by the United States in such areas as government-purchasing policies and domestic sourcing. Canada and the United States may try to keep any agreement within GATT bounds by declaring such a pact to be an essential step toward eventual free trade.

A fierce political debate now rages in Canada about these negotiations, with opposition parties, the trade union movement, leading provincial politicians in Ontario and Quebec and some academics arguing that closer Canadian trade links with Washington will foreclose enriched trade prospects with the E.C., Japan and other, non-North American, markets. The Government insists that bilateral trade negotiations and improved trade with others are not mutually exclusive options, saying that the longer production runs Canadian companies could achieve by enhanced access to the U.S. market will make them better able to sell in Europe and the Pacific.

No one can predict the outcome of these negotiations, which should begin this spring, but their genesis from the Canadian side is clear. The 1981-1982 recession hit Canada harder than any other industrialized country and left the country with double-digit unemployment, a decimated energy industry—which is now recovering—and a population asking what had gone wrong.

Since Canada, with its small domestic market of 24 million consumers, is the country among the seven Western economic summit countries most dependent upon exports, the search for answers inevitably turned to trade policy. Seeing not only limited possibilities with Europe, the previous liberal Government began exploratory trade liberalization talks with the United States. The conservative Government, more dedicated to free market forces and determined to improve relations with Washington on a wide range of issues, expanded the liberals' initiative into wide-ranging trade negotiations.

For at least the next two years, then, Canadian policy-makers will be preoccupied with the U.S. trade negotiations. Europe will not be neglected, but its relative economic importance in Canadian eyes will continue to decline. €

Jeffrey Simpson is an Ottawa columnist for the Toronto *Globe and Mail*.

FARM TRADE: RETURN TO GATT URGED

MEMBER OF EUROPEAN PARLIAMENT SAYS PROVISIONS SHOULD BE REVISED TO COVER CHANGED CONDITIONS.

MARK CLINTON

Relations between the United States and the European Community have a number of jagged edges when we consider trade, in general, and trade in agricultural products, in particular. While the value of Community exports to the United States has increased since 1980, E.C. imports from the United States have shown little change, with the result that the E.C. had a trade deficit of $3.6 billion on its agricultural account with the United States in 1984.

Looking more closely at E.C. agricultural imports from the United States, we see that imports of soybeans, soya cake and other soy residues, which amounted to 15 16 million tons in 1982, had dropped to 8.7 million tons in 1984. The severe drought in 1983 affected U.S. production and increased prices, so that the Community has tended to seek alternative sources of supply in Latin America. Soy exports were also affected when quotas were imposed on milk production in the E.C., causing European farmers to use less concentrated feed. It is interesting to note that Community imports of corn gluten feed have shown a steady increase since 1980. Indeed, between 1983 and 1984, imports increased from about 3.4 million tons to 3.6 million tons, despite the high value of the dollar.

In view of the significance of international trade to both partners, it is important that it should be carried on with as few obstacles and difficulties as possible. The obvious forum is, of course, the General Agreement on Tariffs and Trade (GATT). However, it is rather difficult to write about GATT and agricultural trade when we all know that a major part of this trade is not covered by GATT provisions. In 1955, the United States obtained a waiver to enable it to continue its agricultural support program. On the E.C. side, the basic mechanisms of the Common Agricultural Policy (CAP), including import levies and export refunds, conform to the international obligations of the E.C. and, until now, have not been challenged in any basic way in the GATT.

Since the GATT was established, however, two fundamental developments have greatly affected agricultural trade. The first of these is the application of modern farming methods, which has caused agricultural production to soar. The result has been that production has tended to outstrip the markets available for some major agricultural products.

The second change relates to the expansionary economic policy followed by the U.S. Administration, which has led to considerable budget deficits and a growing trade deficit, while the value of the dollar has, until recently, remained high. So we have a situation where a high volume of imports is competing in the United States with home products, and many domestic producers who are in difficulties are pressing for protectionist measures to safeguard markets and jobs.

The E.C. is only too well aware, and sympathizes with the fact, that many American farmers, particularly in the Midwestern grain belt, are on the verge of bankruptcy. Yet most of the difficulties these farmers face stem from internal U.S. policy and from economic developments in the United States over which the E.C. has no control.

We, in Europe, are aware, however, that there are serious problems which cannot be ignored. There are surpluses of agricultural products, both in the United States and in Europe, seeking world market outlets which are limited. The E.C. is being accused of stealing U.S. markets by unfair means—that is, by the use of export refunds payable under the CAP. This argument is too simplistic. It ignores the assistance given by the U.S. government and the many financial incentives given to American agricultural exports. The Community will have spent somewhat less than $15 billion to support agricultural prices in 1985, against something less than $18 billion in the United States. However, we must avoid arguments about relative subsidy levels, which are both complicated and sterile.

It is more important in my view to point out how important agriculture is to the Community. While utilized agricultural area is four times greater in the United States than in Europe, the number of holdings in Europe is almost three times that of the United States. Moreover, the average area per holding is 10 times greater in the United States (160 hectares against 16) and the number of those actively engaged in agriculture per 100 hectares is eight in Europe, compared to one in the United States. European holdings are much smaller, farmers are generally poorer and the agricultural population is much more densely distributed than in the United States.

It is clear that for a number of major products, Europe produces more than it needs for its own use. There are surpluses of wheat, barley, sugar, beef, wine and milk products. Europe has traded in these products for many years and it is unrealistic to expect the E.C. to give up this trade and to cede its part of world markets to its competitors. The critics and reformers of the CAP have said that the E.C.'s products should be sold without subsidy on the world market at world market prices. To do this would mean aligning E.C. prices with those of its more productive competitors. That means taking New Zealand prices for dairy products, Argentinean prices for cereals, South African prices for sugar and Uruguayan prices for beef.

To do this in the foreseeable future would mean the destruction of European agriculture as we know it. To insist on such a change would not be only economically destructive, but also politically impossible. Nevertheless, efforts are being made to modify the CAP and to reduce agricultural surpluses. The E.C. Commission has recently made proposals which, if accepted in their totality, would mean the virtual freezing of support prices for agricultural products and co-responsibility taxes on farmers to help pay for the disposal of surpluses.

As politicians and realists, we know that in many areas there is a large gap between what is economically desirable and what is politically possible, or indeed socially desirable. Moreover, difficult political decisions are complicated in the

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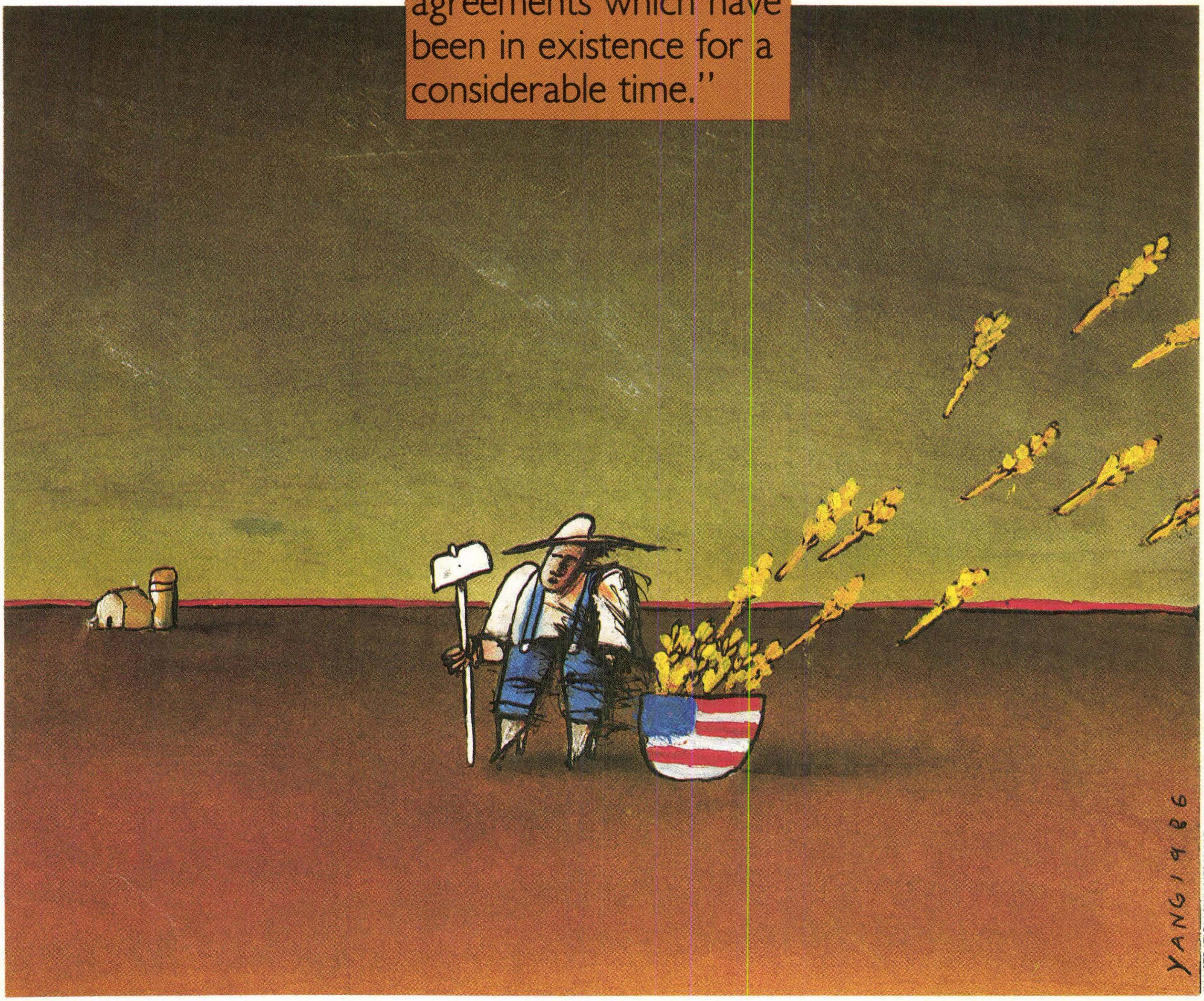
Community by the fact that, up to now, on important issues they have required unanimity among the member states. The more contentious the problem, the more difficult it is to get unanimity.

In spite of these difficulties, the situation as I see it is that a noose is gradually being tightened around the neck of the European farmer. Recent movements in agricultural prices have not been sufficient to keep pace with inflation. Milk quotas have been introduced which have led to a substantial drop in milk production and this measure has hit farmers who, with E.C. assistance, have been making strenuous efforts to improve their production and increase their efficiency. Now many of them find that having incurred large debts to modernize their equipment and production, they are told that this production must be frozen at a certain level, or they will have to pay heavy taxes. Moves are also afoot to increase producer levies on sugar and to introduce them for cereals, and to restrict the prices farmers are likely to receive for their produce. In general, farmers incomes in Europe are low and in my own country, Ireland, incomes dropped in real terms by no less than 17 percent, partly because of exceptionally severe weather conditions.

If restrictive measures are introduced and extended to other crops, it seems to me to be a recipe for putting farmers out of business. If you freeze a man's income when he is trying to grapple with inflationary pressures and high input costs, you are making it impossible for him to carry on.

We in Europe are aware of and sympathize with the plight of the American farmer in the Midwest who are at present going bankrupt. But it does not make sense to try to repeat this scenario in Europe. While changes are certainly necessary, they will have to be gradual and will have to take into account the needs of, and effect on, small farmers in Europe. Where there are agricultural surpluses and stagnating markets, it is inevitable that there should be a growing friction between exporting countries. These difficulties will not be resolved by engaging in moves which could precipitate a trade

"I have the impression that the GATT procedure for the settlement of disputes is being used less as a mechanism for conciliation and more as a means for carrying on a guerilla warfare against the Community's CAP and against special trading agreements which have been in existence for a considerable time."



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A FRENCH PROPOSAL ON MONETARY REFORM

"REFERENCE ZONES" AND GREATER INTERNATIONAL COOPERATION URGED.

JACQUES ATTALI

The following article is excerpted from a speech given in Washington D.C. at the U.S. Congressional Summit on Exchange Rates and the Dollar, November 12, 1985.

After 10 years of uncontested domination, in both theory and practice, by a floating exchange rate system, fundamental questions are now beginning to rise to the surface again. The United States has a foreign trade deficit which was brought about by an overly high dollar. At the same time, an internal deficit was allowed to develop because its impact on exchange rates had unfortunately been overlooked. These deficits now lead the majority of observers and actors to admit that the market forces do not constitute a system capable of redressing, without fail, imbalances.

Obviously, the challenge here is not an academic one. First of all because monetary decisions are, among all those that a society must make, the ones that are the most fraught with consequences that are "political" in the true sense of the word. Second, it is only by realizing this fact that we can avoid a fragmentation, on a worldwide scale, of financial and commercial markets and in the longer run a recession or a major inflation, either one of which would make both debtors and creditors more vulnerable. Finally, any monetary reform, if implemented, will have to be accompanied by other, even greater reforms in the internal economic policies of the various countries and in the thinking of their leaders.

With regard to these points, I would like to present several proposals grouped around four main themes. All that follows has been conceived and written in very close collaboration with President François Mitterrand himself. Therefore, this text is the reflection of his own thinking as well as mine.

First, there is no internal monetary system which is perfect in the absolute. A "good" system is never anything more than a relatively explicit reflection, at a given time, of the power struggle among the dominant economies; of the way in which national leaders see their country's interest; and of their ability to impose disciplines on themselves which are sometimes politically costly. This is what we have learned from the Bretton Woods experience.

Second, no international monetary system can substitute itself for domestic adjustments nor mitigate internal deficiencies. It can, on the contrary, make both worse by making them less painful.

The present system could be reoriented along the following four lines:
• more stabilized exchange rates,
• greater coherence between national economies,
• larger diversification of international liquidities,
• stronger international institutions.

This is what we have learned from 10 years of floating exchange rates.

Third, an international monetary system can be efficient only if it requires political leaders to make timely decisions which, economically speaking, will prove to be useful only much later, and for which, politically speaking, the government "pays" as little as possible. This is the foundation for a system that could be proposed for the future.

Finally, international monetary questions are inseparable from trade issues because control cannot be exercised over both systems at the same time. The one has to be managed in order for the other to remain open. This is the principle for the negotiations that need to be undertaken. . . .

The present international monetary disorder leads us to ask two questions to the government of the country issuing the key currency, in other words, the United States. First, in order to settle your internal debt, between tapping future income or resorting to inflation, which will be the choice of your country? Second, in order to settle your internal debt, between protectionism (which would only be sidestepping the issue while making the recession worse) or seeking a new international monetary system (which would lay the foundations for transcending the crisis by requiring courageous fiscal decision), which will your country choose?

It goes without saying that, in the eyes of the rest of the world, neither inflation nor protectionism would be compatible with the responsibility traditionally borne by the key-currency country, nor with its own long-term economic interests, nor with the requirements of world developments.

Together, we must then begin to seek practical ways of reconstructing a stabilized monetary system and do everything in our power to maintain a free trade system. Let me outline some proposals on this subject.

What Kind of New System?

First, a good international monetary system is one which motivates political leaders to make timely economic and monetary decisions that will prove to be useful only in the medium term, while having to pay as little as possible for such decisions in the short term.

Based on this approach, the present system could be reoriented along the following four lines:
- more stabilized exchange rates,
- greater coherence between national economies,
- larger diversification of international liquidities,
- stronger international institutions.

I should now like to develop these ideas.

Stabilized exchange rates

As it is unreal to return to the system set up at Bretton Woods, we must move

progressively toward a system where a certain stability in parities would coexist with necessary flexibility for taking into account the inevitable structural changes.

In a certain fashion, such a system already exists: it is the European Monetary System (EMS). For the last six years, it has worked fairly well, withstanding crises and assisting in the construction of Europe. I do not wish to recommend that it be transported on a worldwide scale. Indeed, on our continent, it is a concrete result of the very special political, economic and financial links that exist among countries with greatly overlapping economies, and also it corresponds to a particularly rationalistic view of the world. . . . a trait we French are apt to indulge in, perhaps more than others! But such a system can furnish us with ideas and inspire practices, albeit less ambitious ones, on a worldwide scale. Here is how.

Those countries whose currencies play an important role in the international monetary system would establish among themselves a grid of equilibrium exchange rates, reflecting their countries' real economic situation and a lasting profile of their balance of payments. This grid would allow for an element of uncertainty, which would be shown by a fairly wide fluctuation band around the exchange rates for the purpose of designating reference zones.

These reference zones would, first of all, be used as guidelines for a discreet evaluation of economic policies being practiced, and help in ascertaining how markets are responding to them. Our next move would be toward seeking an ever larger scope for consensus, then publishing these reference zones, going all the way to even more definite actions, such as intervening on the exchange markets, or shifting to economic policies designed to keep exchange rates within the limits of the reference zones. And, if necessary, we would have to make explicit modifications to these reference zones and the relevant economic policies. Such modifications would be very serious but not necessarily dramatic. Obviously such a measure raises numerous questions.

How would the equilibrium rates be calculated? The International Monetary Fund (IMF) calculates such rates for the countries subject to its adjustment programs. The problem is more complex for the countries whose currencies are widely traded on the markets. It would therefore be these countries' own responsibility to define their equilibrium rates and their zones of reference, in conjunction with the IMF and the other countries concerned.

How can one enforce these rates when the amount of funds traded on the markets is so much greater than the resources of central banks? True, it is said that capital movements in dollars are 10 times higher than what is needed in merchandise trade. One must bear in mind that financial markets thrive on instability because it creates opportunities for windfall profits. Operators themselves complain of a lack of precise guidelines on which to base their anticipations. The reference zones would answer this need. Furthermore, the amount of money likely to be used by the central banks to counter speculations has been fixed by swap agreements that have not been revised in a long time, and could be hugely increased. On this point, what we have been witnessing since September 22 demonstrates that the markets are picking up the signals sent to them and that joint interventions by central banks can provoke a change in the level of exchange rates.

[These reforms] assume that a permanent dialogue will take place between the countries of the North and the South, through the intermediary of existing institutions—the IMF, the World Bank and the General Agreement on Tariffs and Trade.

If we start with the present pattern of exchange rates, how can a grid of equilibrium rates, probably quite different, be drawn up? Obviously this is a difficult question and the answer can be given only gradually. In particular, in order to redress the American balance of payments, it would no doubt be necessary, according to certain American sources, for the dollar to drop to approximately half its value in February 1985. A lot has already been accomplished, but we still have some way to go. Therefore, transition will have to be gradual and managed by means of consensus among the principal countries concerned.

If the dollar drop is closely monitored, it will, in the end, reduce the debt burden of the Third World countries and the external debt of the United States, denominated in U.S. dollars. But such a drop can be durable only if it is accompanied by changes in internal economic and monetary policies and by a gradual management of international liquidities. The purpose of these measures would be to eliminate the major cause of the dollar's climb, namely the massive use of international capital to finance American deficits.

Greater coherence between national economies.

To give it permanence, it will be necessary that all consequences of the system be clearly accepted, in terms of domestic policies. To my mind, these consequences are of two types.

First, the stability of the reference zones implies that the economic and financial imbalances of each country will gradually be smoothed out. When a country begins to live on a footing which is draining others' savings, an alarm should go off, prompting it to rectify its economic policy at once. Ideally, each country should provide its own financing, through its own savings. This is, moreover, a point the U.S. Government constantly stresses, and rightly so, to the IMF....with regard to other countries!

Of course, I do not mean that an optimum worldwide economic system requires uniformity in policy planning, or in models of society, or in the choice of economic priorities; nor does it require simultaneous equilibrium in all balances of payments. Far from it. Each country can and must recover its own freedom of decision in the matter.

In particular, it is normal that the countries in the South receive, on a lasting basis, capital from the North, to finance their balance of payments deficits. Nor is it intolerable to let capital flow into one of the most developed countries for a time, if investments there prove to be more profitable. But it is necessary to proscribe systematic drains on world savings by one country, just in order to recover its current expenditure. In short, it is only by reducing the principal internal deficits that a stable international monetary system can be established.

On the other hand, the establishment of reference zones supposes that the governments concerned accept that their margin on economic maneuver will be limited by the existence of external deficits. So, in order to avoid any temptation to return to the illusory facility afforded by floating rates, it will be necessary to move toward a greater integration of international exchanges and a greater opening up of economies. This alone will create and generalize, in the public opinion, an awareness to the dangers of protectionism. To be explicit, it is only by being fully aware of the dire consequences that may result from a failure to cooperate that countries will be wholly prepared to accept the discipline of more stable parities.

Larger diversification of liquidities. Obviously, a system of parity management cannot suffice to solve the overall problem of managed creation of liquidity. The debt accumulated so far in the Third World is a distressing example of the magnitude of the problem. It is clear that one cannot allow capital markets to be the sole purveyors of international liquidity, granted only to those whose solvency has been defined by these same markets.

In fact, insofar as developing countries in particular are concerned, and taking into account the amount of their outstanding debt, the adjustment efforts may not be sufficient to convince the markets to start lending again. Moreover, it is unreasonable to expect those countries with the heaviest debt burden, and in particular the poorest ones, to build up their reserves again only through increasing their trade surpluses. This always leads to a freeze on imports, which is synonymous with halting the development that goes hand in hand with investments.

This is why we now need to contemplate a better composition and a better distribution of liquidities. To achieve this, several means must be used:

- For one thing, Special Drawing Rights (SDR) must play a bigger role. Already an important instrument in the creation and the distribution of international liquidity, it has to be used more. A significant complementary allocation, channeled to countries in the South, and supervised by the IMF, could be decided.
- The European Currency Unit (ECU) can and must increase its share in international liquidity. But this can only be decided by the vigor of these currencies and by policies chosen by their issuing authorities. In this forum, we need not go further into this. Furthermore, any incitement given to international banks to lend more to debtor countries is most welcome.
- Finally, international organizations must play a greater role in these capital movements. Since the play of market forces does not lead countries with a surplus to increase directly their loans to debtor countries, it would be advisable to increase the resources of international institutions—in plain words, the World Bank. More than just the World Bank, however, it is the total amount of official development aid which has to be substan-

Continued on page 48.

DO U.S. TAXPAYERS GET BETTER BREAKS THAN EUROPEANS?

OVERALL BURDEN COMPARES WELL, BUT DIRECT TAXES ARE HEAVIER.

JEFFREY OWENS

How does the overall tax burden in the United States compare to that in the other industrialized countries? Are tax levels increasing? How much money is left with the average taxpayer after the Internal Revenue Service and the Social Security Administration have taken their share? These are some of the questions addressed in the following article.

Two approaches are used. The first looks at aggregate tax levels and structures; the second examines direct taxes paid by a representative taxpayer. The comparisons use statistics compiled by the Organization for Economic Cooperation and Development (OECD), which groups together 23 major industrialized countries, including all the member states of the European Community. The statistics cover taxes paid to federal, state and local governments (many European countries have local income and property taxes) and compulsory social security contributions are regarded as a tax on earnings.

The most convenient way of comparing overall tax burdens is to examine the proportion of gross domestic product (GDP) accounted for by taxation. Chart 1 shows that within the OECD tax-to-GDP ratios range from 15 percent in Turkey to over 50 percent in Sweden. The highest taxed countries are Sweden, Denmark, Norway, France, the Netherlands and Belgium, while the lowest are the United States, Japan, Spain and Turkey.

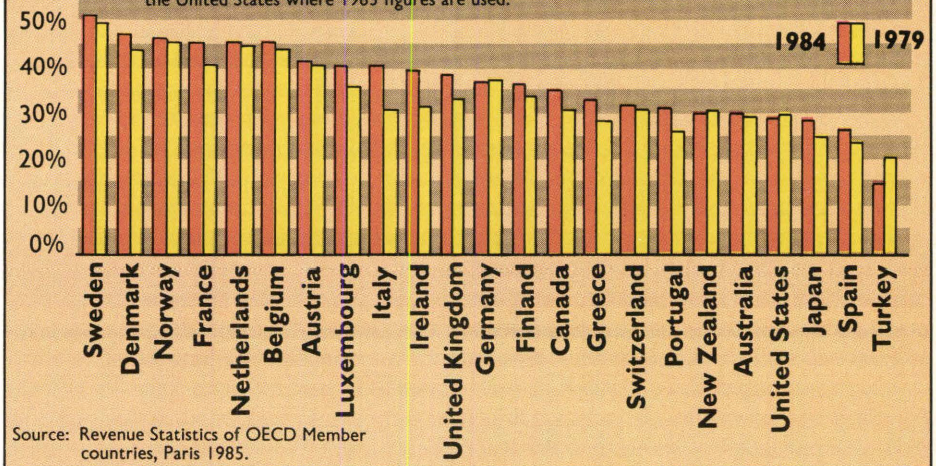
The average tax take in the OECD area is 37 percent of GDP. The equivalent figure for the E.C. countries (excluding Portugal and Spain) is 41 percent. The United States, which takes less than 30 percent of GDP in taxation, is a comparatively low-tax country. Japan is the only other major industrial country with such a low level of taxation.

The predominant trend during the last five years was for tax levels to increase, particularly in middle-ranking countries such as Italy, Ireland and the United Kingdom. Tax levels on average increased from 35 percent to 37 percent of GDP, though the increase was rather higher for the E.C. (from 37 percent to 41 percent). With the exception of the Federal Republic of Germany, the United States was the only major industrial country to experience a reduction in tax burdens over this period. Provisional estimates by the Department of Commerce suggest that this downward trend continued in 1985.

There are, of course, many problems in making such comparisons. Taxes, unlike elephants, can be difficult to define and to identify. When, for example, does a fee for garbage services become a local tax? Countries make varying uses of tax subsidies to implement policies. These tax expenditures reduce revenue, yet the degree of government intervention in the economy is much the same as if a direct expenditure were used. In some countries, such as Finland and Switzerland, sickness schemes are operated outside of government, yet employers have a legislative obligation to contribute to them. In many countries a large part of payroll taxes are *paid by* the government in its role as an employer. Should these taxes

CHART I OVERALL TAX BURDENS AS % OF GDP

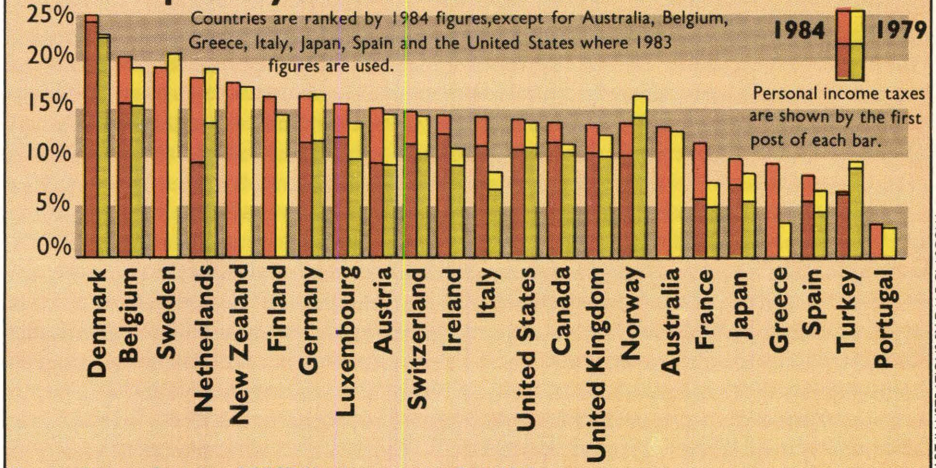
Countries are ranked by 1984 figures, except for Australia, Belgium, Greece, Italy, Japan, Spain and the United States where 1983 figures are used.



Source: Revenue Statistics of OECD Member countries, Paris 1985.

CHART II DIRECT TAX BURDENS ON INCOME

Income taxes + social security contributions paid by individuals as % of GDP



Source: Revenue Statistics of OECD Member countries, Paris 1985.

CHART ILLUSTRATIONS BY DALE GLASGOW

be included in tax burden comparisons? The OECD statistics include them, but a case could be made for exclusion (the Swedish tax burden would then fall from 50 percent to 45 percent of GDP!).

Interpreting international statistics on tax ratios is also difficult. What does it mean to say that Sweden is a high-tax country and the United States a low-tax country? Does it follow that the average Swede is in some way worse off than the average American? Perhaps some Americans would prefer to pay higher taxes if these were matched by a cradle-to-grave welfare system? Economists cannot provide any unambiguous answers to these questions, for any response must depend on how government uses the revenues and on whether incentives to work, save and invest are seriously distorted in a high-tax economy.

Sources of Revenue

All taxes are eventually paid by individuals either in the form of lower incomes or higher prices. Nevertheless, it is of some interest to examine which taxes bring in the most money. Though countries levy many kinds of taxes—France levies over 250 taxes—over the last decade around 85 percent of revenues usually have come from three main sources: personal income taxes, social security contributions, and value-added taxes (VAT) and sales taxes.

A comparison of the tax structure of the United States and of the "average" tax structure in the E.C. shows that the largest single source of revenue in both cases is the personal income tax, but whereas this tax accounts for 37 percent of revenues in the United States, it accounts for only 27 percent in the Community. The situation is reversed if general consumption taxes are compared. Europe places a far heavier reliance on these taxes than does the United States: 19 percent as opposed to 7 percent. Much the same applies for excise and other specific consumption taxes. Taxes on property, however, are almost twice as high in the United States than in the E.C.

As regards the other major sources of revenue, social security contributions are somewhat more important in the United States, whereas corporate taxes are less important. The main conclusion that can be drawn is that in comparison to the E.C., the United States places a heavier reliance on direct, rather than indirect, forms of taxation.

Chart 2 focuses on the level of personal income taxes and employees' social security contribution. These are the two main compulsory levies on earnings in the OECD. Personal income taxes vary from a low 3 percent of GDP in Portugal to a high 24 percent in Denmark, whereas employees' social security contributions vary from nothing in Australia, Finland, New Zealand and Sweden to 9 percent in the Netherlands.

If these two levies are added together, the United States moves from being a low-taxed country into the middle of the ranking. These taxes account for 14 percent of GDP in the United States, whereas in the E.C. the average proportion is 16 percent. During the last five years, these taxes have tended to increase, but in the United States they have remained more or less stable. However, these aggregate comparisons may mean little to the typical taxpayer.

A Representative Taxpayer

An alternative approach to comparing tax levels is to examine the tax bill of a representative taxpayer, the so-called average production worker (APW). An APW is defined as an adult working full-time in the manufacturing sector and receiving the average gross earnings of that group. The insert shows how the earnings and taxes have been calculated and the main limitations on the results. In most countries, personal income taxes are the single most important source of tax revenue. The method of calculating these taxes is similar in all countries. First, the tax allowances applicable to a taxpayer are deducted from gross earnings, the schedule rate is then applied and the resulting tax liability reduced by any relevant tax credits.

We can also compare the average rate of income tax applicable to a married couple with two children at the income level of an APW. In 1984, this rate ranged from over 30 percent in Denmark and Sweden to less than 1 percent in France. The U.S. rate was 15 percent, whereas the average rate for the E.C. was 12 percent, a result that may surprise some Americans (the average U.S. industrial wage in 1984 was just below $19,500 and on this income $1,640 was paid in federal taxes and $1,320 in state and local taxes).

During the six years covered by the chart, average tax rates increased in half of the countries, though the increase was significant only in Belgium, Ireland, Italy and New Zealand and the United States. Fiscal drag (sometimes referred to as "bracket creep") provides the main explanation for these increases. Only the Netherlands, Norway and Turkey—all relatively high-rate countries—experienced any noticeable decrease in average rates of income taxes.

Compulsory employee social security contributions are the other major determinant of take-home pay. Except for Australia and New Zealand, all OECD countries use social contributions to finance social benefits. For the most part the employee's share is levied on gross earnings, without any allowances for family situation. There is usually a ceiling on the earnings base, after which the marginal rate of contribution is zero. The employer's share is invariably larger than that of the employee.

If employees' social security contributions are added to personal income taxes we get a rough indication of how much money is left in taxpayers' pockets after the payment of these levies. Taken together, these two levies account for more than 35 percent of earnings in Denmark, Turkey, the Netherlands and Sweden, but less than 15 percent in Spain, Greece, France, Luxembourg, Canada and Japan.

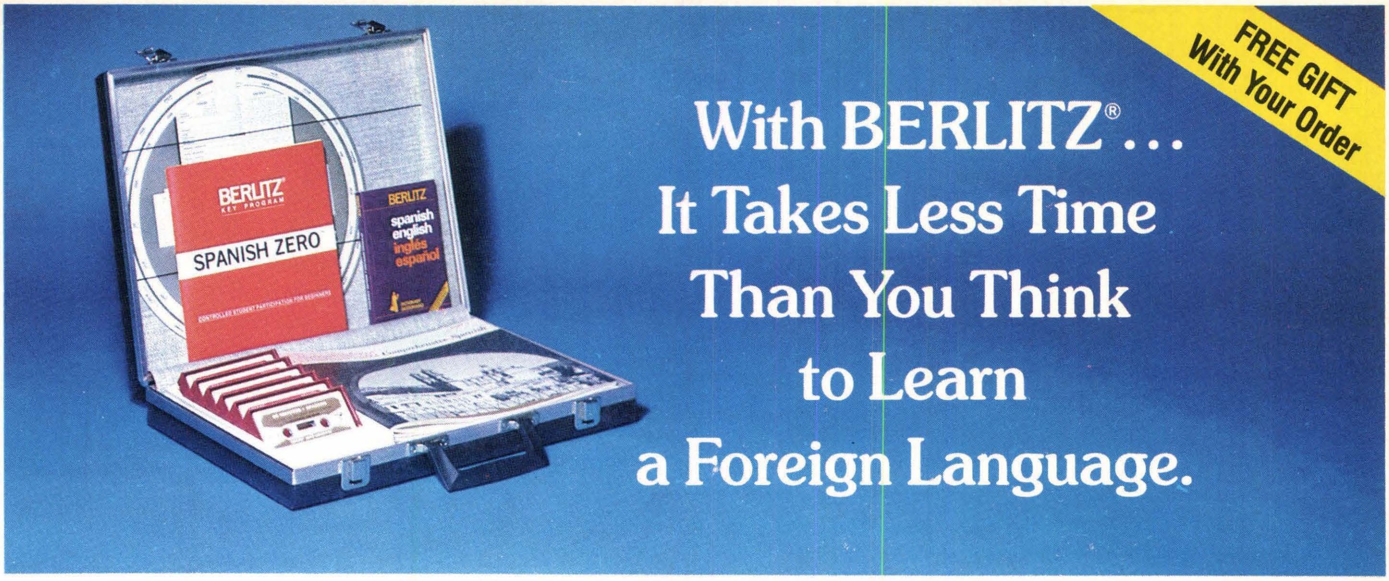
The United States, at 22 percent, is close to the OECD average, but a little below the average of the E.C. (25 percent). The typical U.S. manufacturing worker would take home more than 78 percent of his earnings, whereas his E.C. counterpart would be left with less than 75 percent. The European worker, however, would be eligible for cash family allowances which would be worth between 2 percent and 7 percent of his earnings and the employee would generally have access to subsidized state medical and welfare services.

Conclusions

The overall tax burden in the United States compares favorably to European tax burdens and is more or less in line with that of Japan. Direct taxes, however, are heavier, in part because E.C. countries have access to a buoyant VAT (all of the 11 top-ranked countries have a VAT).

At the APW income level, and given the assumptions set out in the insert, the U.S. worker pays a larger proportion of his earnings in direct taxes than the average worker in the Community. The current tax reform proposals in the United States, if implemented, would narrow this gap. It is unlikely, however, that statistics will convince U.S. taxpayers that they are not too badly off when compared to Europeans. Tax burdens have more to do with perceptions than reality, and, insofar as taxpayers perceive their taxes to be unfair—one of the criticisms addressed in President Reagan's tax-reform report—they are also likely to perceive them as being too heavy. €

Jeffrey Owens works in the fiscal affairs division of OECD. The views expressed in this article are his own, and in no way reflect those of OECD.



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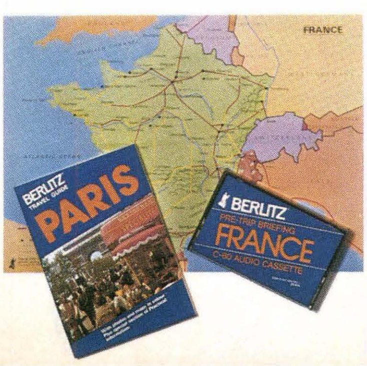

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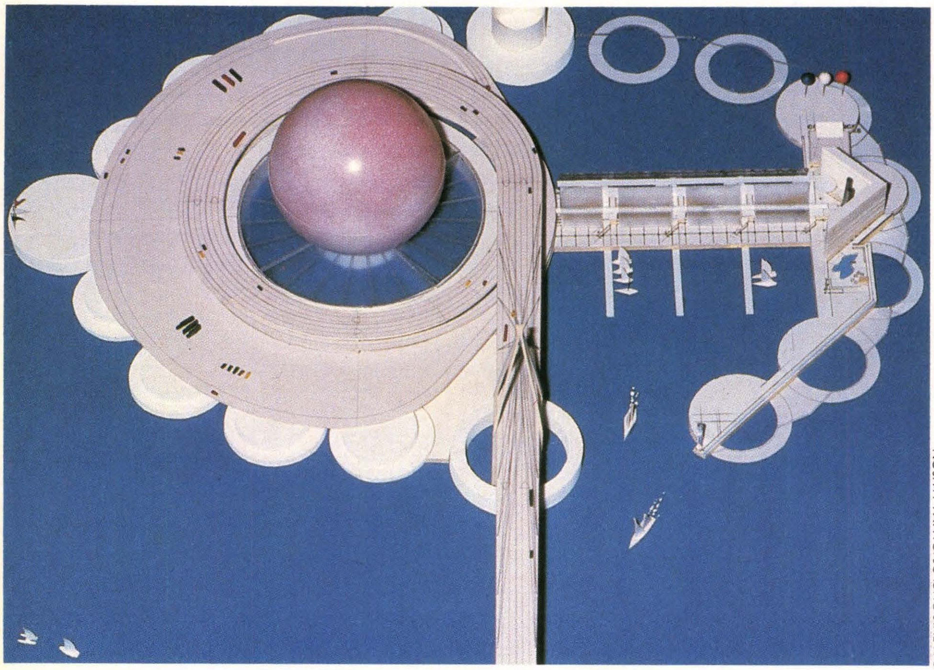

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The Euroroute project, one of the finalists not chosen, would have combined rail and road tunnels, at an estimated cost of $12.7 billion.

JOHN WYLES

If all goes according to plan, 1993 should see the fulfillment of an idea which has been fascinating men and women for at least 184 years. Then, passengers should step onto the soils of Britain and France having crossed for the first time under, not over, the English Channel.

The creation of this Channel tunnel will force an intimacy on an Anglo-French relationship traditionally fused more by respect than warmth. The two countries will be bound together by an underwater umbilical that was a gleam in the eye of Napoleon in 1802 when he first had a tunnel plan drawn. His interest tarnished the idea among the British for more than a century: The tunnel had its enthusiasts, but Governments resisted the project, believing that it would be a fatal flaw in the nation's defense.

Indeed, bringing the tunnel idea to fruition has always been more a matter of winning British hearts, minds and finances than French ones. A start was made on a tunnel in the early 1970s only to be halted by a public expenditure crisis that persuaded the then Government in London that it could not afford to go ahead with the scheme. Will the project agreed by Prime Minister Margaret Thatcher and President François Mitterrand at a joyful ceremony in Lille in northern France on January 20 have a better chance of success? Certainly, to the extent that it will not be dependent on government financing. At Thatcher's insistence, both Governments agreed that they would not even guarantee loans from the private sector, let alone provide public finance.

Apart from limiting the dangers of political second thoughts, this decision has proved ultimately crucial in determining which type of fixed link should bind Britain and France. If, as is intended, the private capital markets are to provide the finance, they must be presented with a scheme which is technically feasible and which promises sufficient profit to assure payment of debt and an adequate return on investment. Under such constraints, some people believe that the result was bound to be the "safest" and least ambitious project.

In comparison with its rivals, the Channel tunnel scheme adopted by the two Governments does appear safer and less ambitious. It provides for a twin-bore tunnel, 31 miles long, through which will pass only a railway link. All road vehicles will be loaded onto shuttles at terminals on both sides of the Channel, and then whisked under the sea at 100 miles an hour. The three other schemes all offered road and rail links: one on the basis of a 12-lane motorway bridge and single bore tunnel (Eurobridge), one involving a combination of tunnels (Euroroute) and one with separate road and rail tunnels (Channel Expressway).

The absence of a road link in the winning scheme submitted by the Channel Tunnel-France Manche Group (CTG-FM), worried both Governments since it appeared they were imposing a 20th-century framework on a 21st-century project. Of the two, France cared less about a road link, but was adamant on the need for a rail facility because of the opportunity offered to develop its "train à grande vitesse" (TGV) high-speed train network. This currently runs between Paris, Lille and Marseille, and will probably be extended to Brussels and Cologne. The British desire ultimately to have a road crossing as well was responsible for a condition of the award to CTG-FM which requires the group to come up with a road plan by the year 2000. After that, the franchise could be given to another developer.

CTG-FM had always been a favorite to carry off the prize because it comprised a credible group of Anglo-French sponsors and its scheme appeared the most technically and financially feasible. Its British sponsors include the National Westminster and Midland banks, the construction companies Balfour Beatty, Costain, Tarmac, Taylor Woodrow and Wimpey. French shareholders include Banque Nationale de Paris, Credit Société Générale d'Entreprises and Spie Batignolles.

The promoters estimated the cost of the scheme at $3.66 billion at 1985 prices, rising to just over $7 billion after allowing for interest charges and a provision of $1.41 billion to cover possible cost overruns. This compared with $12.7 billion for Eurobridge, about the same for Euroroute and $4.23 billion for Channel Expressways (widely regarded as a severe underestimate). More than 30 international banks are provisionally committed to provide more than $5.6 billion in development loans and CTG-FM plans to raise a further $1.41 billion in equity, including about $370 million in Japan and the United States.

The CTG-FM plan calls for the construction by the spring of 1991 of two rail tunnels connected by a central service tunnel. These will be bored at an average depth of 40 meters under the seabed. Each of the rail tunnels will be 3.7 meters in diameter and just under 50 kilometers in length, of which 37 kilometers will be under the sea. The rail shuttles, which will be privately owned, will be able to handle up to 4,000 vehicles an hour traveling in each direction on trains which will leave their terminals every three minutes at peak times. Six tunneling machines will work on each side of the Channel and more than 2,000 construction jobs should be created at each end.

Terminals will be built at Frethun, southwest of Calais in northeastern France, and at Cheriton, northwest of Folkestone, which is on the southeast coast of England. Journey times between the two terminals should be 30 minutes or just over an hour allowing ticket purchase, customs and immigration. (Customs procedures will be completed before people board the shuttles.) On the same basis, the shortest ferry crossing time varies between one hour 45 minutes and two hours 15 minutes.

CTG-FM says that prices will be competitive with whatever the sea ferries are then charging, and clearly competition will be intense. The ferry operators are possibly facing a mortal blow to their businesses, though they claim that a fixed link would find it extremely difficult to compete fairly on price. But they fear that, in order to survive, the tunnel must take a significant proportion of the ferries' business and that the tunnel operator would have to keep on cutting prices until this had been won—jeopardizing the ferries' own future in the process. CTG-FM estimates that the tunnel will take 45 percent, or 27 million people, out of a total demand of 67 million passengers in 1993, compared with 46 million in 1983.

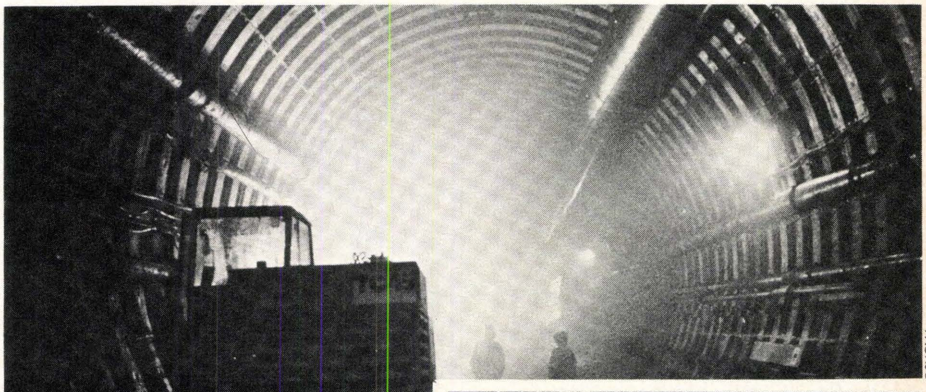
At the very least, the ferries claim that the tunnel will destroy all but the Dover-Calais link. James Sherwood, whose company Sea Containers led the Channel Expressway bid, claims that the ferries could not survive even a 30-percent loss of business to the tunnel. He has warned that Sea Containers will close its Sealink cross-Channel company the moment the tunnel is opened, making 2,600 workers redundant. The ferry companies have claimed that up to 40,000 jobs at ports and on the ferries could be lost through the tunnel—although the CTG-FM plan is seen as less costly than some of the other proposals. All in all, it is said that about 20,000 jobs will be created on both sides of the Channel in building the link and its equipment.

Judging by the debate over the last six months, the Channel tunnel is far more controversial an issue in Britain than in France. President Mitterrand imposed uncommon haste on the decision-making process because he judged that an announcement in January could do his Socialist Party nothing but good in the run-up to the crucial parliamentary elections in March. The tunnel should bring long-term development progress to the depressed northwest of France to offset the region's high unemployment rate and declining heavy industries.

By contrast, the advantages in the United Kingdom will be conferred on a region which is relatively prosperous and whose natural beauties have long earned the county of Kent its "Garden of England" reputation. Local politicians judged the CTG-FM rail link as the "least worst" scheme as far as damage to local amenities will be concerned. But critics include a coalition of environmentalists and local Members of Parliament worried about the impact on the local economy of the decline of ferry services. More generally, there has been much concern about the speed with which the entire project has been pushed through from the initial agreement in principle between Prime Minister Thatcher and President Mitterrand in November 1984.

Will the tunnel now be built? The necessary legislation should pass in Britain and France next year and then it will be up to the private sector to finance and construct it. If the two national economies remain as buoyant as they are now, and capital markets as liquid, then the scheme should get underway.

Completion, however, could be threatened by all kinds of unforeseen financial and other factors. The Governments have said they will not step in if the builders go bust. But with a tunnel half or three-quarters built, politicians on both sides of the Channel might be attracted, as Thatcher was attracted, by the thought that "our generation needs to do something exciting." €



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Already a gleam in Napoleon's eye as early as 1802, a pilot tunnel (right) was begun in the 1870s and extended one mile out to sea near Dover. Another start in the early 1970s (above) was ended by a British budget crisis which convinced the Government that it had to abandon the excavation. This time, the "chunnel" should be completed by 1993.

John Wyles is the foreign news editor of the *Financial Times* in London.

EUROPEANS WRESTLE WITH SURGE IN JAPANESE INVESTMENT

MANUFACTURERS BUILD PLANTS IN E.C. TO SKIRT TRADE BARRIERS.

AXEL KRAUSE

Behind stone walls in a field just outside the Alsatian village of Kientzheim, workers have been busy renovating a former parochial school that soon will open to children of about 100,000 Japanese families working in Western Europe. A cultural center is also being built for them in the nearby city of Colmar. Both symbolize the "Japanese invasion of Europe," which has emerged as a widely debated issue throughout the European Community and in Japan.

Although E.C. Commission officials and executives of some West European corporations grumble about the growing presence of the Japanese, towns and cities throughout Europe—including Kientzheim—are delighted because it means jobs and money. Equally pleased is Shoji Horie of Sony, one of Japan's largest consumer electronics companies, who recently visited Alsace to help prepare for the opening of another Japanese installation: a Sony plant, the third in France and sixth in Europe, which later this year will be built in the nearby town of Ribeauville.

"The school is an illustration of the kind of help and encouragement we are getting to establish ourselves in Western Europe," said Horie, adding that the plant will make compact disc players and parts for videocassette recorders for the West European market. Because the products will be manufactured in the E.C., the equipment will not be subject to Community duties ranging up to 19 percent of cost. Indeed, Sony's move reflects the underlying reason for the rush—skirting Europe's increasingly protective trade barriers directed at Japan. And like some 700 other Japanese companies and banks that have invested in Europe during the past decade, Sony is getting plenty of encouragement. "Some complain about the Japanese invasion," said André Klein, head of the region's economic development committee in Colmar, "but for us the school and plant reflect our determination to internationalize our region and create jobs."

Many of the largest companies, such as Sony, Honda and Nissan, also have invested in the United States and in Southeast Asia. Japan's investments in Western Europe, however, and particularly in the United Kingdom, the Federal Republic of Germany, France and Belgium, have risen faster than in other areas, and now represent about 12 percent of Japan's investments overseas. The performance record of those investments has been mixed. The largest companies report they are doing well, but many of the smaller ones have run into major difficulties in Western Europe. Their problems, which they dislike discussing with foreign journalists, center on a high turnover rate among local employees, including managers; difficulty in finding high-quality components; and an inability by some workers to accept Japanese industrial goals and methods, down to the calisthenics that traditionally are done to start the Japanese working day.

"We do have a problem in Europe communicating what we are trying to do," said Makoto Kuroda, a senior official of Japan's Ministry of International Trade and Industry (MITI). The communication problem, according to MITI, involves an inability by many Japanese companies to adapt their management methods to another culture. For example, at Europ-Pentel's pen factory in France, director-general Hiroaki Arai recently told the *Euro-Asia Business Review* in a rare interview in Japanese: "I don't understand [French workers] and they don't understand the company. Conditions for workers here are already too good, and they are still pushing for more money and more vacation." Or, as MITI concluded following a recent survey of the experiences of Japanese companies and banks in Europe: "Local employees, unlike Japanese employees, do not consider their work to be the center of their lives."

Nevertheless, the Japanese continue to come to Europe. About 200 Japanese manufacturing companies are exploring sites for new investments, primarily in the E.C., but also in countries such as Sweden which they had ignored previously. The Japanese are seeking to invest in banking and trading while exploring joint-venture partners in sectors where they have been weak internationally, such as pharmaceuticals, biotechnologies and telecommunications. The companies are being actively supported by the Japanese External Trade Organization, an agency of MITI that operates 18 offices in Europe.

Many are smaller newcomers that have had no previous experience in dealing with foreigners, but their goals are the same as the giants. "They are not coming here for the golf, the tea or for our blue eyes," said Jim Ivins, an official in the British Government's foreign investment agency. Consider the case of Nissan in Britain. Currently, the large Japanese automaker sells about 110,000 cars in Britain annually. In August, Nissan plans to begin assembling about 24,000 cars a year from imported kits at a new plant in northeast England—all under an import quota that limits the Japanese to 11 percent of the market. But a second plant is being planned for a nearby site, which will produce 100,000 Nissan cars by 1990, representing the largest single investment by the company outside Japan. The cost of the plant is estimated at about $450 million.

Because each car at the second plant will contain 60 percent to 80 percent British parts, rather than being made from the kits sent from Japan, the import quota will not apply. "E.C. limitations on Japanese car imports are a restraining factor in our expansion," said Mitsuya Goto, the U.S.-educated, London-based general manager of Nissan, noting that his company's move was strongly supported by British Prime Minister Margaret Thatcher, whose Government is offering grants and other aids representing about 30 percent of the total investment.

Japanese officials emphasize, however, that financial aid is rarely the deciding factor in direct investment, despite intense competition from job-seeking governments. Rather it is the quality of skilled workers and managers as well as their availability, generated by 11 percent unemployment in Europe: Sony, for example, selected Alsace after it narrowed the choice of sites to Austria, Wales and Germany. "We wanted French quality workers, mainly Alsatian women," a Sony

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executive said. The plant will employ 250 people initially, but the number could double within a few years.

The fact that Japanese wage rates now approach, and sometimes exceed, those in Western Europe, also helps explain the trend. Jean-Pierre Lehmann, an associate professor at the INSEAD business school in Fontainebleau, France, believes that the next big investment push will come in Spain, where average hourly wage costs in industry currently total 16.20 Deutsche marks, according to a recent survey by Germany's Dresdner Bank, which compares to the equivalent of 22.80 marks in Japan, 23 marks in France, 20 in Britain and 37.70 in the United States.

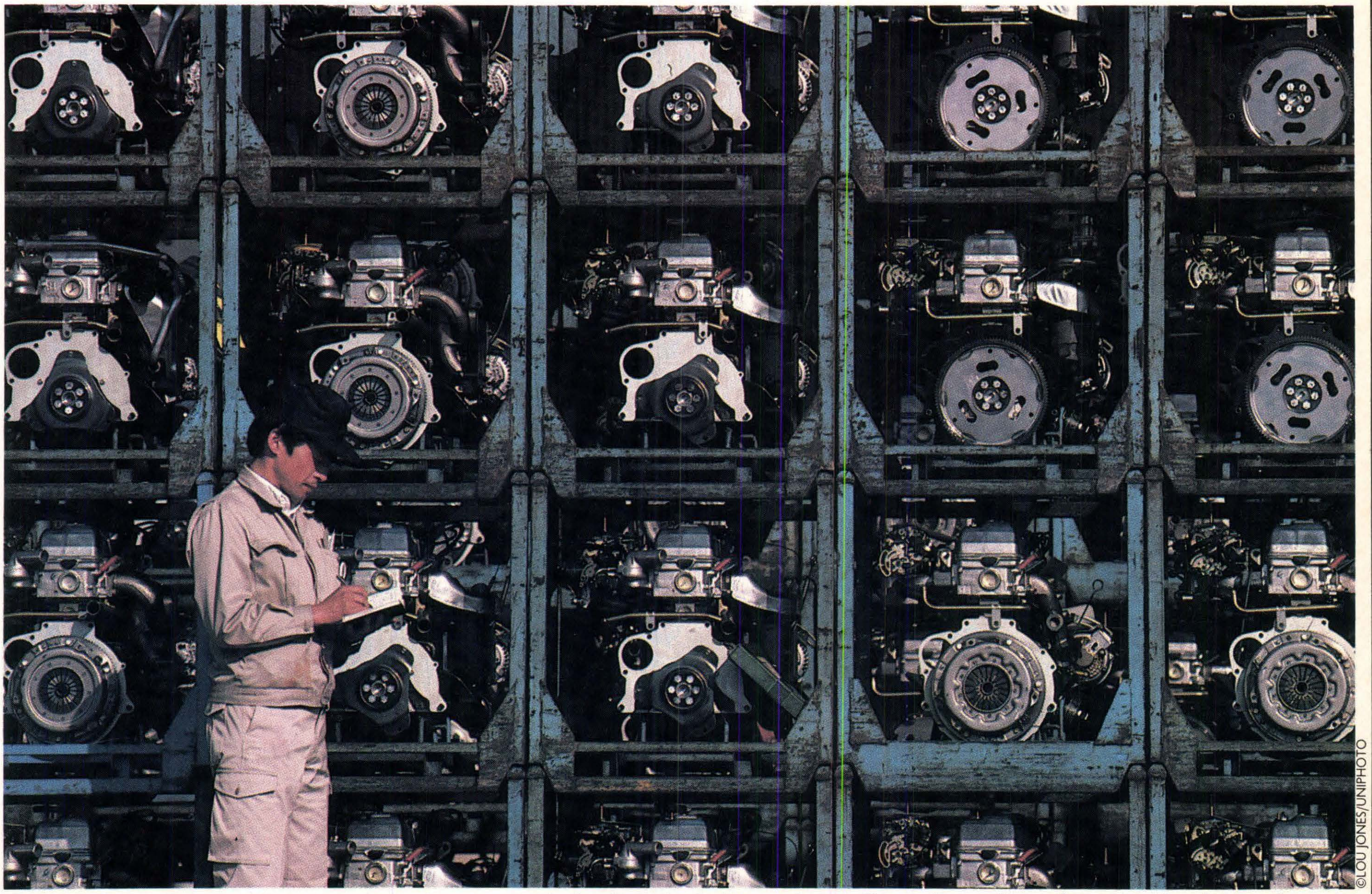
Despite the push and the controversy, the total book value of Japanese investments, even after roughly tripling in the last 10 years, remains modest: the equivalent of $7.7 billion in 1984 and an estimated $8.5 billion last year. Japan has invested nearly three times more in the United States.

Another sometimes-overlooked fact is that about 70 percent of Japan's exports to Western Europe still comprise mainly goods, rather than funds, services and, above all, technology. In other words, as E.C. officials repeatedly complain, Japan is still concentrating on machinery and components for its plants and finished products, rather than transferring its technology and research and development, as many American companies are. In the meantime, with Japan still rebuffing many efforts to open its markets fully to imports and investments from the West, more and more Europeans are asking whether Japan can be kept from always winning. The answer is "yes," but an extremely qualified "yes" based on two factors.

First, according to many businessmen, analysts and politicians, many of the advantages Japanese companies have traditionally enjoyed at home, aside from low wages, are eroding: an undervalued currency and strong protectionism. Second, and more important, West European companies and Governments, with strong backing from the E.C. Commission, are applying what one official terms "bootstrap methods—learning to pull ourselves up." These methods are mainly drawn from Japan itself. "We are looking at the Japanese experiment closely, and now, we're hitting back at the Japanese by using their methods," said Hans Tuyt, a senior executive at Philips N.V. of the Netherlands, Europe's largest electronics company. "In our industry, with the help of the E.C., we want to survive."

But Europe has a long way to go. Japan saw its merchandise trade surplus with the E.C. rise to a record $12 billion in 1985, roughly double the surplus five years ago. E.C. investments in Japan are still just under $1 billion, which is far below the $3 billion of U.S. investment in Japan. About 11 E.C.-based companies, banks and regions, including Alsace, maintain offices in Tokyo or other major Japanese cities, and they employ about 1,900 people. By contrast, Japanese companies maintain about 750 offices in the E.C., employing nearly 24,000 people, according to MITI.7

E.C. officials in Brussels who deal with Japan say that Europe's poor showing stems from Japan's long-established obstacles which will remain formidable. "The Japanese investments in Europe start with great advantages, such as unexploited locations, nonunion labor, generous government financing and the like," said Leslie Fielding, the Commission's director-general for external relations. Europeans enjoy none of these privileges in Japan, he said in an interview in Brussels. The picture for E.C. investors and traders, Fielding continued, "is one of permanent, horrendous difficulties—with little signs of willingness to change," citing red tape and what he described as



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About 200 Japanese manufacturing companies are considering factories in Europe in an effort to boost domestic-content levels in such products as automobiles. Here, engines are prepared for shipment at a Mitsubishi plant in Japan.

"consistent favoritism shown to Japanese companies." Fielding, formerly the E.C.'s Japan representative, quickly added that the E.C. was counterattacking, notably with increased tariffs on imported videocassette recorders and imposition of anti-dumping duties on a wide range of other Japanese exports, ranging from land excavators to electronic typewriters.

Meanwhile, the E.C. Commission, Governments and trade associations, clearly following the example set in the United States, have told Japanese manufacturers opening plants in Europe that they must buy at least 45 percent of their products' parts from local suppliers. And the Commission is accelerating its push in high technology in sectors where the E.C. is stronger than Japan, or where Japan has made little impact outside its borders, including advanced microelectronics, software, office automation and telecommunications. "It is a bit like MITI's approach, in which we have targeted the Community's cooperation program," said Michel Carpentier, director-general of the Commission's task force on information and telecommunications technologies. "Thus, we keep up the pressure."

Increasingly, West European companies are seeking to penetrate Japan through investments with Japanese partners, although, as in the case of investment flows, the figures to date show a very lopsided picture. In 1984, according to MITI surveys, only 1,100 business executives from E.C. countries traveled to Japan with visas for stays of as long as three years; about 8,350 Japanese executives were moved by their companies to the E.C. and they now comprise growing Japanese communities in London, Düsseldorf, Geneva and such isolated spots as Ribeauville. Nevertheless, such companies as Philips in the Netherlands, Thomson of France, Siemens of Germany, France's state-owned chemical company Rhône-Poulenc and France's nationalized metallurgical company Pechiney have started joint companies in Japan and several dozen other companies say they are planning similar moves.

The Japanese are not unresponsive to the pressure and are challenging the E.C. anti-dumping duties in the European Court of Justice. "These actions and other forms of criticism regarding our trade imbalance, are unjustified, one-sided and exaggerated," said Hideo Kagami, Japan's Ambassador to the E.C. in Brussels. His deputy, Yoshikiko Saeki, speaking in blunter terms, said that "the real problem with the E.C. is that they want the fruit, but do not want to grow the plant." And that, Saeki emphasized, "is unacceptable to our Government."

Most of Western Europe's industrial leaders agree that the protectionist measures can at best provide what Henk Bodt, also of Philips, described as "breathing space," while hitting back. For example, Bodt said that until recently, Japanese television makers in Britain were relying exclusively on parts made in Japanese-owned plants in Ireland, Scotland and Germany. "We decided to fight back for that market," he said, noting that the first step was the long and costly process of obtaining certification in Japan to allow the plants to use Philips parts. "It took well over a year to get the approval from the industry authorities in Tokyo," Bodt said, "and if we had not moved, those Japanese companies in Europe would still be using Japanese components. Now they are among our best customers in Europe." Philips is also fighting in Japan's back yard: the Dutch company expects to announce shortly a joint venture in South Korea to build 500,000 videocassette recorders annually for the U.S. and Japanese markets. It is also expanding a videocassette research center in Japan.

Rhône-Poulenc is among a handful of West European companies that have established successful joint ventures with Japanese companies, primarily in petrochemicals, pharmaceuticals, fine chemicals and metallurgy, sectors in which Japan is relatively weak. Yet the joint ventures have been no bonanza. The company reports that both sales and profits in Japan remain modest compared to other international markets where the company operates, such as the United States. And Rhône-Poulenc has faced a headache common to most West European companies in Japan: hiring and keeping good local managers.

Gilles Barbier, president of Rhône-Poulenc Japan, said he spent a year and a half looking for a computer specialist. "Six months after we hired him, he left," Barbier said. "It wasn't the money—in Japan, it's socially somewhat unacceptable for a Japanese executive to work for a Western company. How can you get around that obstacle?"

The Japanese have been trying to help. For example, MITI and retailers in Japan have organized frequent seminars and trade fairs, designed to help Europeans center on the Japanese market, and they have been held both in Europe and in Japan. But E.C. officials with long experience in dealing with Japan remain deeply skeptical. Fielding, commenting on the trade fairs in Tokyo, termed them "embarrassingly inadequate—compared with the real problems." €

Axel Krause is the economics correspondent of the *International Herald Tribune* in Paris.

E.C., JAPAN DISCUSS PROBLEMS

E.C. Commission President Jacques Delors and Japanese Prime Minister Yasuhiro Nakasone met in Tokyo on January 21 for "in-depth, serious discussions" on E.C.—Japanese relations and the world economic situation. The two leaders reviewed the multilateral situation with the May 1986 economic summit in mind, and noted that exchange markets should be calmer this time around than during previous summits.

On bilateral questions, Nakasone took some time to explain Japan's efforts to correct the trade imbalance that exists between the E.C. and Japan. The imbalance, which has worsened over 1985, should start to decrease in the second half of 1986, said Nakasone, with equilibrium a clear goal for the future.

President Delors recognized the efforts that have been made, adding that more needed to be done in several areas. On the macro-economic front, he said, there should be higher growth both in Europe and Japan and that this would contribute to solving both world issues and the bilateral problem. On the opening of the Japanese market, Delors noted that if Japan could increase its imports of manufactured goods as a proportion of GNP from its current 2.9 percent to something closer to the E.C.'s 6.2 percent, this would be a good sign. The E.C. is still in favor of import targets, which it proposed originally at the ministerial consultations last November.

On Feb. 18, E.C. diplomats said the Community may take action against Japan in the next few months if it fails to satisfy its trading partners of its earnestness in cutting widening trade imbalances. This was the main conclusion of a discussion on relations with Japan by E.C. Foreign Ministers.

The ministers had their first look at the Commission's proposal on import targets. Delors had reported that Japan was cool to the idea, but some ministers reiterated their demand, with France especially calling for retaliation if Japan fails to set specific figures on an agreed range of products while Germany argued against using such a weapon.

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DENMARK

THE RELUCTANT EUROPEANS?

LEIF BECK FALLESEN

In terms of purchasing power, the Danes are the wealthiest people in the European Community. Since Denmark joined the E.C. in 1973, the Danes have seen a net inflow of Community funds amounting to several hundred million dollars a year, contributing to this envied position. Not without bitterness, E.C. diplomats in Copenhagen have called this massive transfer of income a reverse form of Robin Hood's actions—taking from the poor of the E.C. and giving to the rich.

At the European Council meeting of E.C. Heads of Government in Luxembourg last December, reforms to the treaties establishing the E.C. were agreed upon. They included streamlining the decision-making process and giving the European Parliament more weight. The Danish Parliament, however, subsequently rejected the proposed amendments, and a popular referendum on the question was set for February 27. The Parliament is not constitutionally obliged to abide by the result, though the Government and the major opposition party, the Social Democrats, have publicly declared their intention to do so.

At the start of the campaign, the polls indicated that the Danes would vote yes on the amendment to the E.C. treaty, and the events leading to the referendum certainly merit closer study. If nothing else, Denmark provides a good case study of how essentially national, even parochial, party politics can upset the timetable—though certainly not the course—of European integration.

The Danes have never been noted for their love of European integration. The referendum of 1972 was won on bread-and-butter issues, with two thirds of the voters saying yes and one third no. The Social Democrats, then as now Denmark's largest political party, had strong reservations on the issue of sovereignty, and the party has been consistent on this ever since, with the very grudging acceptance of direct elections to the European Parliament as a case in point. Fairness dictates that this be pointed out, though it provides little enlightenment on the root causes of the situation.

The Social Democrats are not isolationist in the traditional sense of the word. This is hardly possible in a country which derives more than 40 percent of its gross national product from foreign trade (versus 12 percent for the United States). After World War II, the party dropped its pacifism and accepted Danish membership in the North Atlantic Treaty Organization (NATO). But the change in policy was a conscious decision by the party leadership, rather than a response to pressure from the rank and file. In the case of NATO, the party leader and later Prime Minister, Hans Hedtoft, force fed the party's national committee the arguments needed to clinch the issue.

In the 1960s, and the beginning of the 1970s, the party leadership decided in a similar manner that Denmark should become a member of the E.C. The issue was so controversial, however, that within the party and trade unions, the Social Democrats demanded a referendum to decide the issue. The major non-Socialist parties feared this could jeopardize membership in the E.C.

On the E.C. issue, the strong convictions, and the strong personality of the Social Democratic Prime Minister, Jens Otto Krag, played a key role. He believed that Denmark belonged in the E.C., whether or not the majority of the Social Democratic voters understood the need. When Krag left office following the referendum—and before he was named head of the E.C. Commission's Delegation in Washington D.C.—he taught political science at the University of Aarhus, with the author of the present article as one of his humble students.

Krag once quoted an internal party poll which had shown a clear majority against Danish membership of the Community. He commented that defense and foreign policy are too important to be swayed by fragile and volatile party majorities. This still does not explain why so many in the Social Democratic Party are against the E.C. or, for that matter, NATO. The best answer available seems to be that the party and trade-union members fear that any loss of sovereignty will undermine the many benefits of the welfare state and the very high wage levels of most Danes. For a smaller number, dislike of Germans and fear of being culturally colonized also play a role. Add this to a fear of any change whatsoever, and the numbers start to add up.

Many Social Democratic voters undoubtedly have been confused by events over the past few months. The tradition of strong party leadership has not been upheld. In fact, the leadership of Anker Joergensen has virtually ceased to exist. One political pundit commented that Joergensen has proved that there is a life after death in politics, even if there is not in the real world.

This rather unflattering epithet reflects on the fact that Joergensen, supported by Svend Auken, until now considered his most likely successor, had in December said yes to the treaty amendment. Both have excellent relations with the trade unions—Joergensen is a former head of the unskilled workers trade union—and most of the unions considered the advantages of the amendments to be larger than the disadvantages. Even the supreme interpreter of the sovereignty issue, former Minister of E.C. Affairs Ivar Noergaard, did not initially reject the amendments. However, party and trade-union tensions then erupted, both between the two traditional pillars of the labor movement, and within them.

Within the party, the battle of succession became open warfare. Led by Ritt Bjerregaard, a very sharp and attractive contender for leadership, and, somewhat to his own surprise, Ivar Noergaard—a longtime critic of Anker Joergensen—there suddenly arose a situation, where a majority of the parliamentary party eyed a chance to get rid of the governing Conservative-Liberal coalition by forcing its hand too far on the E.C. issue. As one insider said, there were three majorities: one against party leader Joergensen, one against Prime Minister Poul Schlüter, and one for the Community.

Normally the trade unions have powerful strings to pull within the party, and Auken is usually considered close to the

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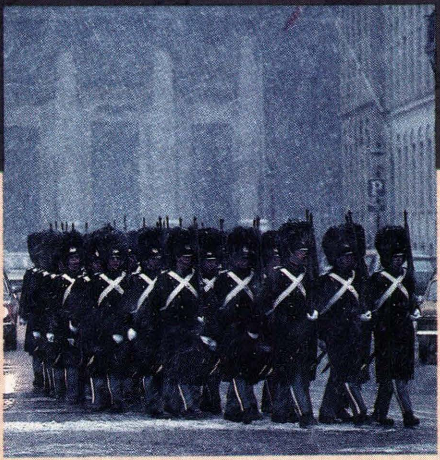

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The Social Democrats, Denmark's largest party, have long had reservations about E.C. membership over the issue of sovereignty. Counterclockwise, from top: Copenhagen, the Royal Guards and the Egeskov castle on the island of Funen.

unions. The trade unions experienced their own leadership crisis, however, and they retracted public statements supporting the treaty amendments that would allow majority voting to implement the provisions of the internal market—getting rid of barriers to trade is a number one priority of Danish industry.

The Government had already accepted the fact that it does not completely govern Denmark—when it comes to E.C. policy—by going to the Luxembourg summit without a mandate and arguing for changes in the treaty amendments—especially on environmental policy, as demanded by the Social Democrats, and on guarantees that the European Parliament would not in fact receive substantially new powers under the reforms.

This is probably a unique case of a Government asking for something it does not particularly want—and getting it. The Social Democrats seemed surprised. The first reaction was, as mentioned, positive in the party leadership, but then, over Christmas, the rebellion against the party leadership gained momentum and succeeded.

Prime Minister Schlüter again showed some of the political acumen that has made him one of the most successful politicians in the Community. He called for the so-called voluntary referendum, after a brief consultation with the heterogeneous Radical Liberal Party which supports the Government on economic policy, but not on defense and the Community. Social Democrats were caught off balance. They have said that they will respect the outcome of the referendum...if the Government does the same. The Government responded that this was the whole object of the referendum. Now the voters have had to solve for a second time what is basically a Social Democratic dilemma. The first time, the party leadership recommended a straight yes. This time, however, it was no. €

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"THE NEW PAINTING" IMPRESSIONISM 1874-1886

NATIONAL GALLERY SHOW RECREATES ORIGINAL EIGHT EXHIBITIONS.

JANET RENSHAW

Thanks to museums and private collections around the world, the "fleet" of painters which Edmond Duranty, the 19th-century French novelist and critic hoped was "fit for a long voyage" in 1876 has arrived in magnificent form at Washington, D.C.'s National Gallery of Art. It is in Washington until April 6 and then in San Francisco from April 16 through July 6. "The New Painting: Impressionism 1874-1886" is a joint venture sponsored by AT&T with the Fine Arts Museums of San Francisco.

So much has been seen in "theme" and "solo" exhibitions around the world that one could be forgiven for thinking: "not another Impressionist show!" But this one is different. For the first time, an exhibition has been mounted to give us a bird's-eye view of the eight original exhibitions held in Paris between 1874 and 1886 by the avant-garde painters themselves. The result is a deeper understanding of those dedicated and all-too-human pioneers of the modern movement, and we see them warts and all.

The old favorites, Claude Monet, Berthe Morisot, Camille Pissarro, Jean Renoir, and Alfred Sisley are there. So are Edgar Degas, Gustave Caillebotte, Paul Cézanne and some forgotten names including Zacharie Astruc, Ludovic Piette, Stanislas Lépine, Alphonse Legros, Jean-François Raffaëlli, Felix and Marie Bracquemond, and Fédérico Zandomeneghi (a delight in the fourth exhibition with his portrait of Diego Martelli, 1879). Mary Cassatt is well represented and the heralds of post-impressionism, Paul Gauguin, Paul Signac, and Georges Seurat make their impact in the room devoted to the eighth exhibition. What this survey of those 12 turbulent years reveals is the large umbrella the exhibitions provided for an amazing array of artists and styles. What was their common interest? It was to paint truth, to turn their backs on the official Salon and to branch out daringly on their own.

COURTESY NATIONAL GALLERY OF ART

The original Impressionist exhibitions also contained sculpture, such as Edgar Degas' "The Little 14-Year-Old Dancer."

In 19th-century France, the Salon was able to maintain its barrier of prejudice against artists who did not meet the approved standard of formal "history" painting. The formidable power of the Salon's deeply traditionalist jury strengthened the resolve of a group of young renegade artists to assert their independence. The creation of a Salon des Refusés by Napoléon III in 1863 and 1873 as an attempt at liberalism was unsatisfactory, and no one wanted the stigma of refusal on their work. Establishing an exhibition independent of the Salon was a brave, but risky stand.

The lack of proper identity or guiding philosophy behind the first exhibition in 1874 is evident in the choice of title for the group. "Société Anonyme des Artistes, Peintres, Sculpteurs, Graveurs, etc." hardly has the bite of revolutionary zeal, but their cogency came from a desire to show the world as it really is: full of color, sunlight, and movement. They saw the world as transient, sad, hopeful, and yet irresistibly attractive, not as a heroic place draped in artificial light and viewed through an aestheticized lens.

"New Painting" is a relief map of the group's weaknesses and strengths. The photographic quality of Caillebotte comes over powerfully with his "Floor-scrapers," 1875 and 1876, in the second exhibition. His "Paris Street, a Rainy Day," 1877, (third exhibition) makes the busy scene of Piette's "Market Place, Pontoise," 1876, in the same room, static by comparison. We fall in love all over again with the intimacies of Parisian life in Renoir's "The Swing," 1876, and delight in the belching steam and noise of Monet's "theme" paintings of the Gare Saint-Lazare. There are some surprises: Odilon Redon's "The Secret," 1886, and the almost pre-Raphaelite quality of Bracquemond's "Woman in White," 1880 in the fifth exhibition. To walk through these separate galleries is to reconsider the term Impressionism.

The first exhibition in 1874 was the start of a turbulent association fraught with factionalism and disagreement. When it opened in Nadar's vacant photographic studio on the boulevard des Capucines, it did not produce a great deal of public attention (3,500 visitors as opposed to 450,000 at the Salon that spring), but it did cause a minor earthquake in the art and literary world. Critics and cartoonists had a heyday, but, as Paul Tucker reminds us in the excellent catalog which accompanies the current exhibition, more critics liked the show than not. It was the start of a movement which survived despite constant defections back to the Salon. Even at the time of the eighth exhibition in 1886, the group's independence was a major distinguishing factor, with Pissarro and Monet the main protagonists.

The previous year, Paul Durand-Ruel, the group's most ardent patron, had pioneered a market in the United States by organizing a large exhibition of Impressionist painting for the American Art Association. Monet was worried to see some of his best canvasses leave France and "did not want to sell in the country of the 'Yankees'." The truth was that art dealers had become powerful arbiters of taste and, to the avant-garde, just as important as the Salon jury.

The organizers of the final 1886 exhibition succeeded in divorcing the show from the Durand-Ruel galleries. It opened above the Maison Dorée restaurant at 1 rue Lafitte, and received notoriety in one respect: the inclusion of newcomers, Signac and Seurat. The latter's scientific pointillism technique in "La Grande Jatte" (regrettably not in the present exhibition) was the sensation of the show. The post-impressionist movement was born. Ironically, "independence" and "impressionism" seemed no longer to be live issues. Today the paintings tell us their own story.

The mastermind behind this 1986 "New Painting" show—a title taken from the terminology used by Duranty in his essay on the second exhibition—is Charles Moffett, curator of paintings at the Fine Arts Museums of San Francisco. In 1974, he presented a paper at a Smithsonian symposium entitled "The Redefinition of Impressionism" which led to the idea of a centenary celebration of the last of the eight group shows. With a team of gifted researchers, he embarked on the daunting task of tracking down hundreds of paintings mentioned in the original catalogs of the eight exhibitions. It was something scholars had never tried before.

Charles Stuckey, curator of modern painting at Washington's National Gallery of Art, praises the generosity of lenders and the enormous help received from collectors, dealers, scholars, museum professionals and relatives of the impressionists on three continents. "What the whole exercise served to underline was the scale of the undertaking. At every turn we became extremely humble and mindful of the art historical significance of the evidence we were uncovering."

One of the greatest difficulties was conflicting information. The original catalogs were vague: "Portrait" could be one of several, no canvas sizes were marked, and terminology of mediums had changed significantly over the years. Some paintings were unsigned; others no longer existed. Degas, for example, did not always deliver his paintings on time and yet they were listed in the original catalog.


COURTESY NATIONAL GALLERY OF ART

The present exhibition contains 150 paintings from 94 different collections, including the National Gallery of Art's "In the Dining Room" by Berthe Morisot.

He often improved his canvasses or destroyed his work after the exhibitions, thus rendering initial records unreliable. However, there were strokes of luck such as Moffett's discovery of a lost Morisot—"Portrait of Madeleine Thomas," first exhibition—which turned up unexpectedly in a London art gallery.

Personal correspondence and contemporary press accounts, however, proved the most reliable evidence in the great detective hunt. Caillebotte, whose specific titles and press accounts made his work easy to identify, is the sensation of this exhibition. "His loans are easier to arrange," says Stuckey "probably because his work is less vaunted than most painters of that period."

"The New Painting" is a scholarly journey through Impressionism. There are some gaps. I, for one, would have liked to see Cézanne's "A Modern Olympia," which was called "a nightmare" by a critic of *L'Artiste* in a review after the first exhibition of 1874. Monet's "Impression: Sunrise"—which led to the movement's label—was too fragile to travel and now, sadly, has been stolen from the Musée Marmottan. Moffett himself admits that Sisley is disappointingly represented. "Given another six months or a year, one could have served him better."

"The New Painting" is still a glowing triumph. It enables us to see the broad intellectual range of Impressionism—who will forget the 20th-century acrylic quality of Degas' "Laundresses Carrying Linen in Town" in the fourth exhibition? It certainly whets our appetite for the opening of the Musée d'Orsay in Paris next December when 19th-century French painting finds its new home across the river from the spatial restrictions of the Jeu de Paume.

Janet Renshaw is a freelance writer based in Washington, D.C.

NEWS OF THE E.C.

From left to right: Commissioners Abel Matutes, Antonio Cardoso e Cunha, Jacques Delors (President) and Manuel Marin Gonzalez.

E.C. COMMISSION EXPANDS AND REORGANIZES

The E.C. Commission, the European Community's executive body, expanded and reorganized in January as two Commissioners from Spain and one from Portugal took their seats, following the formal entry of the Iberian countries into the Community on January 1, 1986. The new Commissioners are Antonio Cardoso e Cunha of Portugal, and Manuel Marin Gonzalez and Abel Matutes of Spain.

Antonio Cardoso e Cunha, a member of the Social Democratic Party, has held several positions in the Portuguese Government and was elected in 1983 and 1985 to the Portuguese Parliament. Born in Leiria in 1933, he has served as Secretary of State for Foreign Trade (1978), Secretary of State for Transformer Industries (1978-79), and Minister of Agriculture and Fisheries (1980-81). Cardoso e Cunha will take over responsibility for fisheries in the Community.

Manuel Marin was Spain's Secretary of State for Relations with the E.C. from 1983 to 1985. Born in 1949, he is a member of the Socialist Party (PSOE) and was elected in 1977 and 1982 to Spain's Congress of Deputies, where he was a member of the Foreign Affairs and Defense Committees. He has also served as assistant to the General Secretariat of the Socialist Group in the European Parliament, and is a member of the Consultative Assembly of the Council of Europe. Marin will assume responsibility for social affairs and employment, and for education and vocational training.

Before joining the Commission, Abel Matutes was a member of the Spanish Parliament and vice president of the Alianza Popular, Spain's main conservative opposition party. Born in 1941 in Ibiza, he was Mayor of that city from 1970 to 1971, served in the Senate from 1977 to 1982, and was elected to the Congress of Deputies in 1982. He will take over responsibility for credit, investment and financial instruments, and for policy on small and medium-sized businesses.

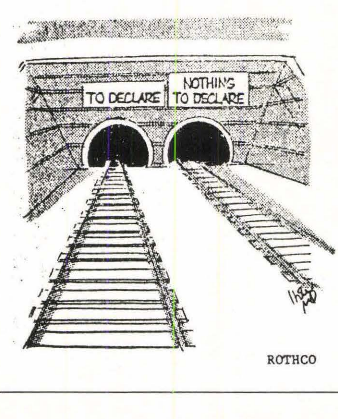
E.C. WELCOMES CHANNEL LINK

The E.C. Commission has enthusiastically welcomed the decision announced on January 20 by President François Mitterrand of France and Prime Minister Margaret Thatcher of the United Kingdom to give the go-ahead to the construction of a tunnel beneath the English Channel (see page 26). Such a link, the Commission believes, will encourage trade within the E.C., stimulate employment and strengthen the E.C.'s technological capacity.

Speaking on behalf of the Commission, Stanley Clinton Davis, the Commissioner responsible for transport policy, said that the effects of the decision would be profound. "The new link," he noted, "will have an impact far beyond the frontiers of the two member states directly involved, presenting new opportunities and also new challenges which must be faced by the Community as a whole."

The Commission has long supported the construction of a fixed link. Its commitment to the project was indicated by its involvement in the 1979 study on the implications of a fixed link for the Community, and its support for the banking group study into the financing possibilities for a new project, which published its findings in 1984.

Now that the decision has been taken, the Commission will be discussing its implications for the Community's transport network with member states under the existing consultation procedures.



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While difficulties may arise for certain sectors of employment and for some regions, the overall effect on jobs will be positive. Ways must be found for easing the social and economic transition when difficulties do appear, and the project's impact on the environment must be taken into account from the start.

"It is no good building the link now and worrying about the environmental consequences later," said Clinton Davis. "Consequently there must be no secrecy about any adverse effect, particularly environmental. Only in providing all relevant information can constructive measures be taken to allay any fears."

Stressing the importance of the channel link to Europe's future, Clinton Davis observed that the decision "must be seen against the wider Community background. The project will change the economic geography of Europe. We must see to it that it works in the interests of the peoples of Europe."

E.C. AGRICULTURE: THE 1985 REPORT

The Commission has recently published its Report on the Agricultural Situation in the Community in 1985, a study which reviews farm conditions over the past year and discusses both the implications of enlargement on the Common Agricultural Policy (CAP) and reforms to the CAP undertaken over the past year.

The favorable conditions European farmers enjoyed in 1984 deteriorated in 1985, due primarily to bad weather in many regions. Crop production fell short of 1984 levels both of volume and quality (cereals down 6 percent, tomatoes down 11 percent, potatoes down 9 percent, and wine down 13 percent), and milk production declined by 5 percent in line with the objectives set under the milk quota scheme. Meat production (except beef), however, increased from 1 to 2 percent.

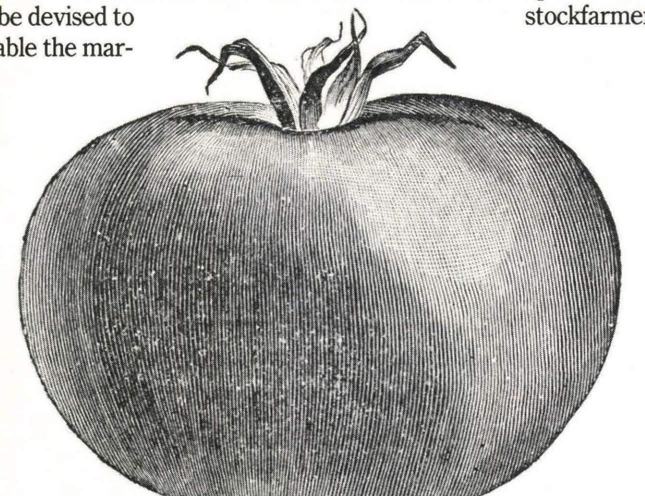
Overall, management of the markets for key products is still fraught with difficulties as production continues to outstrip consumption. Intervention stocks continued to rise last year, becoming the main problem in the day-to-day management of the markets.

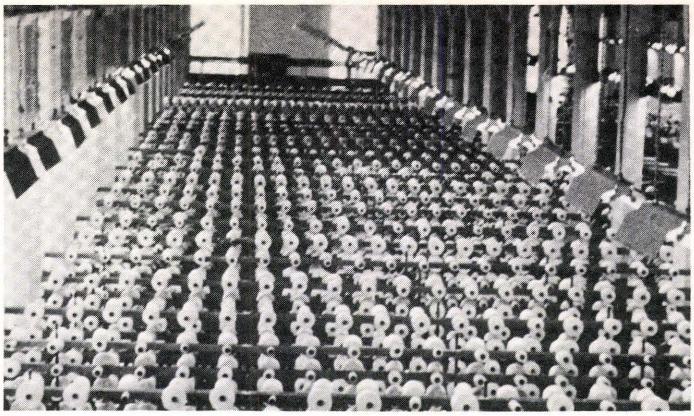
Agriculture again contributed in 1985 to curbing inflation, as farm product prices rose more slowly (by 2.7 percent) than general prices (5.1 percent) in almost all the member states. A new development was that farmers' input prices rose by only a very small margin (1.6 percent); the very pronounced slowdown in these prices could, if continued, help improve farm incomes. Farm incomes were, however, lower in 1985 than in 1984, mainly because the harvests failed to match the record levels that were achieved in 1984.

Outstanding among the major events of the year was the completion of negotiations on the enlargement of the E.C. to include Spain and Portugal, an event that means substantial changes for Community agriculture. Mechanisms have had to be devised to enable the markets for sensitive products to be gradually integrated on both sides, and appropriate action has had to be taken to assist reorganization for those products and the development of those regions which are liable to face particular difficulties.

Enlargement presents a challenge for the running of Community agricultural policy, but there are other serious problems as well, many of which arise from the growing imbalance between supply and demand. Despite efforts at reform in recent years, intervention stocks remain at a level of more than 9 billion ECU (about $7.65 billion). A number of important decisions on reform of the CAP were taken in 1985, however; the Council adopted the instruments concerning the new market organization for wine, the new arrangements for sugar, and the prohibition from 1988 onward of the use of hormones in livestock farming. The Commission also began in 1985 a major policy study on the medium- and long-term "perspectives" for the CAP. It submitted the results of this work in a document listing a number of guidelines and viewpoints for the future development of the policy, which was used as the basis for a wide-ranging consultation of all those involved in farming and of the Community institutions.

The Commission also presented two memoranda, one concerning a substantial review of the cereals market organization, and one on intervention and aids to specialized stockfarmers.





Textile trade was discussed, with the E.C. proposing that the MFA be liberalized.

TRADE ROUND TALKS IN SAN DIEGO

Trade ministers from the United States, the European Community, Japan and Canada met in San Diego on January 16-18 for informal talks on trade designed to clarify positions on issues of current concern, particularly the new round of multilateral trade negotiations in the General Agreement on Tariffs and Trade (GATT). A consensus was reached on the necessity of getting the new round started by the end of the year, and of working on issues of substance during 1987.

The Community, represented by Willy De Clercq, the Commissioner responsible for external relations, continued to play a conciliatory role between the positions of the developed and developing countries, as it has since the discussions on a new round began. De Clercq particularly stressed the importance of "confidence building measures" designed to reassure developing countries that a new round is in their interest. These measures consist primarily of respecting "standstill" obligations (which call for no new protectionist measures) and "rollback" objectives (which are designed to dismantle existing protectionist measures). De Clercq noted that, unfortunately, not all industrialized countries have abided by their declarations in the OECD, at economic summits, and in the 1982 GATT work program. The E.C., he stressed, has not taken any new protectionist measures, and has also accelerated its tariff reductions negotiated during the Tokyo Round. The credibility of the developed countries and of the new round was at stake, he said, and special efforts needed to be made in the coming months.

The question of trade in textiles was also discussed, and De Clercq noted that the Commission had proposed that the next Multi-Fibre Arrangement (MFA) be made more liberal and flexible in its application, while the U.S. seems to be adopting a more restrictive attitude. "We can't on the one hand ask for free trade, and on the other close our markets," said De Clercq. "It isn't logical."

Other subjects addressed included the question of protection of intellectual property, which includes the growing problem of counterfeits. The E.C. is "cautious" on this issue, De Clercq noted, as it believes the problem needs more study. The Community believes, however, that no country, whether developed or developing, sees any moral justification in counterfeit products, and is hoping a code in this area can be arrived at.

Questioned on the so-called "pasta war" between the U.S. and the E.C., De Clercq noted that the dispute was an illogical consequence of the dispute over preferences the E.C. gives to some of its Mediterranean neighbors, and recalled the similarity of the European policy to that the U.S. pursues in the Caribbean through the Caribbean Basin Initiative.

E.C. INFLATION: HITTING NEW LOWS

Figures recently released by Eurostat, the E.C.'s statistics agency, indicate that the Consumer Price Index (CPI) rose by only 0.3 percent between November and December 1985, bringing the 12 month inflation rate to 5.2 percent, the lowest level in years. Inflation in the Community of 10 was 5.5 percent in 1984, 7.2 percent in 1983, 8.5 percent in 1982, and 11.7 percent in 1981.

CPI increases for the month were moderate in most of the Member States, between -0.2 percent in the Netherlands and +0.2 percent in Luxembourg; the exceptions were Italy, where prices went up by 0.7 percent, and Greece, where a 3.3 percent rise brought the annual inflation rate there to 25 percent. For the new member states the corresponding annual rates are 16.8 percent for Portugal and about 8 percent for Spain. Inflation ran about 3.2 percent in the United States over the same period, about 4.0 percent in Canada, and 1.7 percent in Japan.

Following an increase of more than 150,000 new jobless in December (owing largely to seasonal factors), the number of registered unemployed in the Community (excluding Greece, Spain and Portugal) rose to 12.9 million at the end of 1985. There was an increase of more than 365,000 jobless from 1984, or a rise of some 3 percent. While increases were reported in Italy (+8.9 percent), Ireland (+7.7 percent), France (+3.7 percent) the United Kingdom (+3.5 percent) and Germany (+1.8 percent), unemployment declined in Denmark (-10.9 percent), the Netherlands (-7.5 percent), Belgium (-6.3 percent), and Luxembourg (-4.0 percent).

ENERGY: E.C. INITIATIVES CONTINUE

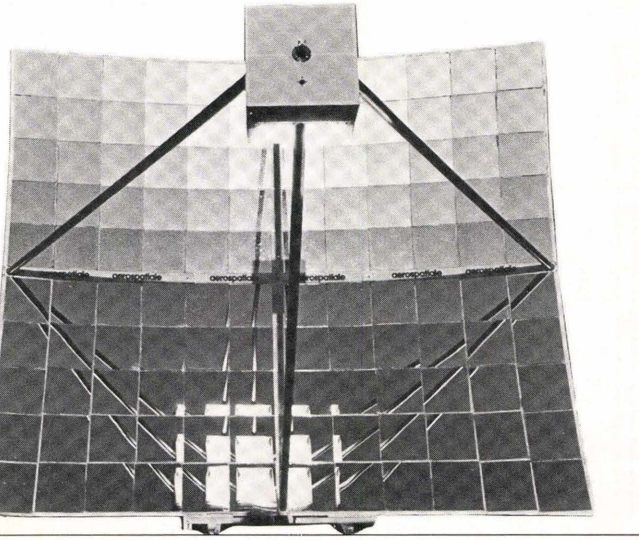
The thrust of the European response to the oil crises of the 1970's has been to develop new energy sources while increasing conservation of available energy, and those efforts are continuing despite the recent decline in the price of crude oil. The development of alternative, renewable sources and substitutes for hydrocarbons must continue, the E.C. Commissioner responsible for energy, Nic Mosar, said recently. He affirmed the Community's commitment to exploiting wind, solar and geothermal sources of energy for Europe.

Accordingly, the Commission recently approved 204 more energy projects to which it will contribute 102 million European Currency Units (ECU), or about \$85 million. Alternative energy sources account for about half the projects, with the largest number (38) in the solar energy field. About 60 projects are now being funded for energy conservation efforts, especially in industry, and others are focusing on gasification of solid fuels, the exploitation of biomass and wind energy, and the substitution of hydrocarbons with solid fuels and electricity.

The energy demonstration program, which will continue until 1989, was begun in 1979 and since that time has funded more than 800 projects, making it the most important program of its kind in the world.

Unlike the situation in the United States, nuclear energy remains a mainstay of the European energy scene. Nuclear energy furnished over 353 billion KWH for the Community in 1984, or some 27 percent of its total electricity production. In the U.S., by contrast, nuclear power furnished only about 13 percent of the total. Nuclear energy production was increased by over 28 percent in 1984, as compared to an overall electricity increase of only 5 percent. The E.C. has halved its dependence on imported oil to 30 percent from 62 percent in 1973; the current goal is to meet up to 10 percent of the Community's needs from new energy sources by the end of the century.

The E.C. is committed to exploring new technologies in solar power.



FUSION ENERGY AGREEMENT SIGNED

A major international agreement between the European Community, the United States and Japan for cooperation in the field of research on controlled nuclear fusion was signed in Munich on January 15, 1986. The agreement brings together the three largest tokamak-type experimental fusion devices in the world: JET, which has been built at Culham in the United Kingdom as part of the E.C.'s fusion program; TFTR, which is installed at Princeton, New Jersey; and JT-60 at Naka-machi, Japan. As described in the agreement, the cooperation between the three centers will take many different forms, including more extensive exchanges of information and researchers, joint preparation of certain research programs, joint organization of symposia, and so on.

The term "tokamak" is of Russian origin and means "toroidal magnetic chamber." It describes the configuration of the vessel in which the fusion process takes place. In the current state of research, physicists generally consider it more than likely that the feasibility of fusion will be demonstrated in a tokamak, and generally take the view that such a demonstration is possible in the large second-generation tokamaks such as the ones involved in the agreement. This, in fact, is what makes the cooperation agreement so important: it makes it possible to further consolidate the most advanced concept in the nuclear fusion field.

For the E.C., the agreement represents the possibility of retaining and strengthening the position it now occupies in the forefront of the field, the result of 20 years of sustained effort. It is in line with the Community's firm policy of international cooperation in the fusion field, which has already produced a number of bilateral agreements with Sweden, Switzerland and the United States.

Controlled thermonuclear fusion, if it could be achieved in satisfactory operating conditions, would constitute a virtually inexhaustible source of energy, but such a prospect remains in the distant future. Research currently underway is aimed merely at demonstrating the scientific feasibility of fusion, namely the possibility of bringing about a fusion reaction that produces more energy than is required to make the reaction itself.

The fusion reactions that appear most promising are those involving two isotopes of hydrogen: deuterium and tritium. Fusion of the deuterium and tritium nuclei produces a nucleus of helium while releasing a high-energy neutron, which can be decelerated in a heat-producing process that can be used to generate electricity.

U.S. STEEL MOVES PROVOKE E.C. RETALIATION

A new skirmish has broken out in the often contentious area of trans-Atlantic steel trade with a decision by the E.C. to impose on February 15 retaliatory measures against certain U.S. imports. The move to cut back imports of American fertilizers, coated paper and animal fats was taken in response to unilateral American measures on December 30 to restrict imports of semifinished steel products from the Community.

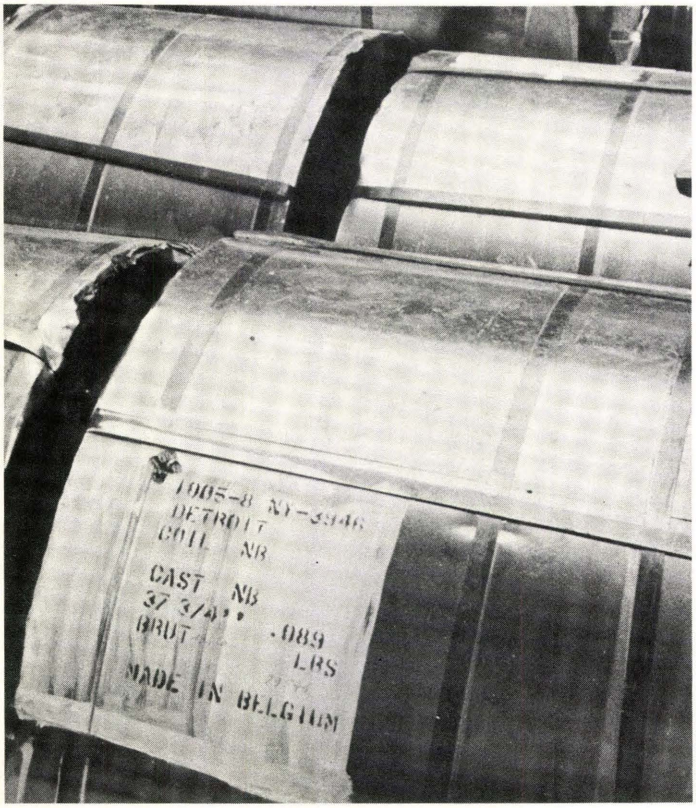
"We regret having to take these measures," Willy De Clercq, the E.C. Commissioner responsible for external relations and trade policy, said in Brussels. "We were forced to do so by the unilateral nature of the American measures, contrary to the steel arrangement concluded last October 31."

Trans-Atlantic steel trade remains troublesome despite the signing of the four-year agreement last fall between the U.S. and the Community limiting E.C. steel shipments to about 5.5 percent of the American market. The scope of the pact was broadened last year to cover a number of products not covered under the previous 1982 agreement, but rather than subjecting semi-finished goods to quantitative restrictions it continued to consider them as "consultation products," which could be discussed should E.C. shipments to the United States increase significantly. The United States announced in December that imports of semi-finished goods from the Community would be limited to 400,000 net tons a year from January 1, 1986 through September 30, 1989, with an additional 200,000 net tons a year allowed entry for allocation as specified by the U.S. Administration.

E.C. exports of semi-finished steel to the United States in the last two years averaged over 800,000 net tons. The Community will suffer an estimated trade loss of $48 million annually because of the U.S. measures.

The Community's restrictions, which do not apply to exports to Spain and Portugal, will affect about $43 million in U.S. trade a year. Based on 1985 import data, they will result in annual import reductions of 23 percent for fertilizers, 20 percent for fats, and 8 percent for coated paper. The restrictions will remain in effect until November 15, 1989.

The E.C. will suffer an estimated trade loss of $48 million annually because of the U.S. measures.



E.C.-COMECON DIALOGUE TO RESUME

Relations between the European Community and the member states of Comecon, the East European economic bloc, entered a new and promising stage in January with the Community's decision to resume negotiations on establishing official ties between the two trade groups. In letters to Comecon's secretariat-general and to each of the European member states of the group (Poland, Czechoslovakia, the German Democratic Republic, Hungary, Romania and Bulgaria), the E.C. Commissioner responsible for external relations, Willy De Clercq, confirmed the E.C.'s willingness to take up the dialogue and to eventually establish official relations with Comecon. One of the E.C.'s major objectives, De Clercq noted, "is to improve economic and political relations in Europe."

Signs of a change in the stalled talks have been surfacing in recent months. Preliminary negotiations toward an accord between the E.C. and Comecon were begun in 1977, but broke off in 1980 over Comecon's insistence on including commercial clauses in the agreement and on creating a mixed commission to supervise all bilateral relations with Comecon member states. As Comecon has neither a common commercial policy nor any instrument of such policy, however, the Community could not accept such a position, and the talks stalemated for several years.

Indications have since been growing that Comecon was interested in renewing the dialogue. Soviet leader Mikhail Gorbachev expressed an interest last May in seeking new economic relations and in finding a "common language" with the Community in international affairs, and Commissioner De Clercq shortly afterward confirmed that the E.C. "remained open to the possibility" of a renewed dialogue.

The new E.C. letters come in response to a letter last September from Comecon Secretary General Viacheslav Sytchov to the E.C. calling for the establishment of official relations. While noting that the E.C. shared this goal with Comecon, De Clercq also called for a global approach to the normalization of bilateral relations between the Community and each of the European Comecon states; as bilateral relations may develop in different areas and different speeds from country to country, the content of the letters from the E.C. to each of the Comecon states was different.

E.C. INTENSIFIES FIGHT AGAINST TERRORISM

Foreign Ministers of the Twelve stepped up their efforts to combat international terrorism in late January, when, meeting in Brussels to discuss the problem, they moved to establish a permanent working body to promote and monitor common action against terrorism, to set up visa and border controls, to increase security at airports, ports and railway stations, and to continue to fight the problem of abuse of diplomatic immunity.

The ministers also agreed to ban the export of military equipment to countries that support terrorism, and to try and prevent their citizens and industries from taking commercial advantage of anti-terrorist sanctions.

"The Twelve," ran a statement issued by the Foreign Ministers, "condemn all forms of international terrorism, the perpetrators, accomplices and instigators as well as the governments that support them. Such terrorist attacks can never be justified and do not serve whatever political cause the perpetrators claim to be assisting."

Rozanne Ridgway, U.S. Assistant Secretary of State for European Affairs, told a House Foreign Affairs subcommittee on January 31 that she welcomed the decision by the Twelve not to export arms to countries which support terrorism, noting that "the most important new point is that we and our European partners are now thoroughly engaged in a consultative process on how best to meet the challenge posed by terrorism supported by Libya and by other states."

Europeans have had more—and more painful—experience with terrorism than most other Western countries. Groups like the Red Army Faction in the Federal Republic of Germany, the Red Brigades in Italy, Action Directe in France, and the Combatant Communist Cells in Belgium have conducted hundreds of attacks on civilians and NATO targets in recent years, and European countries have frequently been the scene for terrorist actions by non-European groups as well.

Accordingly, the problem has occupied a priority spot in European discussion. Following the death of a young policewoman at the Libyan Embassy in London in 1984, E.C. Foreign Ministers in December of that year agreed on a set of measures designed to strengthen cooperation between the member states, and discussed taking common action should any E.C. state suffer a similar terrorist attack.

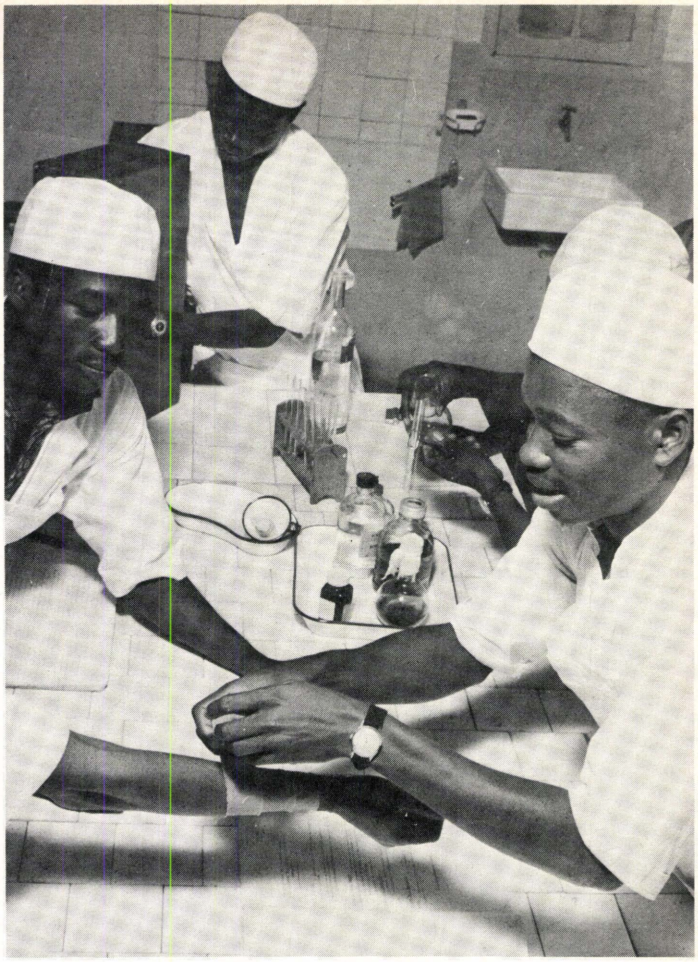
Efforts to come to grips with the problem continued through 1985. At a conference of U.S. Congressmen and Members of the European Parliament at West Point, N.Y. last June, an anti-terrorism resolution was adopted that called for "joint and effective steps" to combat the problem. Many individual European countries have adopted national anti-terrorist policies, and France and the Federal Republic of Germany agreed in February 1985 to set up an "operational group" to coordinate national efforts. The E.C. Commission has also called for action on a European level; Lord Cockfield, the Commissioner responsible for the internal market, told the European Parliament last year that "It is not enough to deplore terrorism—as we all do. Where we have powers, we should exercise them. Where we have no powers we should press upon those who do have the powers to act and to act vigorously and in cooperation."

COMMISSION PROPOSES ASBESTOS POLLUTION MEASURES

Asbestos, a material commonly used in a variety of building materials, floor coverings, industrial textiles and brake linings, has been found in recent years to be a hazard to human health. Simply inhaling minute quantities of asbestos fiber can severely damage lung tissues, and in response to the widespread threat to public health the European Community has been addressing itself to the problem since 1973.

Today all European countries have controls over the use of asbestos, but only France and Germany have taken measures to limit atmospheric pollution from the substance. The Commission, believing that the atmospheric threat must be taken seriously, has prepared a Europe-wide directive aimed at controlling such pollution and curbing the emission of asbestos fibers without raising production costs excessively.

The new directive, which complements existing legislation designed to protect workers exposed to asbestos while at work, sets a limit of 0.1 mg of asbestos per cubic meter of air or water which can be released during the manufacture of asbestos cement products, vinyl flooring, asbestos-based textiles and friction materials. It also lays down provisions regarding the use of asbestos, the demolition of buildings and the disposal of asbestos wastes; disposal sites must be equipped to prevent fibers escaping into the air, and all waste must be quickly covered with a layer of protective material.



E.C. aid to Africa includes medical assistance.

E.C. AID: AFRICA, POLAND, CENTRAL AMERICA

The E.C. Commission has announced a number of emergency aid measures in recent weeks, including:

- 2.5 million ECU (about $2.1 million) in emergency medical aid to the Polish people, to be distributed by the church in Poland. While the food situation in that country has improved slightly, hospitals are very short of basic medical supplies and instruments as well as special food. The E.C. has extended aid to Poland since 1981, and has channelled emergency aid—much of it food for the poorest sections of the population—through nongovernmental organizations for distribution by the Charity Commissions of the Polish Episcopate. This aid amounted to 41 million ECU (about $35 million) between 1982 and 1984.
- 8 million ECU (about $6.5 million) for medical aid as well as seeds, equipment, staff and transport needed to restore agricultural rehabilitation and recovery in Angola and Mozambique, two countries still in a critical situation.
- 19.5 million ECU (about $16.6 million) for food, medical supplies and transport in Ethiopia and Sudan.
- 2,500 tons of cereals for victims of recent typhoons in Vietnam, to be distributed by the World Food Program there. The Commission last year gave 500,000 ECU (about $420,000) and 2,200 tons of food to Vietnam, which is facing serious famine conditions.
- 1.41 million ECU to finance a self-sufficiency program for displaced people in El Salvador, who now number about 500,000. The Community aid will help about 17,500 people.

BOOKS IN REVIEW

The Privileged Partnership: Franco-German Relations in the European Community, 1969-1982. By Haig Simonian, The Clarendon Press of Oxford University Press, New York. 407 pp. $34.95.

JAMES DAVID SPELLMAN

The Bonn-Paris axis has played a pivotal, enduring role in commandeering, if not accelerating, the progress achieved by the European Community from expanding membership to both broadening and tightening the Community's institutional, economic and political bonds. At the same time, a stronger, more independent Europe, in turn, has reinforced and even deepened the bilateral ties between France and the Federal Republic of Germany.

It is this thesis that Haig Simonian charts and deftly navigates from the era when German Chancellor Willy Brandt and French President Georges Pompidou were jointly at the helm to the height of the partnership under Helmut Schmidt and Valéry Giscard d'Estaing to the less dynamic but still key collaboration of Helmut Kohl and François Mitterrand. Admitting the United Kingdom to the Community, establishing a European monetary system to stabilize currency fluctuations, and resolving inequities, costs and other problems arising from the Community's Common Agricultural Policy (CAP)—these achievements resulted largely from the commitment and skillful diplomacy that Paris and Bonn orchestrated together.

The Privileged Partnership is a thorough recounting of events to support that argument, opening with the initiatives launched at The Hague in late December 1969, which revitalized a moribund Community and closing with the June 1984 summit in Brussels, which broke a crippling impasse on the E.C. budget. Simonian's history illumines the factors contributing to the Community's effectiveness and the competing national agendas, foreign policies and economic priorities obstructing the Berlaymont's initiatives.

The study is a superb source to help build theories about what compels states to temper, compromise or abandon national ambitions for the purpose of formulating policies within international organizations. Interdependent links—the tangle of economic and political bonds limiting what states can do singularly—emerge as key influences on the parts—the states—and their sum.

The author first crafts the sieve through which we can sort out the most salient evidence from the swift, shifting and conflicting torrents of diplomatic rhetoric, maneuvers and accords. He delves into the core influences—geography, economics, history, psychology, politics and institutions—affecting how France and Germany behave separately and combined.

Some of the points Simonian makes here are obvious but essential to lay out before he builds his case. The German nation is dramatically severed by barbed wire. This implicates Bonn more deeply in East-West relations. In contrast, France is more distant and far less encumbered. These geographic and political factors make Bonn more dependent, more sensitized, and less confrontational toward Washington than Paris.

Germany relies far more on trade with Europe and the United States to both sustain growth and fulfill resource needs. The Bundesbank's tremendous influence explains why Bonn practices rigorously a tight monetary policy to combat inflation. France is more self-sufficient and willing to tolerate some inflation to encourage industrial growth.

After World War II, Germany supported the Community to ensure peace and its own security. Further, the E.C. "represent[ed] a workable substitute to forgotten and repressed nationalism." France's national sovereignty survived relatively unscathed and did not need to be bolstered by membership in the E.C.

Authority under the Fifth Republic in France is deliberately concentrated in the Elysée Palace, with the legislature relegated to a lesser role, often bowing in deference to executive initiatives. This arrangement reflects General Charles de Gaulle's imprimatur and avoids repeating the instability that occurred during his administration because of a stronger legislature and diffused power. France's foreign policy carries the President's indictment, less burdened by the exigencies of public debate, appeasing the legislature and mediating battles among different government agencies.

Germany's constitution was deliberately structured after the E.C. model of checks and balances, at its center being a healthy rivalry among the legislature, the executive and the judiciary. Incentives were created to encourage a multiplicity of political parties and the centrality of the party unit in policymaking.

The first test for Simonian's thesis is the summit at The Hague in December 1969 and the subsequent efforts that this meeting inaugurated to "relaunch" what had become an arthritic, spiritless Community. Three issues confronted the Six. How should the E.C. finance the CAP, which is a scheme to prevent imports from undercutting the members' prices for farm goods? How could monetary policies be better coordinated and integrated? Under what conditions should the United Kingdom and subsequent candidates be admitted?

This summit succeeded in laying the foundations that would revitalize the Community. Members agreed, first, to adopt financial regulations for the CAP; second, to direct a Council of Ministers to draft a plan to gradually implement economic policies that included a monetary system linking different currencies to a single unit of value; and, third, to begin talks to enlarge the Common Market.

These successes resulted largely because of the agreements between Brandt and Pompidou. "Clearly in a period of movement in European affairs, much depended on cooperation of the Community's principal partners," write Simonian. Both actively prepared in advance to narrow their differences. Germany yielded to France's demands for CAP financing and thereby gained support for a new monetary system and greater coordination of economic policies. France wanted the United Kingdom as a member to revive the Community, which would generate economic benefits while counterbalancing Germany's economic strength. Germany sought enlargement to expand trading opportunities.

The 16 months following the summit were spent in pursuing those initiatives. Three Brandt-Pompidou summits occurred until January 1971. Germany's policy of *Ostpolitik* rose in prominence as France's anxieties grew over the emergence of Germany as a privileged partner of the United States and Bonn's rise in power due to tighter bonds with the German Democratic Republic. Critical to the France-German bond's strength during this time and indeed the entire period from 1969 to 1981 was the perceived relative parity of power between Bonn and Paris.

In May 1972, France and Germany both lost the two men who had governed them since 1969. Another change: Schmidt and Giscard d'Estaing had to tackle a new agenda of problems—inflation, OPEC's soaring oil prices, and the multiplication of trade barriers.

Schmidt and Giscard were remarkably close in the politico-economic priorities. Both agreed that economic growth in Europe could not be achieved through protectionism. Both had taken steps to tighten credit and money supply as one attack on inflation. Both agreed that a European Monetary System (EMS) was essential to sustaining political unity in Europe. Both viewed the dollar's rapid depreciation as destabilizing and viewed the problem's resolution as America's responsibility.

Hence, the birth of the EMS in July 1978 "came of a clear convergence of French and German interests, confirming the two countries' leading roles in the Community," asserts Simonian. "The venture would never have been possible without joint Franco-German agreement."

Two rival proposals had been put forward. Germany backed a parity grid system, which would spread the burden of intervention among all participating countries when currency—most frequently the Deutsche mark—alignments are seriously out of kilter. France advocated a basket scheme which would force a specific country to change its currency's value when the exchange rates shifts seriously out of balance. France came to support the Federal Republic's plan when it realized that the basket scheme was technically unfeasible.

Throughout Simonian's book, German leaders were and are "reluctant or unable to bring their country's full economic weight to bear on the issues of Community policy. Rather, in order to avoid friction and advance its aims, Germany has sought as far as possible to maintain a policy of consensus, pioneering or developing initiatives in harness with other member states. Those instances when Germany has acted alone or shared particular assertiveness have almost invariably been linked with the protection of key economic interests—notably regarding inflation—and also, to a much lesser extent, agriculture."

In contrast, France's policy, Simonian writes, "moves away from the doctrinaire, emphatic nationalism of de Gaulle to a pragmatism and broader commitment to Western alliance pursued to a limited extent by Pompidou and more ambitiously by Giscard d'Estaing although interdependence and a stronger European role were primary elements of the country's foreign policy...."

Throughout the book, Simonian presents his case thoroughly. His strict focus on the Franco-German relations, however, does not mean that he loses sight of broader trends, like the oil-price shocks, the political movements toward governments that are less interventionist and the malaise of inflation and high unemployment suffered by Western economies.

James David Spellman is a freelance writer based in Washington, D.C.

RECENT BOOKS

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

Seeing American Foreign Policy Whole. Brewster C. Denny. University of Illinois Press, Urbana, 1985, 200 pp.

Broad analysis of key elements and events of American foreign policy. Stresses the significance of the constitutional base and traces the development of foreign policy issues from Washington to the Reagan Administration. Examines the Cold War, the defense establishment, NATO and summit policy in terms of its history and institutional structure. Good background guide to U.S. foreign policy.

Information Technology Research and Development - Critical Trends and Issues. Office of Technology Assessment, U.S. Congress, Washington D.C., Pergamon Press, N.Y., 1985, 342 pp.

Comprehensive study examines the state of R&D technology in four specific areas: computer architecture, artificial intelligence, fiber optics and software engineering. Examines the adequacy of policies, programs and agencies of information technologies in light of the changing needs of society and escalating world competition. Includes case studies, analysis of the effects of deregulation and divestiture on research, suggestions on new roles for universities and an analysis of science and technology policy in the United States.

EEC Waste Management Policy. Study directed by Oliver Leroy. European Study Service, Rixensart, Belgium, 1985. 230 pp., $145.00.

Study reviews and analyzes Community waste management policy by outlining the waste problem and the proposals adopted on a sectoral level to remedy it. Focuses on key legislation such as the Council directive of July 15, 1975 and the 1978 "General" Directive on Toxic and Dangerous Waste. Sectoral measures directed at waste oil, disposal of PCB's and PCT's, marketing of dangerous substances and transfrontier shipment of toxic waste are also discussed. Also outlines new proposals and prospects and includes an annex of current legislation.

International Technology Transfer. Nathan Rosenberg, Claudio Frischtak, Praeger, N.Y., 1985. 329 pp., $43.95.

Collection of essays analyzes technology transfer in terms of the various characteristics of technology itself, the international actors involved and the technological capability of various regions of the world. Chapters are dedicated to discussions of technology transfer among OECD countries, between the North and South and to the historical experiences of individual countries such as India, Korea, Japan and several African states. Examines the development of domestic technological capabilities, the role of exports, micro- and macroeconomic determinants and foreign direct investment as means of improving technological capabilities.

Collective Clientelism: The Lome Conventions and North-South Relations. John Ravenhill, Columbia University Press, N.Y., 1985, 377 pp. $37.50.

Thorough examination of the Lome Conventions and the results of their implementation. Referring to the relationship as collective clientelism, the author establishes a base for his analysis of the various policies and problems facing relations between the North and the South and within their own regions. Chapters examine STABEX, SYSMIN and commercial cooperation, as well as industrial, financial and technical cooperation. Concludes that the Convention has proved rather disappointing to the ACP states and outlines the rationale and some areas withroom for improvement.

European Immigration Policy. Thomas Hammar, ed., Cambridge University Press, Oxford, 1985. 319 pp.

Comprehensive analysis of immigration policy in six countries: Sweden, The Netherlands, The United Kingdom, France, The
Federal Republic of Germany and Switzerland.
Policies range from ones of permanent resettlement to the "guest worker" system in Germany and Switzerland. This book examines the size and composition of the immigrant community in each country and provides a comparative analysis of the different immigration policies, forms of regulation and control, and draws conclusions about the convergence of those policies.

Droit et Pratique des Préférences Généralisées. Nathan Elkin, Ciaco, Geneva, 1985. 313 pp.

Historical and legal analysis of the generalized system of preferences. Written in French, it addresses the principle elements of the system, legal issues, the study of beneficiary countries, safeguard measures and other preferential schemes of industrial counties. Also reviews such sectoral arrangements as the textile and raw materials agreements. Includes a complete
bibliography of pertinent resolutions, legislation and agreements.

Continuity of Discord, Crises and Responses in the Atlantic Community. Robert J. Jackson, ed. Praeger, N.Y., 1985. 276 pp. #39.95.

Collection of essays analyzing the problems and crises in the Atlantic Community. Topics range from security issues such as the Europeanization of security to North-South relations and economic crises. Succinct and clear arguments and interesting insights. Cases are argued for and against various responses to these strategic and military dilemmas.

Eurodollars and International Banking. Paolo Savona, George Sutija, eds. St. Martin's Press, New York, 1985, 226 pp. $29.95.

Concerned with the nature of the Eurodollar market, this book examines the historical evolution of Eurobanks and Eurodollars and offers an economic analysis of the market. Drawing on the knowledge of international bankers, central bank officials and academic observers, it provides useful insights into how the market operates, the problems of international lending and the relationship between international banking facilities and the Eurodollar market.

Confrontation or Negotiation: United States Policy and European Agriculture. Charles E. Curry, Director. Associated Faculty Press, Millwood, N.Y., 1985. 303 pp.

The result of a year long study undertaken by the Curry Foundation, this collection of essays focuses on defining the U.S.-E.C. agricultural relationship and on developing policy alternatives that might allow the United States to defuse a potentially explosive situation. Both American and European perspectives are examined as well as the economic and political significance of the Common Agricultural Policy and its prospects for reform. A final set of policy recommendations are made in the final chapter, calling for mutual understanding, negotiation and a shared agenda for bilateral discussions.

Deficits and the Dollar: The World Economy at Risk. Stephen Marris, Institute for International Economics, Washington, D.C., 1985. 343 pp. $15.00.

Extensive and probing study of the deficit crisis and the world economy. Presents a comprehensive analysis of the present disequilibrium and argues that with today's exchange rates, the U.S. current account deficit would grow to over $200 billion by 1990. Examines policy options facing the United States, Japan and Europe and recommends expansionary monetary and fiscal action for Europe and Japan as well as the elimination of the U.S. structural deficit by 1990.

Agriculture Under the Common Agricultural Policy. Ian R. Bowler. Manchester University Press, 1985. 255 pp. 19.50 pounds.

A geographical approach to the study of the Common Agricultural Policy, the author brings new insight and clarity into an issue that confuses many. Analyzes policy making for agriculture, the development of the CAP and its technical aspects. Also studies regional trends and changes in farm size structure.

The Customs Law of the European Economic Community. D. Lasok & W. Cairns Kluwer Law and Taxation Publishers, Boston, 1983. 291 pp. $50.00.

Brings together various elements of the E.C. law concerning the movement of goods within the Community and external trade. Analyzes the three sources of Community law: the Treaty of Rome establishing the E.C., Community legislation and the decisions of the E.C. Court of Justice. The authors focus on international cooperation and the E.C., harmonization techniques, free movement of goods and fiscal discrimination, simplification of customs procedures, common commercial policy and anti-dumping measures. Includes tables of E.C. legislation, lists of cases, and texts of relevant articles of the Treaty of Rome.

Socialism, the State, and Public Policy in France. Philip G. Cerny, Martin A. Shain, eds. Methuen, N.Y., 1985. 290 pp. $29.95, cloth. $12.95 paper.

Collection of essays examines the role of the state and public policy under the Socialist French government. Essays range from an analysis of the French Communist party to comments on the situation of state capitalism in France and the U.K. and the New International Economic Order. Topics such as decentralization, economic policy, and defense are examined.

Trade Without Money: Barter and Countertrade. Leo G.B. Welt, Law and Business, Inc., N.Y., 1984. 271 pp.

In the face of foreign exchange shortages, many countries are increasingly turning to barter and counter trade as means of continuing trade without the drain on finances. The author presents a guide to the negotiation, structure and financing of barter and countertrade. Explains how to set up barter transactions through an agent or trading company and how to finance the transaction, describing the different types of trade throughout the world.

Uneven Development in Southern Europe. Ray Hudson, Jim Lewis, eds. Methuen, N.Y., 1985. 398 pp. $65.00.

This study of current shifts within the economic, political and social structure of the southern regions raises important questions about the nature of uneven development, the meaning of dependency and the political consequences of social change. Examines the regional and national impact of labor migration, the social consequences of new forms of agricultural production and industrial investment, demonstrating the relationships between uneven development and the growing crisis of legitimacy in southern European states. Provides insight into developments in France, Greece, Italy, Portugal, Spain and Turkey.

International Trade Law and Practice of the European Communities - EEC Anti-Dumping and other Trade Protection Laws. Ivo Van Bael, Jean Francois Bellis. CCH Ed., Ltd. Chicago, 1985. 438 pp.

Written for the business person, trade consultants and legal advisors, this new book comprehensively analyzes the trade protection law imposed by the E.C. and presents the reader with a practical explanation of the legislation as it is actually applied by the individual authorities. Identifies and discusses the Community's four main methods of trade protection and comments on the EEC and ECSC antidumping regulation as amended in July 1984.

Introduction to British Politics. John Dearlove, Peter Saunders. Basil Blackwell, N.Y., 1985. 458 pp. $45.00, cloth. $14.95, paper.

In recent years. economic crises and a proliferation of demands have challenged the traditional political system and political thought. This text attempts to adopt a new prespective in analyzing these challenges. Focusing on parties and power in the British system from the New Left to the New Right, it also includes chapters on capitalism, Laborism and the state, managing the economy, social order and the organization of the state. Throughout, the authors explore the strains between a democratic polity and capitalist economy.

The Structure and Evolution of Recent U.S. Trade Policy. Robert E. Baldwin, Anne O. Krueger, eds. National Bureau of Economic Research, University of Chicago, 1984. 438 pp. $50.00

Systematic analysis of specific U.S. trade policies from tariff protection to non-tariff barriers. Examines industry specific trade-barriers: the Japanese export constrain agreements on autos, the Multifibre Arrangement for textiles, and the trigger price mechanism for steel imports. Also includes chapters on the U.S. Generalized System of Preferences, export promotion policies and protection policies toward developing countries.

Trade Talks - America Better Listen! C. Micheal Aho, Jonathan David Aronson. Council on Foreign Relations, N.Y., 1985. 178 pp. $15.00.

Analyzes the situation in world trade in terms of the latest round of GATT negotiations. In a clearly written text, the authors examine the historical setting of the negotiations, possibilities of institutional reform and higher growth as well as national goals and constraints. Prospects for limited negotiations, bilateral free trade agreements and the prospects for a global bargain are also discussed.

Selective Safeguard Measures in Multilateral Trade Relations. M.C.E.J. Bronkers. Kluwer, Antwerp, 1985. 277 pp. $50.00.

Scholarly study of safeguard restrictions and the escape clause (Art. XIX of GATT) and the most-favored-nation clause. Analyzes whether safeguard measures should be required to follow MFN principles as well as their impact on the legal norm of international law. Considers such questions as the non-discriminatory application of Art. XIX, the private responses to foreign unfair trade practices (U.S. and E.C. complaint procedures) and protectionist measures affecting Japanese imports into the E.C.

European Tax Law for Companies. Charles Ferrier. Financial Times Business Information, London, 1985. 130 pp. $140.00.

Provides information on 65 different taxes and identifies over 70 grants and incentives. Includes chapters on each E.C. member state including Spain and Portugal. Also carries information on taxes for non-residents,companies, dividends, undistributed profit, capital gains, depreciation, losses and so on. Also examines the VAT and other taxes such as net worth taxes, wealth tax and social security. Appendices list a summary of major taxes and sources of information as well as a clarification of terms.

Spain - Studies in Political Security. Joyce Lasky Shub & Raymond Carr, eds. Praeger, N.Y., 1985. 134 pp. $29.95, cloth. $9.95, paper.

Collection of essays analyzing the many economic, political and social changes in Spain in the last decade. Essays concentrate on foreign policy, defense and such topics as popular and elite attitudes concerning relations with the United States and Spanish integration into the E.C. Also includes essays on Spanish-Latin American ties and relations with North Africa.

Vredeling & the Fifth. Income Data Services, Ltd. London, 1984. 21 pp.

Two draft EEC laws on workers' rights have completed the preliminary stages of the E.C. law making process. They are now under consideration by the Council of Ministers. While the study is now more than a year old, it does explain the two draft laws, presents the texts and summarizes the views held by the British Government and various British organizations. Subscriptions to the IDS International Report or Documents are available for those interested in further developments.

Arab Gulf and the West. B.R. Prindham, ed. St. Martin's Press, N.Y., 1985. 251 pp. $29.95, cloth.

A collection of essays examining the relations between the Arab Gulf and the West. Considers the history and dynamics of the relations, and expresses the views of British, American and Arab scholars in the field. Essays include discussions of the limits of economic interdependence, the EEC and the Gulf Cooperation Council, Gulf reactions to Western cultural pressures and the future of the Gulf/European/American relationship. Also features useful tables on oil reserves and production, deployment of oil exporters, surpluses, etc.

Party Strategies in Britain. David Butler and Paul Jowett. St. Martin's Press, N.Y., 1985. 171 pp. $25.00, cloth.

Called a "non-event" by this author, the British elections to the European Parliament did incite enthusiasm among party leadership if not the general electorate. Presents a background on Britain's relations with the Continent and then reviews party strategies and campaigns. Interesting look at how national issues prevailed in Britain during this European election.

Europe's Siberian Gas Pipeline: Economic Lessons and Strategic Implications. Gordon Crovitz. Institute for European Defense and Strategic Studies, London, 1983. 48 pp. 3.25 pounds.

Tracing the issues behind the construction of the pipeline, Crovitz succinctly argues that the project damaged relations between Europe and the United States while at the same time it gave the Soviets an added advantage in terms of needed foreign exchange and achievement of policy objectives. Short monograph outlines the arguments for and against the pipeline, the economic context and the alleged use of forced labor.

Europeanization of Defense: Prospects of Consensus? Peter Schmidt. Rand, Santa Monica, 1985. 40 pp. $4.00.

Reviews and examines the various approaches to the "Europeanization" of defense. Attempting to cut through the hyperbole surrounding such a notion, Schmidt distinguishes between four approaches to the issue: "the European," the "two pillar," "transnational cooperation," and the "diffusion" approach. Includes tables of public opinion polls concerning support for integrated European defense policy and the preferred relationship with the Soviet Union and the United States. Concludes that the obstacles to such cooperation are great and unlikely to succeed. Unsurprising, yet interesting look at different national positions on this issue.

Working in the European Communities. A.J. Raban, Hobsons Ltd., 1985. 84 pp. 6.50 pounds.

A very handy and well researched guide for British and American graduate recruiters and job seekers. Outlines the structure and philosophy of continental educational systems, in particular those of Belgium, France, Germany and the Netherlands. Useful insights might aid recruiters in understanding and choosing candidates with very different backgrounds. Also includes tips for both job seekers and recruiters on timing their job hunt, guidance and placement services, using advertising and mobility of job seekers within and outside of their native countries.

THE COMMUNITY BOOKSHELF

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MONETARY REFORM

Continued from page 21.

tially increased in the medium term, as well as the manner with which it is distributed.

Better coordinated international financial institutions.

Such a comprehensive strategy will therefore, quite naturally, lead to strengthening the role of the IMF and the World Bank in the international monetary system. The IMF will, first of all, have a contribution to make in the establishment and follow-up of the reference zones and in issuing the SDRs.

The World Bank will have to intervene more and show more imagination in the channeling of world savings to developing countries. It will also have to play a greater role in backing the adjustment process by increasing the percentage of loans not reserved for specific projects, and by giving a preferential treatment to those debtor countries who already help themselves. The two institutions will have to strengthen their cooperation, fully respecting their specific vocations.

Beyond that, it is possible that institutional reforms will not stop there. The day will perhaps come, as some people believe, when it will be necessary to reinforce the monetary role of the international institutions and go so far as to make them exercise their influence on the activities of private banks and on the orientation of capital on the markets. But this is another story, and common thinking has not yet reached this point.

A Strategy for Negotiations

These ideas are not new. For five years now, in France, the President has been contemplating them, refining them, proposing them. We know that a reform of this kind can only result from a broad and progressive consensus among, first of all, the United States, Japan and Europe, as well as between North and South.

We also know that time is of the essence and that, although these ideas have made some progress, the pace now needs to be quickened. France expounded these ideas on the occasion of the Versailles Western economic summit in June 1982. Then, on May 9, 1983, the President proposed launching a "new Bretton Woods," that is to say, a necessarily long process of reconstruction of an international monetary system, in the spirit of the ideas I have just developed. He also emphasized that no monetary negotiations would make any sense without the agreement of the South, and that a new round of trade negotiations would be in vain unless accompanied by monetary negotiations.

Two years of extensive work followed. Finally, on June 21, 1985, the Finance Ministers of the Group of Ten recognized the necessity of greater stability in monetary and financial markets. And on September 22, 1985, the Finance Ministers of the Group of Five agreed that exchange rates ought to play a role in the adjustment of external imbalances and ought better to reflect the economic fundamentals than is the case at present. That statement marks the first real renunciation of the theory on which floating exchange rates are founded. A few days later, these words were translated into action in exchange markets.

However, as I hope to have demonstrated, that first recognition of the theory behind the French analysis and its first implementation do not cover the whole subject. These decisions, as important and courageous as they may be, will have no future if we do not, progressively and simultaneously, put into play all the reforms which I have talked about here. This assumes that a permanent dialogue will take place between the countries of the North and the South, through the intermediary of existing institutions—the IMF, the World Bank and the General Agreement on Tariffs and Trade. New practices, and perhaps even new institutions, will be the result. €

Jacques Attali is a special advisor to French President François Mitterrand.

FARM TRADE

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war. Already we are competing to sell cereals at low prices to North African countries, and if we are not careful, we may find ourselves trying to do the same thing in relation to exports to the Soviet Union.

It sometimes seems that the GATT procedure for the settlement of disputes is being used less as a mechanism for conciliation and more as a means for carrying on a guerilla warfare against the Community's CAP and against special trading agreements which have been in existence for a considerable time. The recent U.S. decision to file a complaint under the GATT subsidies code against E.C. wheat export refunds is, perhaps, an example. It is true that the U.S. share of the world wheat market fell from 49 percent in 1981-82 to 36 percent in 1984-85. However, it must be remembered that in the same period, the E.C. share rose by two points from 14 percent to 16 percent while E.C. stocks doubled. Most of the U.S. market losses have gone to non-E.C. exporters and the decline in U.S. trade has not solely been caused by export subsidies.

The United States is also objecting to Community preferences granted to Mediterranean countries under trade agreements, most of which have already been in operation for almost 10 years. There is the additional complication that these agreements must be adapted to the enlarged E.C. to ensure that Mediterranean countries do not suffer from the entry of Spain and Portugal into the Community.

With the current enlargement of the Community to include Spain and Portugal, many adjustments will have to be made in the trading arrangements operated up to now by the two new countries. This is a delicate area which will require skillful negotiations and maximum goodwill. It is essential, therefore, that we sit down together and seek a reasonable solution for all these problems, no matter how difficult they may be. If we engage in economic saber-rattling and megaphone diplomacy—which seeks to put all the blame on the other partner, while minimizing one's own faults—it will make fruitful negotiations all the less likely.

In the meantime, links between the United States and Europe should be strengthened, so that any problems we may have could be discussed in a cool and businesslike way, without rhetoric or emotion. Only in this way can we resist the pressures for protectionism and the tendency to blame our neighbors for all our woes. If effective action in this arena is not taken, we risk a deterioration of the present situation which will be to the detriment of farmers, traders and industrialists on both sides of the Atlantic.

Attempts are being made within GATT to try to hammer out by the end of this year an agenda for a new round of negotiations, and procedures have now been agreed. This is the forum where trade disputes should be resolved, although existing rules may be in need of adaptation and modernization. In a multinational forum this is bound to take a lot of time, but if the outcome is an agreement on which we are all prepared to work and subscribe in a genuine spirit of cooperation, the effort will have been worthwhile.

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