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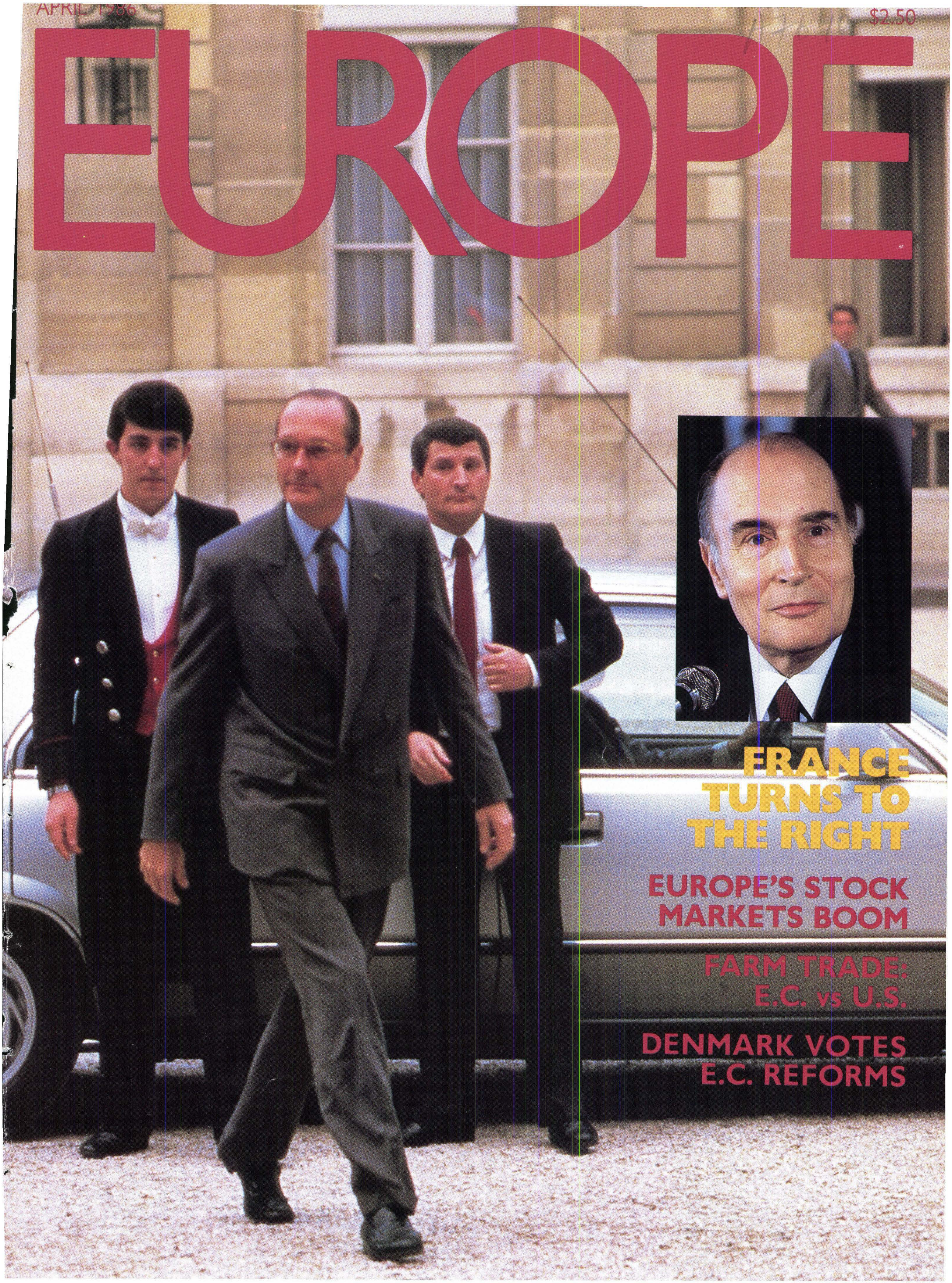

FRANCE TURNS TO THE RIGHT

EUROPE'S STOCK MARKETS BOOM

FARM TRADE: E.C. vs U.S.

DENMARK VOTES E.C. REFORMS

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MEMBER STATE REPORT

DEPARTMENTS

COVER: Jacques Chirac, France's new Prime Minister, arrives at the Elysée Palace to meet with President François Mitterrand (see page 35). ©Alain Nogues/T. Orbin/SYGMA. Inset: Mitterrand. ©J. Pavlovsky/SYGMA.

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PUBLISHER'S LETTER

The first reports from Paris the night of the March 16 elections didn't hold many surprises—the polls had been predicting defeat for President Mitterrand's Socialist Party for months. And, in fact, when the votes were tallied France found itself with a President from one side of the political spectrum and a Prime Minister and Government from the other. France faces a situation that, potentially, could result in political stalemate.

Is this likely to happen? Probably not, for a consensus has developed over the past few years in many areas of French political and economic life. In the meantime, we're watching how France comes to grips with this unusual configuration the French call "cohabitation." Bernard Mazières of *L'Express* magazine writes from France on the new Government in our cover story this month.

France has been, over the past year, one of the most forceful proponents of international monetary coordination—a topic that will be high on the agenda of next month's economic summit meeting. Debate over reform of the international system has persisted since the collapse of the Bretton Woods fixed rate system in the early 1970s, and disillusionment with flexible rates has grown as world trade has gotten increasingly out of balance. What use are reforms to the international trading system, many are starting to ask, if fluctuations in exchange rates have more effect on trade than any reforms would? Why not do something about coordinating monetary policies, and attack the problem at its source? With a new round of international trade talks approaching, this is becoming an ever more pertinent question.

The E.C. has also been pushing the idea, and the E.C. Commissioner for External Relations, Willy De Clercq, actively promoted it during a visit to the United States about this time last year. While the Reagan Administration was at that time quite firmly "anti" (the Treasury submitted a report to Congress arguing that there were "no practical alternatives" to the flexible rate system), its position had shifted enough by September so that the Group of Five could agree on joint international measures to bring down the value of the dollar. In his State of the Union address in February, the President called for "reliable exchange rates around the world," adding that "We must never again permit wild currency swings to cripple our farmers and other exporters." And there have been other, even more recent, indications that the White House is cautiously moving toward establishing some sort of permanent institutional means of avoiding dangerous currency fluctuations.

So we may be on the verge of a new phase of U.S.-E.C. cooperation, one that could mean both immediate economic benefits and a more useful and effective new round of international trade negotiations. Stephen Marris of the Institute for International Economics focuses this month on why and how international policy coordination and exchange rate intervention could alleviate some of the more woeful aspects of a "hard landing" of the dollar in the months ahead, and at the same time promote faster economic growth on both sides of the Atlantic.

Also in this issue, our ongoing debate over trans-Atlantic farm trade continues with contrasting viewpoints from Congressman Doug Bereuter (R-Nebraska) and David Curry, a British Member of the European Parliament.

Denis Corboy

AROUND THE CAPITALS

BRUSSELS

Carnivals Galore!

PHOTOS COURTESY BELGIAN NATIONAL TOURIST OFFICE

Belgium is famous for its many and diverse carnivals. The Ommegang, left, dates back to the 14th century. Right: a "Gille," clad in ostrich feather headdress.

They can frighten, bewilder or delight—but you can rest assured that the variety of the famous Belgian carnivals will not leave you with a feeling of indifference. To many admirers of Belgium these remarkable spectacles sum up the country's history and character much more faithfully and vividly than its treasured collections of Flemish art or its profusion of Gothic cathedrals and other medieval architecture. Noisy, colorful and often cheerfully undisciplined, the carnivals provide many tourists with a revealing glimpse of the taste for the bizarre and the grotesque that has nourished much Belgian art from Breughel to its 20th-century surrealists.

One of the most striking posters published by the Belgian National Tourist Office shows a group of dancing figures in brilliant orange costumes wearing huge feathered plumes. These are the "Gilles" of Binche, whose ceremonial procession on the afternoon of Shrove Tuesday gives the annual pageant calendar a spectacular send-off. Like most of the carnivals, that of the Gilles has its roots in both pagan and Christian traditions as well as drawing on folklore from several exotic cultures. This is very evident in the ostrich feather hats, which are said to reflect Peruvian headdresses dating from the 16th century when Belgium was part of the Spanish empire.

The fireworks, drum-beating and throwing of oranges that accompany Binche parades give the event a wild, almost orgiastic flavor, although the ritual is in fact carefully planned and meticulously rehearsed. The players themselves belong to a restricted society and will think nothing of spending a fair proportion of their annual income and many months of preparation on the brief event.

A more obviously religious pageant—the word "carnival" seems totally inappropriate—is the Procession of Penitents at Veurne, which also betrays Spanish influences. The somber, black-cowled penitents marching grimly through the streets of the town, bearing crosses of giant paintings of biblical scenes, many in form of fearful caricatures, can give Veurne a brooding flavor of the Dark Ages. It is something of a relief to see the penitents celebrating afterward in smoke-filled bars.

The most thrilling of the carnivals is probably that of the Giants of Ath. Based originally on the story of David and Goliath, it has acquired new characters over the centuries, including a Mrs. Goliath and other figures drawn from early Belgian history. The towering wooden giants—including a 20-foot horse weighing 1400 pounds and carried by 16 men—prompted an American child at last year's festival to exclaim, "Gee...it's better than Macy's"—a comment mercifully not heard by the locals.

Brussels has its own folk pageant—the Ommegang—dating back to a 14th-century religious vision. This mid-summer spectacle has become somewhat secularized over the centuries and today comprises a heterogenous procession of nobles, craft guildsmen, strolling players and city dignitaries who complete their march in the superb setting of the Grand' Place. It has been memorably described as the historical pageant of the Belgian carnivals.

The carnivals run from Mardi Gras to the end of summer and occur throughout the country. In some towns they provide a true mirror to local industry—as, for instance, "The Blessing of the Sea" in Ostende on the coast. In others the rites have a less obvious ancestry. The "Feast of the Cat" in Ypres, involves flinging black cats from the top of the cathedral. Today they have compromised by using stuffed toy cats, but elsewhere, as in Gramont, the swallowing of small live fish is still faithfully practiced each year.

Precisely why Belgium cherishes its carnivals and folk pageants to an extent unmatched elsewhere in Europe—and probably in the world—has been explained in various ways. Some see it as a result of Roman Catholic reaction to Protestant sourness in the Middle Ages; others say that it predates Belgium's birth as a nation state in 1830. Evidence for both can be found in almost any of the hundreds of annual parades. What they nearly all have in common is a sense of joy for participant and spectator alike.—ALAN OSBORN

COURTESY LUXEMBOURG NATIONAL TOURIST OFFICE

Luxembourg is frequently described as the most cosmopolitan city in Europe, since half of its population consists of foreigners.

LUXEMBOURG

Small, But Very Cosmopolitan

An extremely small country—like an extremely small person—can be rather touchy if it is being constantly reminded of its size. Thus, a correspondent who once wrote, tellingly, but inaccurately, that Luxembourg seemed to have more banks than people, was promptly if good-naturedly, corrected. More recently, an American travel writer claimed that Luxembourg's military band was bigger than its entire army. Although this might not be the worst thing you could say about a country, the truth must come first. In fact the band has 100 members while the army has 450, including 150 officers: Being small makes counting easy.

This also shows up in other characteristics of Luxembourg that are just as remarkable. For instance, foreigners make up close to half the population of Luxembourg City and much of the same share of the working population. Most of these workers are Portuguese immigrants—indeed the Portuguese airline, TAP, provides the only air service between Brussels and Luxembourg, a stopover on its Brussels-Lisbon flights—but the fact remains that Luxembourg is the most cosmopolitan city in Europe, a trend that is definitely on the increase.

Whatever the reason, native Luxembourgers are not prolific breeders—the national birthrate of 1.23 percent is the lowest in the world—and, according to some projections, half the country's entire population will consist of foreigners not long after the turn of the century. Linked to this is the fact that the average Luxembourger is relatively elderly. One-fifth of them is over 60, which gives Luxembourg the highest proportion of elderly in the world.

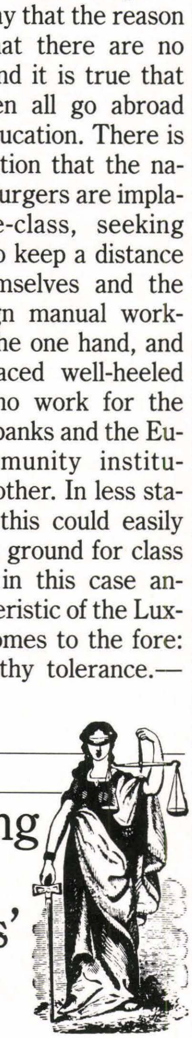
Such statistics give rise to two major concerns. The rapidly aging population, coupled with the slower growth in the number of wage-earners and social security contributors, is throwing increasing strains on the country's state pension system, and the growing migrant population is prompting speculation about Luxembourg's national identity in a generation's time.

In a real sense these developments reflect credit on the country. A long life expectancy suggests healthy people and an effective social security system. A large foreign population indicates a lack of national bigotry and an environment hospitable to non-natives. Things would be much better, say many Luxembourgers, if more babies were being born. Successive governments have encouraged the development through increased pre- and post-natal benefits, but this in turn puts more pressure on the social funds. Luxembourg is not alone in facing long-term problems over the financing of state pensions, but there seems little doubt that the challenge is more acute here than anywhere else in Europe. "We might end up being the first country to impose a tax on old age," a government official said recently. A joke, of course, but not without a grim recognition of the realities.

Given its international mix, Luxembourg is strikingly free of the social tensions that afflict urban centers and campuses elsewhere in Europe. A cynic might say that the reason for this is that there are no campuses—and it is true that bright children all go abroad for further education. There is also a suggestion that the native Luxembourgers are implacably middle-class, seeking strenuously to keep a distance between themselves and the largely foreign manual working-class on the one hand, and the better-placed well-heeled foreigners who work for the international banks and the European Community institutions, on the other. In less stable societies this could easily be a breeding ground for class warfare, but in this case another characteristic of the Luxembourger comes to the fore: his praiseworthy tolerance.—ALAN OSBORN

BONN

Ensuring Crime Victims' Rights



West German legislators have taken such great pains over the last 20 years to liberalize the penal code and to protect the rights of the accused in criminal cases, that they tended to neglect the situation of the victims of violent crime. This is now to be changed, however, by a proposed law that Chancellor Helmut Kohl's Government hopes will be adopted late this year.

Credit for this must go to an organization called the "White Ring," founded in 1976 by journalist Eduard Zimmermann. His interest in the subject grew out of his crime reporting, which includes one of West Germany's most popular television programs, *Aktenzeichen XY—Ungelöst* ("File XY—Unsolved"). Zimmermann claims that about 100,000 West Germans (out of a population of 62 million) are the victims of violent crime each year. Add to them their relatives, and the number of those directly affected by crime increases to 250,000 annually. He has pointed out that "although the general public, politicians and scientists have for many years tried with the greatest intensity to help the criminal, to determine the motives for his action, to study his imprisonment and his reintegration into society, interest in the victim has been minimal."

From 1977 through 1984, White Ring volunteers assisted 3,261 crime victims not only financially but also by helping them to deal with government and judicial officials and insurance schemes. At the same time, the group has lobbied to improve the legal position of the victim of violent crime, with the result that, after asking the group for a report on the situation, Kohl's Government came up with a bill this January. So far, according to the White Ring, one of the most frustrating experiences for the victim is the attempt to follow the progress and outcome of the investigation against, and possible trial of, the criminal. Aside from taking the victim's testimony, police or the public prosecutor tell the victim little, on the grounds that he or she has no need to know, or that civil rights of the alleged victim must be protected.

The Government's bill proposes to change this by granting the aggrieved parties in any criminal case the right to inspect documents and to be kept officially informed of the course and the outcome of the judicial proceedings against the alleged perpetrator. Zimmermann points out the necessity for this, claiming that while the state goes to extreme lengths to instruct the criminals as to their rights, no one so far has done the same for the victims.

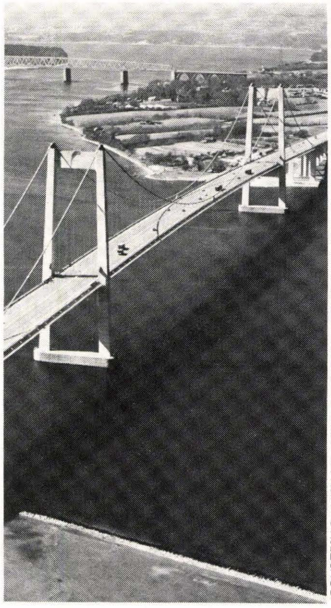
Under the new bill, indigent victims of violent crimes, such as rape, bodily assault, attempted murder, kidnapping or hostage-taking, would be allowed their own legal counsel from the beginning of the police investigation—at the expense of the state. Zimmermann believes this is a step in the right direction, but feels that the means test should be eliminated so that all victims could have legal counsel at the state's expense.

The proposed law would also make it easier for judges to exclude the public from rape cases. Until now, the exclusion of the public often is deemed sufficient grounds to appeal a conviction, which means that victims of rape are forced to recount their experiences in detail and to be cross-examined thereon in public. The bill proposes that an appellant would have to claim that something else happened during the in-camera session that justifies an appeal.

Most women's groups have demanded such a rule for years. Of late, however, a more aggressive group of women has insisted that the only way to fight rape is in full public view, and that they will oppose this section of the bill, claiming that such a rule could then also be used to exclude the public from political cases.

Most important to many victims, however, is the fact that the bill will enable them to file a claim for compensation by a criminal during his trial, and enable courts to give payment of such compensation to the victim by the criminal priority over the state's assessment of costs and fines. Zimmermann says that this section of the bill should be strengthened. As submitted to Parliament, it would empower, but not instruct, judges to give priority to compensation for the victim, and it would permit them to allow the convicted criminal to pay in installments.—WELLINGTON LONG

COPENHAGEN



COURTESY DANISH MINISTRY OF FOREIGN AFFAIRS

About Tunnels And Bridges

The final demise of the Swedish shipbuilding industry may give Copenhagen an early start on a bridge to Malmoe in the south of Sweden, perhaps followed by a railway tunnel across the Sound at Elsinore, the famous castle of Shakespeare's *Hamlet.* The Swedes have offered to finance and build the 8-mile-long bridge from Malmoe to Copenhagen, asking the Danes only to provide the necessary access roads on the Danish side and, of course, permission to build the bridge on Danish territory.

It sounds like a simple and easy solution, especially as it fits into the longer-term plans to connect the main Danish island of Zealand by tunnel to the rest of Denmark and the Federal Republic of Germany. But so far, the Swedes have found the Danish just as difficult to deal with as the Europeans of the European Community. The Danish Government wants the Danish connection, across the Great Belt, established first. In principle this has already been decided, but exactly when construction can be started is still an open question, pending agreement on whether a bridge or a tunnel should be built, or even both. The Swedes, on the other hand, are impatiently waiting for a decision on the Sound, and for a very good reason. They are looking for work for the doomed Kockum shipyard, which will launch its last ship within the next two years and is already starting the closure operation. Thus building bridges would provide a good alternative to building ships. And although the Danish shipyards still survive, they too will need other work to go on doing so.

There is a real, though not necessarily justified, fear in the Danish Government that without an East-West Danish connection Denmark would break into two, the West becoming an adjunct of West Germany, with which country it shares a land border, and the East establishing too strong a relationship with the south of Sweden. The Danish connection has been on the agenda for so long that some political observers are not very optimistic that it will be constructed until it is halfway across the Great Belt.

The Channel tunnel, linking the United Kingdom and France, has been receiving far more publicitiy than any of these Scandinavian and Danish projects. Notwithstanding the importance of these two countries, the Nordic projects are in total far more ambitious. And like the Channel tunnel, they are now on the verge of being decided.

Another important consideration is that Sweden is one of the two largest customers of Danish industry—West Germany being the other—which implies unanimous backing of the plan by the industry. And seen in E.C. terms a stronger Swedish attachment to the rest of Europe is an interesting proposition.—LEIF BECK FALLESEN

ATHENS

Working On A Facelift

Romantically inclined visitors to Greece this year may be upset to find that several famous classical temples are no longer decaying gently in awe-inspiring settings. Cautious, but determined, conservationists are at work on three different architectural masterpieces, which will look discernibly different when the scaffolding comes down in a few years' time.

On the Acropolis, a crane sits inside the Parthenon, and the famous rocky hilltop looks more like a stonemason's workshop than a shrine. The retractable crane, which folds up neatly behind the columns when not in use so as not to disturb the Athens skyline, will gradually remove hundreds of blocks from the temple, which will be returned after rusting iron clamps used by earlier modern restorers have been replaced with non-corrosive titanium. Architects have also been gathering roughly 1,500 scattered chunks of Parthenon masonry—amounting to about 10 percent of the temple—from around the hill. These will also be put back in place with fresh marble cut from veins near the original 5th-century B.C. quarries to fill in the gaps.

The major problem the restorers are facing is that of trying to draw the fine line between restoring and rebuilding. Years of meticuluous architectural studies have made it possible now to reconstruct the entire Parthenon accurately, but, as Acropolis architects point out, that would result in a new temple, unleashing both philosophic and aesthetic objections. They also believe that too much restoration would horrify a sizeable percentage of the three million visitors who climb the Acropolis hill every year expecting to see one of the world's best-known monuments in its familiar, ruined condition.

At Bassae, in the mountains

of Arcadia, the issue is much simpler. If the temple of Epikourios Apollo, the best preserved temple in Greece, is not rescued soon, it will simply collapse. The building had tilted for centuries, apparently due to earthquake damage. A Greek architect, however, studying the building closely, discovered a flaw in its original design—or perhaps the consequences of a dishonest 5th-century B.C. contractor. Oddly enough, the temple's architect was Ictinus, who later went on to design the Parthenon.

sonry is expected to take about 10 years and estimated to cost the Culture Ministry roughly $5 million.

Archeologists from the American School of Classical Studies in Athens are partially rebuilding a 4th-century B.C. temple of Zeus set in a vineyard-filled valley at Nemea in the Peloponnese. Only three of the 32 slim limestone columns are still standing upright in a sanctuary where ancient athletic contests that rivaled the Olympic Games were once staged, while the column

Major restoration is currently underway on the Parthenon to prevent further decay and restore its former beauty.

A 10-year engineering study has shown that the building's foundations were made of stones too small to sustain its weight. Now covered by a giant plastic awning to ward off further damage by lightening strokes and frost cracks, the temple's 40 tottering columns will be eased back into their original positions once the foundations have been reinforced. The restoration, which includes putting hundreds of fallen blocks back into place and removing lichen growths from the gray limestone ma-

drums of the remaining columns—once covered in gleaming white stucco made from powdered marble—lie tumbled around the site. Careful measurement has enabled the team to work out where each individual drum fitted when the temple was erected around 330B.C.

Their plan is to re-erect 12 columns to prevent the drums from further decay and to find out just how the ancient temple builders worked. A part of the platform beneath the column positions has already been restored with blocks cut from the original quarry in preparation for hoisting the drums, each weighing around 1.5 tons, back into place.—KERIN HOPE

ROME

Young And Unemployed

Italy, once known as the country of the *bambino*, or child, is becoming the land of unemployed young people. Youth unemployment is by now a common and distressing sight throughout the European Community, but nowhere else are proportions as high as in Italy. No less than 75 percent of the 2.5 million people seeking jobs are under the age of 29. Put another way, about a third of Italy's youth is out of work, compared with around 20 percent in Britain and France, and a little over 10 percent in the United States. And yet the bald statistics tell one less about modern Italy than the reasons for this very high level of unemployment, and the explanation of why, has until now been barely a political issue.

During the 1960s, the years of the great Italian economic miracle, workers eagerly hired themselves out to employers giving little thought to their own labor and employment conditions. For a large number, the procurement of the first steady job was a sufficient achievement in itself. Millions of people moved from the predominantly agricultural South to the industrial North, and many more came down from the mountains and hills to the towns in the plains.

The new generation of industrial workers soon realized, however, that it was being exploited. Thus, after a period of extreme labor unrest at the end of the 1960s, the then government passed sweeping labor legislation that has made the Italian worker probably the best protected in Europe. As a result, it now became virtually impossible to sack an industrial worker, and even laying him off became difficult. If companies wished to recruit new labor they had to go to the government labor employment exchange and take whomever they were offered.

Italy's youth is now suffering the consequences of those laws. Since the early 1980s, industrial companies have been shedding labor in order to reduce costs and cope with the recession. They were able to do this by means of early retirement and a system by which the state is prepared to pay the wages of people in semi-permanent lay-off situations. What the firms really would prefer to do is to reduce the average age of their workforce by shedding more older employees and taking on the younger people. But they cannot usually do this because the unions fight tooth and nail against any reductions in companies' labor forces, and because those companies wanting to recruit would have to turn to the government employment agencies—which usually give job preference older men. So instead companies invest in labor saving machinery. This may have helped Italy to become one of the most advanced industries for building robots and factory automation equipment outside the United States and Japan, but has certainly done nothing to reduce unemployment.

The unions are aware of the scandal of youth unemployment, but they still have only little direct interest in doing anything about it, for the bulk of their membership is middle-aged—indeed, 35 percent of the members of Italy's biggest union, the communist-oriented CGIL, are pensioners. Furthermore, the unions carry great weight with the government.

So why do the unemployed young people not rebel? The answer for this lies partly in the stability of the Italian social system. Most of the young jobless live at home, subsisting on part of the generous state pensions that their parents enjoy if they are retired. They may find part-time or irregular work in the submerged economy, which will keep them above water. Finally, they are divided—not just between families— but also geographically among the hundreds of medium-sized towns of which Italy consists, a major hindrance to any effective action.

There is, however, another important factor. The highest proportion of young unemployed people live in southern Italy, which accounts for about 32 percent of the Italian labor force, but also for 45 percent of Italian unemployed. The South, with relatively little industry compared with the North, and a far weaker entrepreneurial tradition, has always suffered unemployment, going back to the days when the word first came into use. At that time, it could be kept under control by emigration—to the United States, South America or the rest of Europe, or to other parts of Italy. Now, however, emigration is hardly possible, and the social system has to cope with the problem: the extended family supports them, and the state is able, by hook or by crook, to direct extra funds to the families in the form of social security benefits, and in pensions provided for often fictitious disabilities.

Thus it is that while the national rate of unemployment stands at 10.8 percent—not counting the permanently laid-off who make up a further 1.6 percent—the rate of unemployment in southern Italy, Sicily and Sardinia is about 15.1 percent. In theory this is a recipe for trouble, but so far it has not caused it.—JAMES BUXTON

DUBLIN

An End To Art Festivals?

In Ireland, the grimness of the economic recession is periodically lightened by the artistic festivals, which allow culture to be pleasantly imbibed while providing an economic spin-off to the local economies. Now, unfortunately, all this is threatened by drastic government financial cuts: As the artistic world was stunned to learn, the state-funded Arts Council is withdrawing all financial aid to the festivals this year.

Of the nine festivals affected, three have been able to establish considerable international reputation for themselves: the Dublin Theater Festival, the Wexford Opera Festival and the Cork Choral Festival. Also affected is the National Theater Touring Agency, which finances repertory companies' tours of the provinces.

Playwright Hugh Leonard, whose work is acclaimed on both sides of the Atlantic, has been scathing in his reaction to the blow that has fallen on the Dublin Theater Festival: "I have been associated with the Theater Festival for 26 years. I look upon it as my home and university and now it has been bombed out of existence, the pretext being that the Arts Council is establishing its priorities. I would be grateful if someone responsible for this vandalism could explain to me what can have greater priority than an established festival which is acknowledged to be the best in Europe, if not in the world."

Other directors of festivals have described themselves as "shattered" by the news of the cutbacks, which came after they had committed themselves financially. First in the firing line is the Cork International Choral Festival, scheduled for the end of April. Choirs from the United States, Britain, the Federal Republic of Germany, Finland, Yugoslavia and many Eastern bloc nations, including the Soviet Union, are planning to participate. The festival's director, now desperately lobbying for new finances, has described the Arts Council cutbacks as "utterly irresponsible."

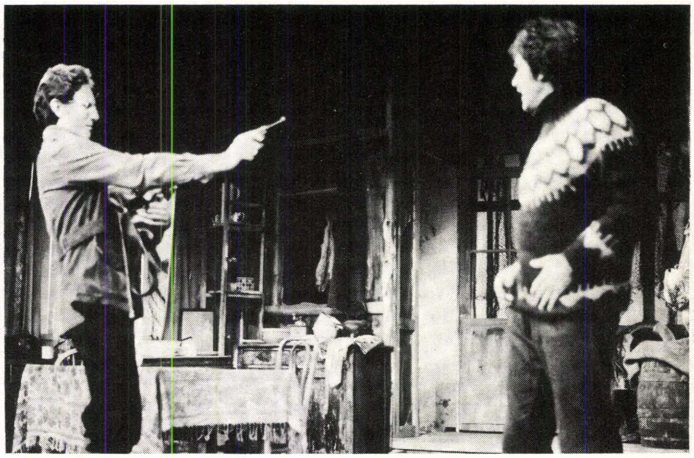
The Arts Council has tried to ride out the storm of abuse by pointing out that for the past two years it has warned of a possible crisis in arts funding. When it told the Government that it would need $13 million to sustain the arts in Ireland, it received less than $6 million, which explains its painful decision to concentrate funds on individual artists and arts centers, which have a permanent presence, rather than on the festivals, which have "an occasional and celebratory basis." As a result, there will be modest increases for several cultural centers.

For Adrian Munnelly, the director of the Arts Council, all this has been "appalling," but, at the same time, the Council did not consider resigning "because running away from the problems facing the arts would have been no solution either." Nevertheless, there is a strong suspicion in the arts world that the Council deliberately chose high-profile events like the international festivals for the cuts, knowing that public wrath would eventually be focused on the real culprit—the Government, whose axe is now cutting deeply into the health and educational services as well as the arts.

The squeals of pain are also being heard from the usually taciturn Royal Irish Academy, which has been told that its 1986 Government grant for archeological research has been canceled as an economy measure. This decision, which has shocked professional archeological workers, will mean the suspension of all work on more than 200 prehistoric and early Christian sites around the country. An academy spokesman described the Government's decision as "tragic" and said that some sites might now suffer permanent damage through erosion. One of these is possibly Ferriter's Cove in County Kerry where the earliest evidence of human habitation in southwest Ireland has been found.

After the initial shock, the reaction of the festival organizers has been to fight back and

The Abbey Theater in Dublin.



Festival scene from "Operation Seal Rock" at the Peacock Theater.

PHOTOS COURTESY BORD FAILTE PHOTO

seek private backers. The Kilkenny Festival has asked those artists who performed at previous festivals to put on a benefit gala concert to raise the money, and the Cork and Wexford festival committees are hunting for sponsors. The Dublin festival committee first expressed fears that the event due to take place in October might have to be cancelled, but then the Dunkirk spirit showed itself, with the committee acknowledging that "the festival was too important for the cultural life of Dublin and Ireland to be allowed to die in this pitiful and shaming way."—JOE CARROLL

AMSTERDAM

A New Group Of Voters

For the first time in Dutch history, some 350,000 foreigners living in the Netherlands will have had the opportunity to go to the ballot box to vote in municipal elections in mid-March. A constitutional amendment last year has now made it possible for foreign workers, mainly Turks and Moroccans, to vote and also to put themselves forward as candidates for the municipal councils.

About 100 foreign workers seized this opportunity, and Turkish, Moroccan and Spanish candidates were included on the election lists of most Dutch political parties. The Labor Party boasted the largest number of foreign candidates on its list; but there were also those, primarily Moslems, who decided to back the Christian Democrats due to the religous touch attached to this party, and a few went along with the liberals and the smaller left-wing parties. The names of these new candidates were placed so low on the list, however, that their chances of actually being elected proved very slim.

In some of the major Dutch cities, Moroccans and Turks had their own lists, named usually after their leaders, such as "Akai" or "Anrani." The Surinamese had their own party of "Progressive Minorities" and the "Alliance of Immigrants," based in Rotterdam and headed by the only woman leader of a political party.

Foreign voters are eligible to vote if they have reached the age of 18, have lived in the Netherlands for at least five years, and have obtained legal status before February 4, 1986.

For months before the elections the Dutch union of local authorities and the Interior Ministry were busy distributing brochures and information explaining the system of a secret ballot to this new group of voters. Special mock ballots were staged publicly and on television by Dutch speaking migrant workers to demonstrate how the system worked. "Never use your own pencil," Mustafa Boukehan advised his fellow Moroccans, pointing out that a "red pencil" on the ballot box had to be used in order to cast a valid vote. "Always read from left to right," was another important piece of advice. This was most valuable information, for the most anti-foreign party, the small Center party, was listed at the utmost right of the list of parties and their candidates.

Jan Beerenbout, a Dutchman who became a Moslem himself about 30 years ago and is employed by the Amsterdam municipal council, functioned as a go-between among the Dutch political establishment and the foreign quarters. All mosques in the Netherlands received and distributed information brochures to enlighten their flock, and the election system was discussed in depth in Turkish and Arab coffee houses throughout the country. National associations of Turks and Moroccans invited Dutch political leaders to come to speak to them and to explain what exactly their parties stood for. The Christian Democrats also established an "intercultural consultation office," a special advisory center for ethnic minorities, where not only migrant workers, but all foreigners living and working in the Netherlands, could meet and discuss the upcoming election.

Trugay Tankir, candidate in the city of Deventer, said that the issues of work and employment opportunities for their children, whose future may well be Dutch, were the main issues for the new group of voters. At the time of writing, it was estimated that some 60 percent to 70 percent of the foreigners would go to the polls.—NEL SLIS

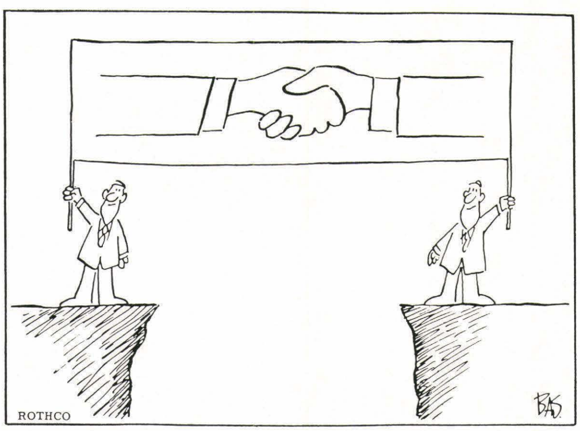
LONDON

The Special Relationship

"They're overpaid, oversexed and over here," became a tired music hall joke comedians told against Americans many a time during World War II. Never carrying more than a hint of malice, the phrase neatly communicated a mixture of resentment people felt at Britain's manifest dependence on the United States, their jealousy of America's power and riches and their irritation at the multitudinous presence of the U.S. servicemen with their loud voices and bulging wallets.

But neither resentment, nor jealousy, nor irritation really added up to popular anti-Americanism. On the contrary, all the evidence suggests that most people appreciated that Britain could have lost the war without the aid of the U.S., and were duly grateful. They were also grateful for Hollywood's outpourings and, as the 1950s progressed, for American television programs and for Elvis Presley.

The political establishment may have been somewhat more equivocal. On the one hand, the U.S. industrial machine and military strength had more than helped to defeat Hitler and to free British colonies from the Japanese; U.S. finances had paid for Western European recovery under the Marshall Plan; and the U.S. commitment to, and leadership of, the North Atlantic Treaty Organization (NATO) seemed essential to prevent Soviet communism from engulfing the entire Continent. On the other hand, however, British leaders accumulated a raft of resentments against U.S. policies in the 1940s and 1950s, such as American efforts to end British colonialism, their encouragement of European union, the "sell-out" at Suez and various other manifestations of U.S. leadership, which seemed increasingly designed to remind Britain of her declining status in the world.


ROTHCO

But despite these abrasions, anti-Americanism has not had a strong hold in the British political establishment in the post-war years. Certainly there was nothing anti-American about seeing Britain's future as necessarily tied to the development of the European Community, nor in wishing it to be part of a strong political and economic entity capable of sustain-ing European global interests and counterbalancing American domination of the Western alliance.

All the more strange, therefore, that Prime Minister Margaret Thatcher and some of her ministers are raising the specter of "anti-Americanism" in the debate over Britain's industrial policy, or the lack of it. During the row which proved so highly damaging to her Government over whether Westland Helicopters should join with Sikorsky-Fiat or with European Consortium, it seems first to have occurred to her that the opponents of the Sikorsky solution might be seen, in the United States at least, as anti-American. In the subsequent row about whether parts of the ailing British auto manufacturing company, British Leyland—including that once proud symbol of British technology, the Land Rover—should be sold to General Motors, she has been even more explicit in identifying the opposition to the proposal as anti-American.

All of this is, of course, quite nonsensical. The Prime Minister is confusing a patriotic concern, albeit misguided, to maintain a national industrial asset under British control, with resistance to an American multinational acquiring that asset. Americans would therefore be wrong to take a lead from Margaret Thatcher and to conclude that Britain was being gripped by a rising tide of anti-Americanism.

The London *Sunday Times* weighed in with an opinion poll on the subject recently which the newspaper mischievously interpreted as showing that "anti-Americanism has become more strongly rooted in British attitudes to a wide range of key issues." Predictably the poll showed an overwhelming majority in favor of keeping British Leyland British. On a more general level, 6 percent thought that Americans pay too little attention to British views and 61 percent were of the opinion that the British pay too much attention to the American viewpoint. Questioned on American influence, 56 percent thought that there was too much of it on British industry, 51 percent on the British economy, 67 percent too much on defense policy and 59 percent on British television.

These last responses appear to be much more a critical commentary on Britain's client position than an expression of anti-American feeling in the population, as the British are just as much capable of resenting any external influence even if it were wielded by the Kingdom of Heaven!

Interestingly, the poll revealed that 68 percent of people asked believed that President Ronald Reagan genuinely wants world peace, which, one suspects, adds up to much more confidence in the President than the British had four years ago, and is a genuine shift in sentiment. Since there are no earlier polls that offer a useful guide as to whether "anti-Americanism" is on the increase, it could well be suggested that British resentment, jealousy and irritation with the United States is probably much the same as it always was.—JOHN WYLES

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PARIS

A New Age For Television

France has recently taken many controversial decisions in an effort to scramble out of the stone age of television. It has abandoned the traditional state-owned television monopoly to introduce commercial stations and there is an amitious project underway to make cable television available across the country by 1990. Later this year, France will launch its TDF-1 direct broadcasting satellite (DBS), a move that some think will put France in the avantgarde of television production, while others view it as an expensive experiment that will be quickly overtaken by new technology.

Most European countries have opted for medium-power satellites that transmit to a large dish at a central receiving station, which in turn distributes to households through cable. France has jumped that stage of the technological evolution process of television to move straight to the bigger—and better—direct broadcast satellite. The DBS has so much power divided between the few channels that it can transmit high-quality pictures directly to any home that is equipped with a small satellite dish of less than 3-foot diameter.

Germany will become the first country to launch a DBS this summer, with France following suit in the fall. But even before the French TDF-1 becomes operational in early 1987, it has come under sharp attack. The development costs are estimated at a steep 3 billion francs; operation was delayed by the crash last summer of an Ariane rocket, which was to place the satellite in orbit, and thus set back the launch to November; and there were other delays due to technical problems in developing some of the prototype parts.

The French DBS project is the world's first international commercial venture into marketing high-quality television. Unlike Germany, France can broadcast into most European countries and hopes to draw a market beyond its borders. But the question is whether the high-cost DBS is commercially viable, even with such a wide market base.

France is banking on the high-resolution pictures and top-quality sound to sell the service. Officials at Télédiffusion de France—the government agency responsible for the satellite project—call France a pathfinder and view the DBS as the way of the future. For the minimal price of a small dish, roughly 5,000 francs, they argue, subscribers to TDF-1 will get state-of-the-art quality. They will be in on the ground floor of an evolution to cinema-quality television sets that French authorities predict will become the norm in the next decade.

But others, including Eutelsat, the pan-European satellite agency, view that thinking as faulty. What the consumer wants is a variety of programming, they say. And that is an area in which France is weak. It will devote one channel out of four on the DBS satellite to a new commercial station that can be received without DBS over the air. Another channel will carry cultural events that have limited marketability. A third channel will feature English-language broadcasting.

Eutelsat and others believe that the appeal of an ultra-fine picture is limited, and that in the near future much les powerful—and therefore cheaper—satellites will be able to offer images of almost equivalent quality. But with up to 20 more channels per satellite, the cost of the satellite would be defrayed between a larger number of enterprises—or countries—each buying space.

Many analysts think that French hopes for marketing its DBS service across Europe are founded on technology that is a decade old. French officals, on the other hand, counter that if they are right, it will be the prestige-quality pictures, which cannot be transmitted on anything less than a DBS, that will count in the future. "Why stop progress? Why put the brakes on evolution to the next generation of television?" said one TDF official. "Let's profit from it instead."—Brigid Janssen

LISBON

A Flow Of Funds

Portugal will receive a net transfer of about $270 million from the E.C.'s budget, according to official figures recently published by the Portuguese Government. The country's full accession to the European Community this year, as well as the special arrangements concerning Portuguese contributions to the E.C.'s budget, which will cover a transitional period of seven years, have made possible this large transfer of funds. In 1986, for example, Portugal will obtain an 87-percent rebate in its payments to the Community.

For the time being, this provisional financial balance, which does not include loans made to Portugal by the European Investment Bank (EIB), seems adequate to quell some of the more pessimistic arguments, which claim that Portugal could become a net contributor to the common budget, and allow for a remake of that famous British budgetary quarrel.

Some structural conditions, such as the country's high dependency on food imports, did much to fuel those fears. Nevertheless, those experts who were involved in the negotiations for Portugal's accession, insist that the specific measures included in the accession treaty make it safe to expect that Portugal will be a net recipient of E.C. income at least during the first ten years of membership.

Money will not come without effort, however. In fact, monies received by any of the member states from the Community's funds have to be used to finance specific projects that can only be selected if they respect the strict regulations of the "Club". For a country like Portugal, this means—as it meant for Ireland, Greece and Italy—an important challenge for national administrative skills and organizaton.

This challenge has already been put to the test, and quite successfully so. Having gained experience in recent years through dealings with other international institutions, such as the World Bank and the EIB, Portuguese authorities were able to select a number of appropriate projects to be approved by the E.C.'s Regional Fund in a very short space of time.

The Regional Fund will represent, in the years to come, the major source of E.C. grants to the new Community member. It will provide some $240 million to finance development projects in Portugal. More than 75 percent of that amount will go into the development of infrastructure and energy programs to be carried out by the central administration of public enterprises. It is expected, however, that, with time, an increasing share of the Regional Fund's contributions to Portugal will be administered by local authorities, as is already the case in some areas. Some funding will also be available for private beneficiaries, but, as experiences in some of the other member states has shown, the bigger part of the cake will go toward infrastructural programs and initiatives during Portugal's first year of membership.

Programs in this area can expect to be carried out without too much difficulty. Much more intricate will be the task of trying to absorb funds in the agricultural sector. Longstanding structural obstacles, weak management, incipient professional training and an inefficient central administration will make it hard for Portugal to profit from the significant amounts made available by the Community for investment in this area in the next decade or so.

The results of this effort will be crucial in the global evaluation of the Portuguese integration process and, in particular, in the ability of the country to cope with the market conditions prevailing in the E.C.'s Common Agricultural Policy. Moreover, that money will be needed to fight Portugal's heavy dependence on food imports.

Despite the reasonable performance in 1986, much work still remains to be done on the state organization and coordination mechanisms, on the participation of private and public enterprises, on disseminating information and administrative procedures. Big expectations have been created around the use of what people call "E.C. money" and its contribution to modernization and change. In the immediate future, it will be hard to find any other instrument that can as strongly shape the attitudes of Portuguese public opinion toward European integration.—Jose Amaral €

FARM TRADE: A U.S. VIEWPOINT

CONGRESSMAN URGES REFORMS TO EUROPE'S COMMON AGRICULTURAL POLICY.

DOUG BEREUTER

Agricultural trade is a subject of great concern to the American people. In 1980-81, the value of U.S. farm exports hit a record $44 billion. The following year, for the first time in 15 years, U.S. agricultural exports declined. For 1985, we expect these exports to top out at $32 billion to $33 billion, a 25-percent drop in only five years. Compounding this decline are agricultural prices which have fallen in the last two years—8 percent for wheat, 19 percent for corn and 34 percent for soybeans.

Unfortunately, this decline cannot be seen simply as a business reverse. Having experienced literally astounding growth in agricultural trade throughout the 1970s, American farmers made investment decisions of correspondingly great magnitude. With the turndown of the 1980s, these investment decisions are coming back to haunt American agriculture and its farm communities. Many observers feel that not since the Great Depression has rural America been in such bad shape. Needless to say, in such circumstances, the pressure on the gov-

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FARM TRADE: A EUROPEAN VIEW

MEMBER OF EUROPEAN PARLIAMENT DETAILS E.C. OBJECTIONS TO U.S. POLICIES.

DAVID M. CURRY

There is something quaintly charming about the quality of most European-American debates about agriculture: The participants tend to resemble two incurable alcoholics propping each other up while discoursing learnedly on the virtues of temperance. The fact of the matter is that, when it comes to supporting farmers, the United States and the European Community are the two oldest recidivists in the business. Indeed, American and European farmers need each other and depend on each other. It is only the extent of support given on one side of the Atlantic which justifies the existence of equally burdensome support on the other. In this sense, the farm lobby is interdependent.

So, the first thing to admit is that, on both sides of the Atlantic, political pressures in defense of high farm supports are likely to be more coherent and motivated than those opposing them and that, consequently, measures to curtail support programs and reduce their cost will almost always be diluted before they reach the statute book. That has been the case with the E.C.'s series of reforms of the

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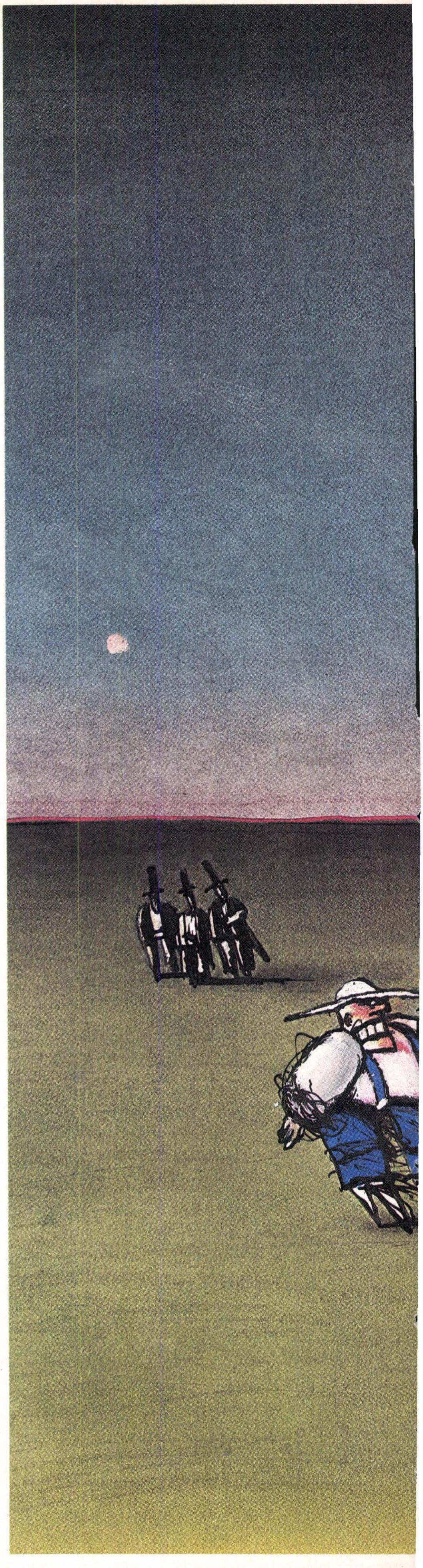
David M. Curry is a British Member of the European Parliament (MEP).



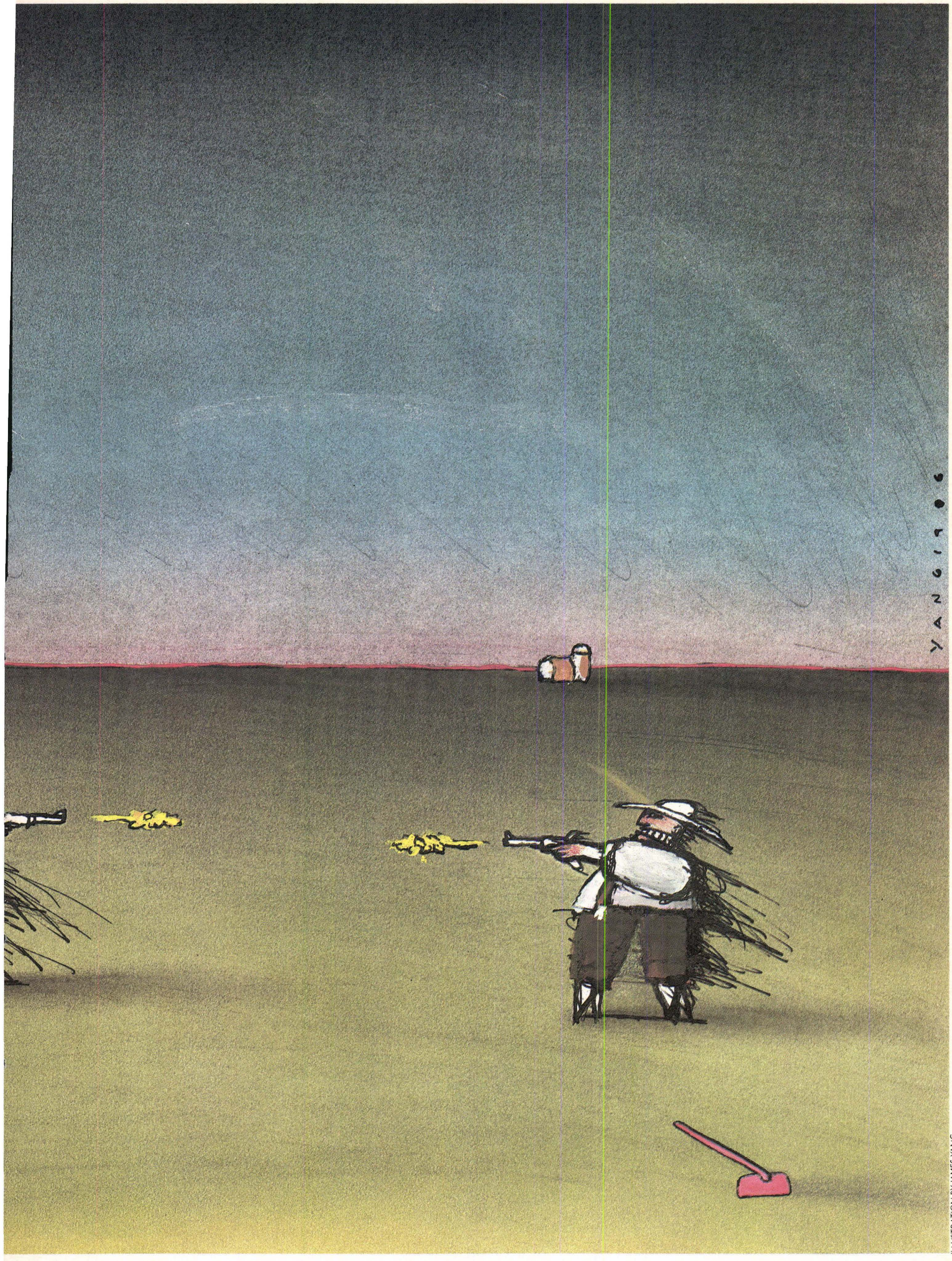


ILLUSTRATION BY JAMES YANG

FARM TRADE: A U.S. VIEW
Continued from page 12.

ernment in Washington to "do something" has been enormous.

No discussion of American farm policy and agricultural exports will be very far underway before the subject of European agricultural production and exports and the E.C.'s Common Agricultural Policy, moves to center stage. European spokesmen frequently complain that the United States seeks to blame the E.C., and especially the CAP, for all its agricultural problems. I am not one of these, being fully aware of the numerous causes for the decline of U.S. farm exports which have nothing to do with the CAP. Among these are, chiefly, an overvalued dollar; problems of debt, recession, and hard currency shortage in a number of our major customers; and the emergence of other forceful, new competitors, such as Argentina and Brazil. There was also the matter of our grain embargo of the Soviet Union, which our E.C. allies generally supported.

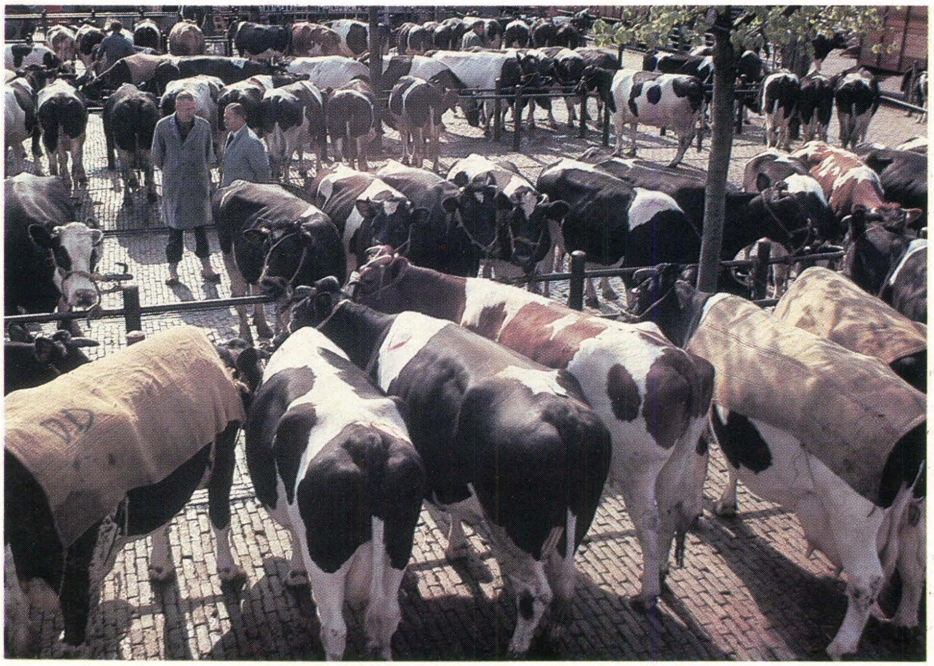
But if not all of our problems in the farm export sector can be laid at the feet of the CAP, some of them clearly can. Specifically, the CAP, at the least, promotes an inefficient use of agricultural resources, and, quite possibly, affects trading practices which are both unfair and irresponsible.

In examining the origins of the CAP, I find that I can understand fully and endorse the objectives of its authors. Increased productivity, guaranteed supplies, stable markets, and reasonable prices for consumers were entirely understandable goals. The fifth goal, to promote a fair standard of living for farmers, also made good sense, given the fact that nearly 25 percent of the E.C.'s population was then engaged in farming. Today, however, fewer than 8 percent of the European people work the land and the CAP's 30-year-old rules badly need updating. They have resulted in staggering agricultural overproduction, as the following statistics illustrate:

- At the start of the 1970s, the E.C. was a net importer of over 20 million metric tons of grain annually. Since then, E.C. net exports have increased to the extent that in 1984-85 E.C. net exports of all grains, food and feed reached 18.3 million tons.
- E.C. wheat and wheat flour exports have increased five-fold during the past 14 years, to an estimated 17 million metric tons in 1984-85.
- The E.C.'s share of world wheat and wheat flour trade has increased from about 6 percent in 1970-71 to 16.1 percent estimated for 1984-85.
- The E.C. has gone from a net importer of white sugar in 1976-77 to the world's largest commercial exporter, 5.4 million metric tons in 1984-85.
- Prior to 1973-74, the E.C. was a net importer of beef and veal. Now the E.C. is the world's largest exporter.
- In poultry meat, the E.C. has moved from being the world's largest importer in the mid-1960s to the world's largest exporter. The E.C. now accounts for 36 percent of world poultry trade.
- The E.C. is now the world's largest egg exporter, shipping 2.7 billion eggs net of intra-E.C. trade in 1984. Prior to the inception of the CAP for eggs in 1967, the E.C. was the world's largest importer, importing 1.5 billion eggs annually.
- The E.C. is the world's largest dairy exporter, accounting for about 60 percent of world trade.
- If present trends continue, the E.C. will soon become the number-one exporter of agricultural products—measured in terms of value—in the world.

All kinds of things are wrong with the CAP, but nothing more so than that it continues to stimulate overproduction. The long-term trend has been for E.C. production to increase by 1.5-2.0 percent annually, while consumption has grown by only 0.5 percent. The excess of output induced by high support prices leads to reduced imports or greater exports, which mean lower world prices. The CAP's price support system is designed so that prices are not used to clear markets and influence future production, but only to guarantee a "fair standard of living." Intervention prices encourage farmers to respond to artificial incentives rather than to satisfy market demand. For example, despite the chronic oversupply of milk, the resources of many farms dictate that the most suitable commodity, in terms of income generation, is milk. What is right on the individual level may be very wrong on the macroeconomic level.

As the CAP has developed, so the range of commodities support has widened, until by now practically everything capable of being produced in a temperate climate is included. Little or no attention is paid to the fact that these commodities are not being produced efficiently, that is, at the lowest possible cost. More efficient producers of certain products in Australia, New Zealand, Argentina, Brazil and throughout the Third World, to say nothing of the United States, are being crowded out of the market. Of course these CAP policies have domestic costs as well. Consumer prices are sharply inflated and the E.C. treasury is threatened with bankruptcy.



Quotas have been imposed on the E.C.'s dairy sector and a further 3-percent cut is now being sought.

To the extent that these hardships are domestic in nature, it is for the E.C. to devise solutions. In this regard, reluctance to take any step which might dilute the CAP, which is the most successful aspect of European integration and thus, a cornerstone of the alliance, is entirely understandable.

But when an aspect of E.C. policy results in profoundly negative consequences for the United States, and I speak here of subsidies, we cannot remain silent. While I have bent over backward to concede that our own system has not been managed with optimum efficiency, there is a crucial difference be-

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FARM TRADE: A EUROPEAN VIEW Continued from page 12.

Common Agricultural Policy (CAP). It was, equally, the history of the U.S. farm bill.

One result of this is that there is a major difference of perception about events on the two sides of the Atlantic: The United States sees its farm bill as a determined effort to get support prices down and rely more heavily on the market; the E.C. farm "lobby" sees it as a declaration of war by the United States against European farmers because of the export promotion measures and effects on world prices. The E.C. sees its own reform measures as a series of desperate struggles against a constrictive decision-making process to force E.C. prices down by hook or by crook. The United States tends to dismiss the efforts as feeble and unsustained because they do not result in systematic price-cutting.

The charges made against the E.C. are familiar. They may be summarized thus:

- A price support system geared to income maintenance, not to the need to clear the market. This has stimulated production increases even in those areas where E.C. output is inherently inefficient.
- Progressive closing of E.C. markets to American products, leading to a contraction from $9.8 billion in U.S. farm sales in 1980 to $6.7 billion in 1984.
- The danger that the E.C. will take the final step over the Rubicon of trying to unbind the tariff conditions which apply to U.S. protein exports like soybeans and corn gluten feed under the General Agreement on Tariffs and Trade (GATT).
- A sustained E.C. assault on world markets fueled by export subsidies.

The conflict has been exacerbated by the loss of U.S. competitiveness due to the strength of the dollar, the loss of markets caused by political embargo, the arrival on world markets of new competitors such as Brazil and Argentina, the increasing self-sufficiency of some traditional importers such as India and China and the world-wide recession which has deprived some developing countries of purchasing power. After massive investment in the 1970s to meet the requirements of an expanding market, this turnaround in world conditions has caught U.S. farmers in a vicious downward spiral of debt and bankruptcy.

Let us, for the moment, prop up one of the drunks against the lamp-post and examine the other one. A European looking at U.S. farm legislation would note that the range of export incentives and subsidies is increased:

- The Export Enhancement Program is made mandatory, with the Secretary of Agriculture being ***required*** to use $2 billion worth of CCC commodities over three years as subsidies to make U.S. products more competitive. This amount was later halved by Congress, with an additional $500 million remaining optional.
- The Secretary is required to make not less than $5 billion available annually in short-term export credit guarantees, not less than $325 million available in 1986-90 (cut later by Congress to $110 million in 1986-88)

in cash or surplus commodities to counter "unfair" trading practices of other countries and $500 million a year until 1988 in intermediate loan guarantees.

- Public Law 480 program is reauthorized until 1990.
- The maintenance of the United States' intensely protectionist system against imports by means of quota or "involuntary" restraint agreements or veterinary controls.

The farm act sets agricultural spending at an average of $18 billion for three years at a total cost over the period which is $17 billion above initial budget estimates.

However much the Administration might proclaim that the thrust of the farm bill is to get back to the market place, in the E.C. it is seen as a declaration of war based on a notion of a conception of American right to dominate the world markets that would not be admitted. One senior Brussels adviser described it as "a new sort of napalm"—language which indicates the intensity of the European reaction.

In their own defense, the Europeans would argue that the E.C. is still the world's biggest agricultural importer. Indeed, there is a very coherent argument that blames the E.C.'s cheap import policy for proteins for inflating the surpluses, which then have to be subsidized onto world markets. E.C. livestock production is encouraged by the access to cheap feed materials like soybeans and corn gluten feed. This not only stimulates output, but means that E.C.-produced feedstuffs—like cereals—are displaced from the market. The consequences are that both the surplus livestock and dairy products and the displaced grain are forced to find outlets on the world market in competition, inter alia, with U.S. exports.

This argument has a logical coherence to it, but it must be repeated that the E.C. is *not*, repeat *not*, about to seek curbs on protein imports. To unbind from the GATT could require compensation. The only farm sector with the trade surplus to provide compensation would be grains, and it would be self-defeating to curb soybeans only to liberate grain imports. And there are positively no volunteers to play the role of the sacrificial victim to agricultural interests within the industrial sector. The war against soybeans is a rhetorical affair that plays a time-honored role in the lexicon of the farm lobby, but it has no political substance as a policy for unilateral E.C. action.

A tit-for-tat exchange of agricultural insults will get nowhere, apart from stimulating a kind of intellectual invectiveness (a sort of trivial pursuit for farm politicians).

It is more important that each side understands the constraints upon the action of the other and the political, economic and financial environment against which he has to operate. As far as the E.C. is concerned, the following assertions can be made:

- The farm crisis in Europe is deep and likely to be continuous.
- CAP reforms have been undertaken and the need for further reform is inescapable.
- The pressure of external markets is a dominant factor in the E.C. crisis and indicates a tidal wave of problems which will put immense pressure on the political structures of the E.C.
- Reformers on each side of the Atlantic need to help each other by keeping their wilder men at bay.

These propositions need to be examined in further detail:

It Is a European Crisis Too.

No one disputes the severity of the crisis in the United States. The E.C. Commission in Brussels itself acknowledges this. In its 1985 report it writes: "In the United States overall agricultural income, which fell by about 40 percent in real terms in 1983, practically doubled in 1984, but should fall once more by 20 percent to 35 percent in 1985. Agricultural incomes in the United States have thus been practically halved in real terms over the past 10 years."

In Canada the trend is no better. After almost doubling between 1970 and 1974, agricultural incomes have fallen gradually in real terms, despite some signs of recovery in 1981 and 1984, and in 1985 probably fell 20 percent representing a 56-percent decline on 1974. Australian incomes have also moved downward. They plunged 60 percent in 1982-83, recovered spectacularly, but slipped back by 15 percent in 1984-85 and are heading for a further 10-percent decline in 1985-86.

The CAP has cushioned European farm-

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"NIP UP THE ROAD TO DENVER."

THE UNITED STATES SEEN THROUGH THE EYES OF A EUROPEAN.

ROY DENMAN

Over the last three and a half years I have spent a good deal of time explaining to surprised audiences why Europeans or alternately Americans think and behave they way they do. "Don't these guys understand about Congress?" I am asked—*Est-ce qu'ils ne comprennent pas l'essentiel?* It occurred to me that setting out some of these differences and explaining them might arouse interest. Any such attempt is an act of folly; generalizations about a huge decentralized continental country like the United States are bound to be obvious to the point of banality on one side of the Atlantic and barely comprehensible on the other. Even if this Head of Mission falls on his face in the process, the spectacle might for the weary reader be a welcome *divertissement.*

Let me begin with a basic proposition. Foreign policy is not primarily formed by consideration of the nature and history of the foreign problem. Given the history of the United States, it is formed more by internal influences, pressures in Congress, local politics and domestic lobbies. On the other side of the Atlantic, European reactions to the U.S. are often based on the illusion of a much greater similarity of culture and approach than in fact exists. Thus there are major gaps in appreciation on both sides.

Let me develop this by discussing in turn four areas in which the United States is more different from Europe than many Europeans think. Geography, demography, history and governance.

Geography

One factor is distance: A European has to live in the United States before he fully understands it. Two years ago, I flew with the family to Salt Lake City, hired a car and drove up to Seattle. We drove hour after hour through Utah and Wyoming, Montana and Idaho. For periods of half an hour at a stretch, there was no human being to be seen. For someone from a tightly packed Europe this is a revelation.

It would only be a slight exaggeration to say that Europeans tend to think of New York as the center of the United States with a suburb called California a few miles out to the west, and a place called Texas a few miles to the south. I once traveled with a Britisher who told me that, working in New York, he had had a telephone call one Friday from London asking him to nip up the road on Saturday morning to Denver, Colorado, (a distance of more than 3,000 kilometers) to deal with some customer complaint. Europeans find it difficult to understand not only the fact of distance in the States, but the influence this has on American attitudes.

In Lewiston, Idaho, I found an editorial in the local paper lambasting a local Congressman who had made a speech in Washington, D.C., including the use of "vis-à-vis" and "i.e." "What self-respecting Idahoan," thundered the paper, "would use fancy, pompous, foreign words like that? What's wrong with "in relation to" and "that is?" Washington was 2,000 miles away and not spoken of in the respectful terms which a Frenchman or an Englishman would talk of their capitals. Beyond Washington—out thousands of miles to the East—Europe was the equivalent of space travel.

"Why does American television never show anything about Britain?" an irate British visitor asked me. How much, I asked, was there last night on British television about Idaho or Wyoming? It is not that Europeans are more conscious of foreigners because they are wiser; it is simply that in Europe you live cheek by jowl with those from other countries.

Demography

Demography complicates geography for it does not stand still. The Eastern establishment, both Republican and Democrat, acted as a bridge between the heartlands of the United States and Europe over 50 years. Several times it saved the world.

The last 20 years have seen the balance of power and influence in the United States shifting from the East Coast to the South and the West, the Sunbelt. Between 1950 and 1980, the population of Texas, California and Florida jumped by 126 percent. In 1980, for the first time in U.S. history, there were more people in the Sunbelt than in the North and East. The Census Bureau predicts that by the year 2000, 60 percent of Americans will be living in the Sunbelt. All this means that links with Europe have become weaker. Europe, a Texan banker once told me, was an obsession of the New York establishment. The new demographics are having their influence on the making of U.S. foreign policy.

History

Americans seem to me curiously defensive about what they consider a lack of history compared with Europe. Europe suffers from an excess of history. But U.S. history is one of the most fascinating pageants in the world.

No European can live here without discovering that the United States is unique. It started out with the aim of being unique. "That which is our greatest comfort, means of defense above all others," Francis Higginson wrote in *New Englands Plantation,* "is that we have here the true Religion....thus we doubt not but God will be with us, and if God be with us, who can be against us?" Those who followed the Puritan colonists—the great wave of immigration in the latter 19th and early 20th century—were men and women who left tyranny and oppression and poverty to make a better society and a better life. No one can reasonably deny that, with a country now as rich and as equal in opportunity as the United States, they have had a great measure of success. Americans tend to think that theirs is a better ordered, freer, more rational society than abroad. This is not just nationalism, it is a feeling of moral superiority.

There is also the tradition of the pioneers. The transformation over 210 years of 13 ex-colonies to the leading power of the Western world was made by the pioneers and based on optimism. It was the pioneers who streamed across this continent in the legendary covered wagons, fought the Indians, hacked down forests, bridged rivers, built railroads and made a country. For Americans, nothing was and is impossible.

A friend told me of his first encounter

with Americans toward the end of World War II. He was with the Royal Engineers and it became necessary to build an airfield on an island in the Indian Ocean. The Royal Engineers—who after all had been in the business for several hundred years—estimated that building the airfield would take at least three months. An American Colonel said that they could do it in a week. The British smiled politely and invited the Americans to try, expecting that Colonel Loudmouth would soon get his comeuppance. The week ran out on Sunday afternoon. The Americans brought in bulldozers and worked round the clock. At noon on Saturday the airfield was complete and open. My friend's memory of the sequel was vague. But that quality of Americans he never forgot.

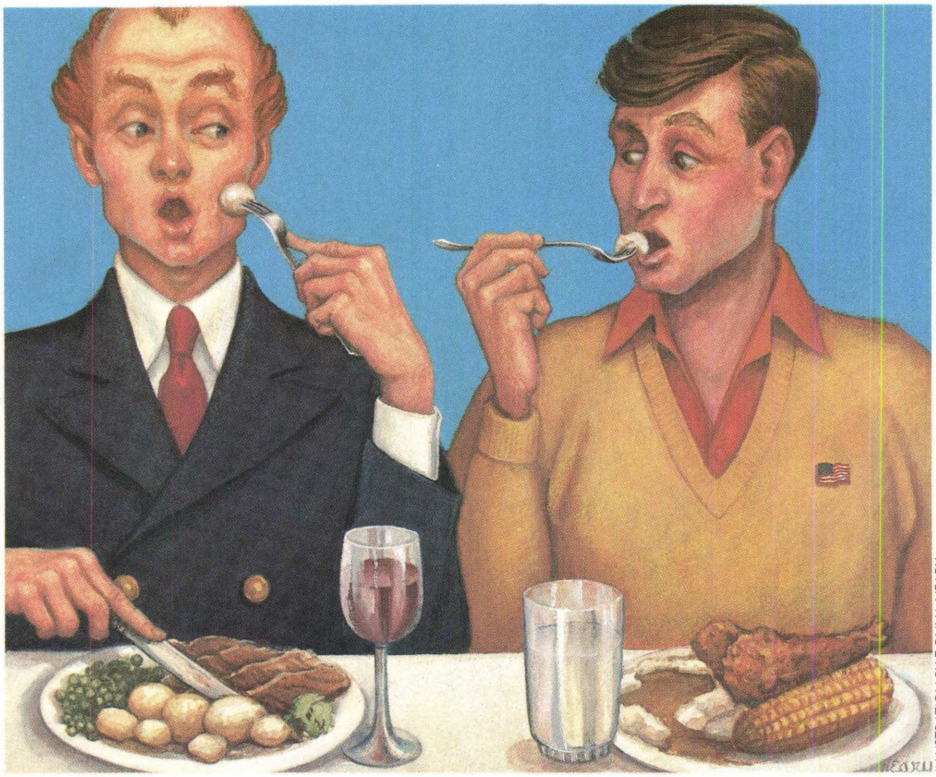
ILLUSTRATION BY DONNA NEARY

An important factor is the Civil War, forgotten in the North, always present in the South. Uniting a country is a difficult process. All the more in Europe, but even in the United States with one language and a relatively short history, the process was not easy. Europeans forget that the Civil War was not just about slavery. It was a conflict between two civilizations, and it was also about the degree of central control and the rights of the States.

Governance

It is the role and the power of Congress that most Europeans do not understand. Europeans tend to think of Congress as a parliament, vociferous in criticism, but rarely, on a day-to-day basis, decisive. Time after time, I have accompanied Europeans to the airport only to hear: "I have seen X in the Administration and that question has been fixed." I have to say no, it has not been fixed. You have made a start. But until you have convinced Senator Y and Congressman Z, the question has not been solved. What, I am asked, have those folks to do with it. So I have to explain that the founding fathers in their wisdom set up a government of three branches. The first and most important is the Congress, which writes the laws. The second is the administration, with the comparatively humble task of administering what has been enacted into law. The third is the judiciary, to settle any questions of interpretation.

I remember once, at the end of a trade negotiation in Geneva in the 1960s, my then boss—a senior British official—being asked by the chief American negotiator how he was planning to get the agreement through the House of Commons. My boss could not understand the question. He puzzled, "We have a majority of 91." Between the two of them hung a fog of incomprehension.

By American standards the question was a good one. Had we caucused the right chairman of committees? Had we prepared the ground with some of the more vocal Members of Parliament?

A curious phenomenon is the lack of an institutional memory. American government personnel change, not only at the top, but a considerable way down into the bureaucratic structure every time there is a change of presidency. This has many advantages, such as bringing fresh blood, outside expertise, particularly in the business field; it avoids the staleness which can affect a service-for-life bureaucracy. However, it does mean that agreements concluded in the 1950s, as well as in the 1970s, run the risk of being lost in the mists of time. Since international understanding must be based, whether political or economic, on a certain continuity, this is a disadvantage.

These are some of the influences which condition American attitudes to the outside world. Some of the results are constant. Constant are:

- A general feeling that abroad is a good deal more remote than it is for Europeans, with their quaint patchwork of different states, their memories of ex-colonies and their greater dependence on the Third World for raw materials.
- The American feeling that theirs is a better society than other countries—fairer, more rational, more equal in opportunity. Consequently, an occasional outburst of international idealism, such as Woodrow Wilson and the League and later U.S. support for the founding of the United Nations. But there is a difficulty in understanding the thought processes of other countries since Americans tend to see the rest of the world through the eyes of their well-ordered and rational society.
- An approach to international relations which some unkindly souls call legalistic, but which in any case reflects the importance in this country attached to law and lawyers.
- A difference in cultural attitudes. The cold chill felt by many a European when he finds lunch accompanied simply by glasses of iced water is only equalled by the amazement of most Americans at finding Europeans happily setting aside two hours a day for an elaborate three-course lunch washed down by wine.

But what is fascinating is that despite all these differences of perception, the trans-Atlantic relationship has worked. An extraterrestrial intelligence analyzing our radio and television transmissions would long ago have concluded that the United States would take no part in world affairs. Yet on all the fateful occasions over the last 50 years, the United States was ready to stand up and be counted—the immortal 101st Airborne at Bastogne, the Marshall Plan, the Berlin airlift, the founding of the North Atlantic Treaty Organization and American support in the 1950s for the beginnings of the unification of Europe. Let us hope that for the next 50 years the relationship will be as healthy and as strong. €

Sir Roy Denman is the Head of the E.C. Commission's Delegation to the United States. This article appeared previously in the *International Herald Tribune*.

DEFICITS AND THE DOLLAR: THE WORLD ECONOMY AT RISK

SOME POLICY RECOMMENDATIONS TO CORRECT HUGE TRADE AND BUDGET IMBALANCES.

STEPHEN MARRIS

The rise in the dollar over the first half of this decade, Stephen Marris has written in his new book Deficits and the Dollar *(Institute for International Economics, 1985), has been both a cause and a symptom of the current imbalance in the world economy. Huge U.S. budget deficits in recent years have contributed domestically to a recovery in demand, but this recovery has been financed in large part by savings from abroad, creating a shortage of world savings and threatening a "shock" to the world's balance of savings and investment. At the heart of the problem has been the interplay of opposite policies followed by the United States and its major industrial allies, who have cut their structural deficits enough to offset the expansionary shift in the United States. The result has been a strong American recovery, but slow growth and mounting unemployment in Europe.*

The dollar is on its way down, and the United States will probably resume its role as a capital exporter by the 1990s, Marris believes. In the meantime, however, structural changes generated by the prolonged over-valuation of the dollar will have to be reversed when the time comes to restore the U.S. trade balance to a sustainable level—a costly and problematic process that could have been avoided given more internationally consistent macro-econonomic policies and a better functioning international monetary system.

Despite its recent drop, the dollar still has a long way to go to stop the current-account deficit from getting worse. The eventual landing may be "soft," provided that foreign capital inflows continue and serious budget deficit cuts are made. It is more likely to be a "hard" landing, however, if the dollar overshoots and the U.S. current account goes into surplus. The inflation rate could double, interest rates could shoot up and recession could spread through the American economy. In the following summary of his book, Marris offers his suggestions on how a new mix of international fiscal and monetary policies could make the best of the situation by softening the landing of the dollar, enhancing growth in Europe and avoiding in future years some of the problems of the recent past.

Under the cooperative scenario illustrated here, the U.S. structural budget deficit should be reduced to zero by 1990. The other OECD countries should take expansionary monetary and fiscal action sufficient to reduce to negative impact coming from the U.S.

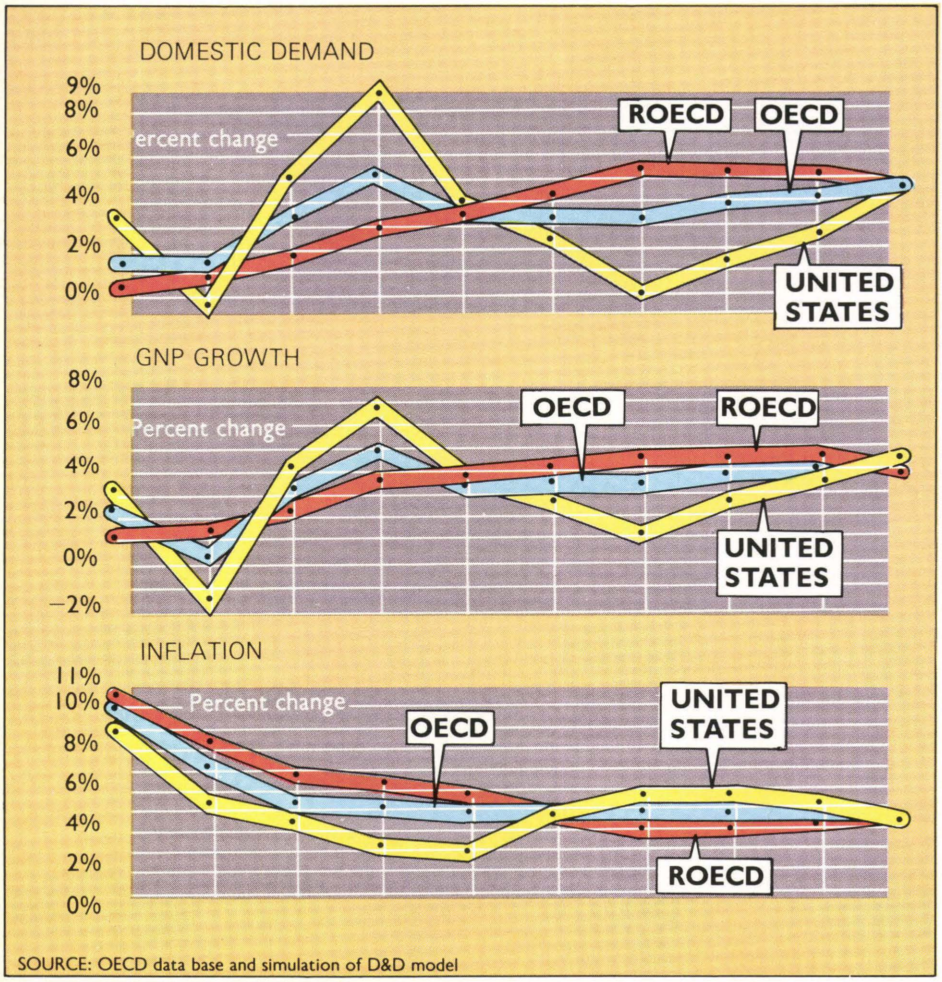

CHART ILLUSTRATIONS BY DALE GLASGOW

The right answer to the present disequilibrium in the world economy is to correct its basic cause: the divergent trend in investment demand relative to domestic savings in the United States and the rest of the world. This can and should be achieved by a major change in the mix of fiscal and monetary policy by the United States and its major allies.

The Cooperative Scenario

The U.S. structural budget deficit should be reduced to around zero by 1990. The cuts should be front loaded to minimize the risk of a stabilization crisis. The other OECD countries should take expansionary monetary and fiscal action sufficient to offset the negative impact coming from the United States and reduce unemployment during a period of "catch-up" growth. Cooperative action by the major central banks should aim to bring down the dollar and stabilize it at a level consistent with rough balance in the U.S. current account by 1990.

Cooperative action along these lines would generate positive feedbacks yield-

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ing significant benefits to all concerned. For the United States, the costs of rectifying the present disequilibrium would be reduced in terms of both inflation and growth. Inflation would rise less because the dollar declines by under 30 percent instead of over 40 percent. Export demand would be stronger, despite the smaller drop in the dollar, because of faster growth in the rest of the world.

The other OECD countries would grow faster and unemployment in Europe might be brought down to 8 or 9 percent. The rest of the OECD area (ROECD) would enjoy several more years of steadily improving economic well-being in terms of both lower inflation and a fast rise in domestic spending. This should greatly help to dissipate "Europessimism."

There would also be major gains for the developing countries. By 1990, the purchasing power of their export earnings could be 40 percent higher than in the hard-landing scenario. With sustained economic growth in the OECD area and a return to normal levels for the dollar and interest rates, the debt-export ratio of the seven major developing-country debtors would be halved between 1984 and 1990 to well below its 1977 level. In other words, by 1990 the accumulated damage to the creditworthiness of the developing countries since the mid-1970s would have been reversed—essentially by a reversal of the factors that caused it.

This scenario may sound too good to be true, but before dismissing it out of hand, it should be borne in mind that the underlying conditions for a period of sustained growth in the world economy are better today than at any time since the 1960s.

It would, nevertheless, be far from easy to pull off, because of the difficulty of breaking out of several forms of an expectations trap. Two major departures from current conventional wisdom would be required: the governments of the other major OECD countries would have to become convinced that a temporary fiscal stimulus would, in the present international context, be highly beneficial; and the U.S. administration would have to demonstrate that it had become genuinely converted to the idea that an active and cooperative policy toward the dollar was not only desirable but would work. In both cases, the conversion from present attitudes would have to be sufficiently convincing to convince the markets as well.

A satisfactory outcome for the United States requires both a sharp cut in the budget deficit and a substantial decline in the dollar. Either without the other would severely depress the economy: If the deficit was cut but the dollar remained strong, domestic output would be crowded out by the exchange rate; if the deficit was not cut but the inflow of foreign savings dried up, investment demand would be crowded out by rising interest rates.

A prompt but manageable decline in the dollar can be brought about only by both a shift to fiscal restraint in the United States and a shift to fiscal stimulus in the ROECD area. By itself, significant fiscal restraint in the United States could simply lead to a worldwide slowdown: absent any upward shift in investment demand relative to savings in the rest of the world, the dollar could remain strong and the damage to the structure of the U.S. economy and the fabric of the world trading system would go on building up. Equally, however, a substantial fiscal stimulus in the ROECD area without a corresponding cut in the U.S. budget deficit would, in time, lead to a worldwide crowding out.

Faster Growth in Europe and Japan

Paradoxically, by provoking such a strong and unsustainable rise in the dollar, Reaganomics has created the potential for a "Reagan miracle" in Europe and Japan of the kind enjoyed by the United States in 1983-84. They could take a strong dose of expansionary action, and set off a strong rise in domestic demand, while inflation would be held down because their currencies would be appreciating, and budget deficits would not push up interest rates because their savings would be flowing back from the United States.

Once the dollar's decline gathered momentum, ROECD central banks should be prepared to raise their monetary targets by enough and for long enough to bring about a significant decline in interest rates. A sizeable, albeit temporary, fiscal stimulus would also be needed. The multiplier effects of fiscal action would be higher than suggested by conventional estimates because of the international context in which it was being taken. Allowing for this, the necessary cumulative shift in ROECD fiscal stance might be on the order of 3 percent of GNP, raising the ROECD structural deficit by 2 percent of GNP from the 1984 position by 1988. The increase in actual budget deficits would be very much smaller because of the automatic stabilizers.

Scope for taking expansionary actions would be greatest for countries with currencies that would attract investors trying to move out of the dollar, including, in particular, Germany and Japan. If they took the lead, scope would open up for others to follow suit, though on a more modest scale. Prompt and skillful realignments within the European Monetary System would be necessary. The United Kingdom is in a somewhat special position and could have more to gain than most from a cooperative approach.

Such a strategy could only succeed, however, if Europe and Japan did not make the same monumental mistake as the Reagan Administration. What is needed is a substantial but temporary fiscal stimulus. Once the share of private investment in GNP began to rise to more normal and satisfactory levels, prompt action would be needed to make room for it by cutting back the public sector's demands on public savings.

Europe's general strategy should be to cut taxes now, while at the same time putting in place programs to cut expenditures and restore the appropriate structural budget balance over a period of years. Tax cuts should be directed primarily to reducing the wedge between the cost of labor to employers and the after-tax incomes of employees resulting from income taxes and, especially, high social security charges. These cuts should be substantial and permanent. If there is a need to make up for lost revenue as recovery gathers momentum, the yield from indirect taxation should be increased.

On the expenditure side, once the decision has been made to go for faster growth, plans should be made in advance to phase out programs whose main or only justification has been slow growth and high unemployment, for example, subsidies to lame-duck industries and labor market programs serving as palliatives for high unemployment. Further adjustments may be needed to bring the future evolution of social benefits into line with countries' abilities to finance them. On the other hand, a good case can be made for some increase in public infrastructure investment, which has borne too much of the brunt of budgetary restraint.

For Japan, the situation is different. The main domestic consideration is how best to use the present surplus of domestic savings to prepare for the expected scissors movement—as the rapid aging of the population gathers momentum in the 1990s—between rising demands on public expenditure and declining private savings. It makes sense to export part of these savings to build up income-earning assets abroad, but there are limits to the size of the current account surpluses; uses that can be run without provoking destructive trade tensions. Given the aging problem, maximum use should be made of the present surplus of domestic savings to finance improvements in the economic and social infrastructure, including housing, transport, health care and cultural, leisure and recreation facilities.

In the field of company taxation, this could be done by granting more favorable tax credits or depreciation schedules for domestically oriented investment. Outside the corporate sector, there is considerable scope for fiscal incentives and other action to encourage home ownership, as well as the provision of social and cultural amenities by the private sector, or jointly by the public and private sectors at the local level. The tax treatment of interest payments and receipts should be reconsidered.

These tax changes would not, however, provide enough stimulus to the economy in the short run, since Japan will be hit particularly hard by the necessary correction of the dollar and the U.S. current balance. This will require some combination of more public investment and income tax cuts.

Eliminating the U.S. Savings Deficiency

The basic fiscal problem facing the United States is that the existing tax base is too narrow to support the level to which federal expenditure has risen and is likely to continue. Other countries have reacted to this problem by introducing a value-added tax, but this might prove too easy a way to raise too much revenue. One possibility would be a hefty rise in the gasoline tax, phased in stages over five years to 1990, which would provide a good part of the revenue needed, while providing time to adapt the automobile stock and driving habits. If legislated in advance, with an element of front loading, it would be the kind of clear-cut measure most likely to convince the financial markets that definitive action was being taken to deal with the deficit problem on a permanent basis.

Monetary Cooperation and Exchange Market Intervention

Monetary cooperation and coordinated intervention would have an important role to play in managing the dollar's decline. In a first phase, the aim would be to prod the dollar down. The United States should follow a somewhat easier monetary policy, and the other OECD countries somewhat tighter monetary policies, than would be appropriate on purely domestic grounds. In a second phase, the aim would be to slow the dollar's decline and stabilize it at a level compatible with the longer run evolution of the U.S. current and capital account. This would require a tighter U.S. monetary policy and easier ROECD monetary policies than would be appropriate on purely domestic grounds. Large-scale intervention—or at least the threat of it—would also be needed to prevent the dollar from overshooting downward because of the size of the present disequilibrium and the lags involved in correcting it.

This runs directly counter to much of today's conventional wisdom. In terms of achieving the key domestic objectives of low inflation and growth, however, keeping the exchange rate within a sensible range is just as important as keeping the growth of the money supply within a sensible range. Indeed, recent experience with floating exchange rates has shown that the exchange rate has become just as powerful a channel of transmission from monetary policy to the level of domestic output and prices as the traditional channels of liquidity, wealth and interest rates.

> Europe's general strategy should be to cut taxes now, while at the same time putting in place programs to cut expenditures and restore the appropriate structural budget balance over a period of years.

The central issues involved here are not technical, but political in the broadest sense. The postwar record shows clearly that the extent to which it is necessary to deviate from domestic monetary objectives or to intervene in the exchange market to achieve a given impact on the exchange rate depends, above all, on the market's perception of the degree of the government's political commitment to achieving a given outcome for its exchange rate. In other words, governments can have a strong influence on the exchange rate—as long as they do not abuse it. For the United States to acquire this influence, after long years of neglect, would require, not only a fundamental change in present attitudes, but also a demonstration to the markets over an extended period of time that it was prepared to act accordingly. A first step was taken in the right direction at the meeting of the Group of Five in New York on September 22, 1985, but much remains to be done to follow it up.

Crisis Management

With growth slowing down in both the United States and the rest of the world, we may see a "soggy scenario" with the dollar remaining in a state of suspended animation. If so, protectionist measures in the United States could become irresistible, and could prove to be the trigger setting off the crisis.

If, as events unfold, the action taken is too little, too late and quite probably misguided, then a crisis may become inevitable. This need not necessarily be a pessimistic conclusion. History shows that genuine reform—or simply change—in the untidy and amorphous entity constituting the "international monetary system" has often taken place only as a result of a crisis that has happened quite quickly. So, to be realistic, perhaps the most important issue is how constructive use might be made of a crisis.

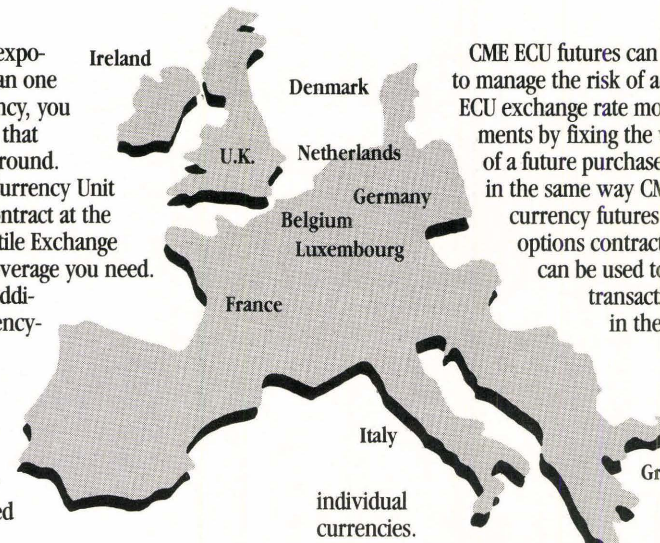
What must be hoped is that at some point a window of opportunity opens up during which the United States has become sufficiently worried about the situation to be fully converted to the need for cooperation, and be prepared to pay the price, while the other OECD nations are still sufficiently unworried about the situation to be able to respond constructively and collectively to U.S. requests for help. By this point the question of intervention in the exchange markets to stem the dollar's decline would probably have come very much to the fore. The immediate issue would be whether a sufficiently close linkage could be established between agreement on arrangements for large-scale coordinated intervention with firm commitments from both sides to take the fiscal and monetary policy actions needed to make such intervention possible.

The Exchange Rate Regime and Monetary Cooperation

It is possible that in trying to prevent the dollar from going down too far, the two key and closely interrelated ingredients of a new regime for the major currencies might emerge, de facto, in a pragmatic way: agreement between the governments concerned on the desirability of keeping the dollar rate against the Deutsche mark and the yen within a certain range; and a demonstration to the markets that they were both able and willing

Continued on page 46.

The CME's New ECU Futures: When Your Risk Is All Over the Map, Your Protection Should Be Too.



When you face exposure in more than one European currency, you need protection that covers a lot of ground. The European Currency Unit (ECU) futures contract at the Chicago Mercantile Exchange gives you the coverage you need. It's the newest addition to the currency-related futures contracts at the CME's International Monetary Market (IMM), where currency futures originated in 1972.

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The ECU futures contract also makes an effective hedge for firms with exposure in European currencies without futures markets, or with illiquid or nonexistent forward markets.

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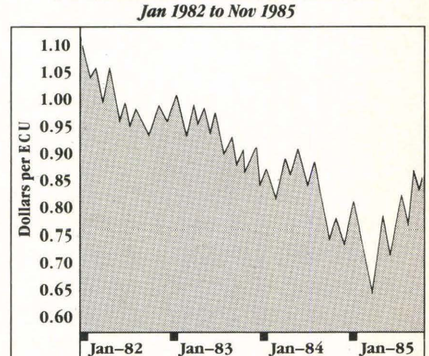

Approximate weights of currencies in ECU on 12/16/85.

German Mark	*32.8%*	*Belgian Franc*	*8.3%*
French Franc	*19.5%*	*Danish Krone*	*2.8%*
British Pound	*14.5%*	*Irish Punt*	*1.2%*
Dutch Guilder	*10.4%*	*Greek Drachma*	*0.9%*
Italian Lira	*9.3%*	*Luxembourg Franc*	*0.3%*

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WHAT MODELS FOR EUROPE?

HOW CAN THE E.C. LEARN FROM THE UNITED STATES...AND VICE VERSA?

MICHAEL EMERSON

At a conference on employment and technology in Venice in early 1985, there was a striking exchange between a member of the Reagan Administration and a well-known European politician. Discussing the unemployment problem in Europe, the American politician singled out "rigidities" as the culprits that prevent markets from functioning efficiently, especially those in the labor market. The European politician questioned the adequacy of this advice based on the American model—"Europe operates on a different model."

The idea of different economic and social models among the advanced industrialized democracies has a definite resonance. Public debate is replete with remarks about American, Japanese, Swedish, German and Austrian models, to take some of those mentioned most often. But why may different models succeed in different political and social environments, despite the universal sway of iron laws of economic principle? And what would be the components of a European model?

At the heart of the comparisons between the models of Western industrialized countries lie major differences in labor law, industrial relations and social security. As regards policy regimes governing the markets for goods, services and capital, there is a considerable and increasing consensus. The European Community's current drive to complete the opening of its internal market would see the old Continent move closer to the American model, with its single, vast, open market. The privatization of many state enterprises in several European countries marks a further convergence of models. Indeed the U.S. Administration now seems to be following the recent European lead in this respect with its urgent efforts to cut the budget deficit.

However, in the labor market and social security fields, the United States extends the principles of the competitive private market model far further than is the case in either Europe or Japan. Some examples: The typical American below 65 years of age has no public health coverage at all. If he loses his job, he loses his private health insurance, too. What is more, his employment security will be relatively slight. Typically, he can be freely fired, often with little or no compensation. At company level, the employer may contest the wish of employees to have trade union representation. Elections are held to determine the matter and such elections are nowadays more often lost by the trade unions than won. Stories abound, especially in the Southern states, of undue activism by employers to defeat unionization campaigns. In any event, the Southern states openly advertise their comparative freedom from trade union influence in their competition for jobs with the more heavily unionized North. Compared to Western Europe or Japan, all this is another world.

> For Europe to aim at replicating as closely as possible the ultra-competitive U.S. labor market and social policy model would mean overshooting on the downside in the realm of labor market and social policies.

In Western Europe and Japan, universal health coverage is assured by the state. Some privately financed health care exists, but the safety net of public care is there for all. Employment security is of a high order, maybe excessively so. Individual and collective dismissals are a sticky business in most countries. Trade unions are, in most of Europe, more extensive in their membership, and they are pervasive in their influence on many issues of economic and social policy. In Japan, the predominant system is one of "regular" lifetime employment, but this coexists with a parallel system of precarious, temporary employment for a 15-percent margin of "flexible" employment. In the larger industrial firms in Japan, as is notably the case in the Federal Republic of Germany as well, traditions of company loyalty, permanence of contract between employer and employee and worker participation are associated with heavy investments in technical training and high standards of quality control.

These regime differences are important, but how do they fit coherently into "models" of economic management and society? Mainstream economics concentrates at the moment on the dichotomy between neo-classical and neo-Keynesian models. The neo-classical model envisages making all markets as competitively efficient as possible so as to assure high productivity levels and a "clearing" of markets, including the labor market, that is, avoidance of unemployment. The neo-Keynesian model takes such microeconomic conditions as given, and envisages a management of aggregate demand sufficient to sustain high employment and growth.

Sociologists and political scientists add a third model, that of neo-corporatism which gives an important place to institutional variables to fill in gaps left by the two purely economic models. (See Gerhard Lehmbruch and Philippe C. Schmitter, *Patterns of Corporatist Policy-Making*, Sage Publications, 1982). The idea is that a higher combination of efficiency and equity in the economy can be achieved if the main interest groups are well integrated into a cooperative system of public policy making at the national level and in industrial relations at the company level. It avoids giving the neo-classical competitive model anywhere near as free a run in the labor market as in the goods, services and capital market. In principle, in exchange for equity and security, people and trade unions may offer cooperative rather than adversarial behavior. In short, the labor market is not so like commodity markets.

Whether this model will work effectively depends crucially on institutional organization, in particular whether trade unions and employers are able to stay sufficiently representative and are able to keep their members in order. Germany and the smaller, northern European countries lead the European neo-corporatist tradition. Japan also has its own brand of corporatism, notably in the relations between business and government and, at the plant level, between business and labor. France and Italy also have corporate traditions, but suffer from the competitive, ideological divisions between the main trade unions. The United Kingdom has even graver problems of trade union organization, which no doubt explains why this country has been exploring strongly neo-classical policies in recent years, after several failed attempts at corporatist cooperation.

The United States, for its part, seems to be a rather unpromising terrain for the corporatist model at the level of national policies. However, some new style moves in the business sector are more in corporatist tradition—for example, the General Motors deal over its Saturn plant, where security of employment has been granted in exchange for flexible work practices. As the depleted manufacturing sector of the U.S. economy tries to rebuild itself with the aid of a devalued dollar, management practices may turn to more nuanced models of flexibility than neo-classical economists usually imagine. Management scientists are giving increasing attention to more cooperative models, as are sociologists and political scientists. (Witness for example a Harvard Business School conference in early 1986 on comparative ideology and business organization. See also Bruce R. Scott and George C. Lodge, eds., *U.S. Competitiveness in the World Economy.* Harvard Business School Press, 1984).

Western Europe, with an average 11-percent unemployment rate, must clearly scrutinize its economic and social model with all due modesty. But when it looks abroad to foreign models, it sees two impressive cases—the United States and Japan—functioning along quite different lines. Within Europe, the nearest to a model economy seems to be that of Germany. Its unemployment rate is higher than in the United States at the moment, but it is not clear where this comparison will come out when the United States and Germany will have adjusted present cyclical imbalances (deficit and surplus respectively) in their external current accounts. The smaller north European countries have achieved exceptionally high standards of productivity, employment and equity together, but their over-extended welfare systems seem headed for a period of retrenchment. By comparison, German social security and labor protection law is also comprehensive, but not so extravagant. The present German Government has been trimming some social security benefits and introducing "flexibility" reforms in the regulation of the labor market. But these adjustments should be seen as improvements in the management of the system rather than a change of model.

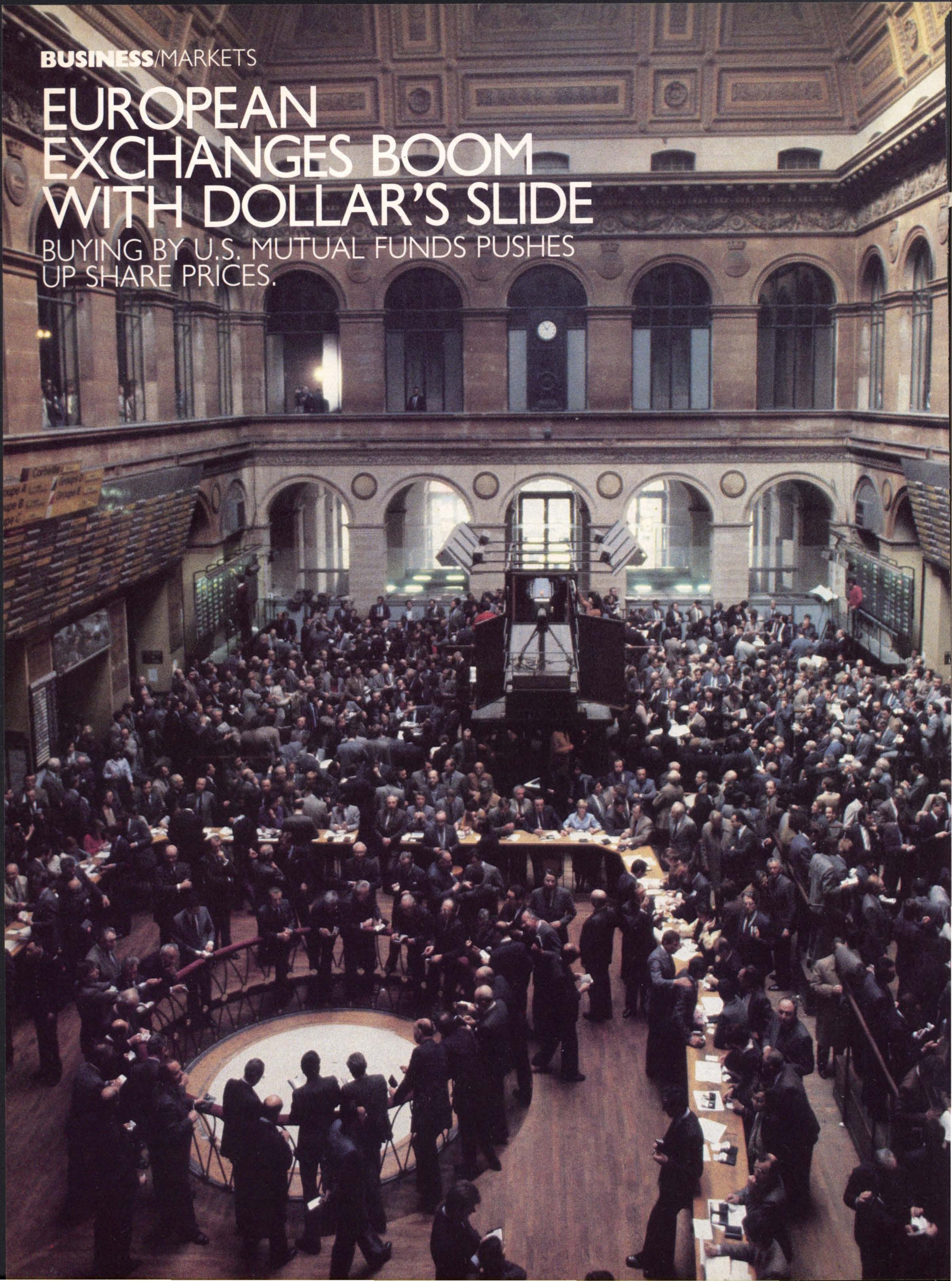
Of course, all the models mentioned, neo-classical, neo-Keynesian, neo-corporatist, are simplifying paradigms. No country follows a pure model. Each paradigm has some weight in the real model of each country. Indeed, as mentioned, Europe is currently aiming increasingly at the free market model for goods, services and capital. Europe would also be mistaken to carry its relative sympathy for the cooperative, neo-corporatist model to the point of systematically dismissing proposals to make the labor market more competitive. Labor market protection and social security policies were overshooting in many European countries by the end of the last decade. But this does not mean that politicians should parody the behavior of floating exchange rates, and now overshoot on the downside in the realm of labor market and social policies. For Europe to aim at replicating as closely as possible the ultra-competitive U.S. labor market and social policy model would mean just that. Europe's own model needs to be worked on, not jettisoned. €

Michael Emerson is director for macroeconomic analysis and policies at the E.C. Commission in Brussels and currently a visiting Fellow at Harvard University's Center for International Affairs.

BUSINESS/MARKETS

EUROPEAN EXCHANGES BOOM WITH DOLLAR'S SLIDE

BUYING BY U.S. MUTUAL FUNDS PUSHES UP SHARE PRICES.



ALEXANDER NICOLL

Americans have been looking for other bargains in Europe since the dollar's slide began to rob them of the attractions of shopping at Harrods and Cartier. Many have been seeking to escape the impoverishing effects of their currency's fall by joining the stampede into European stock markets.

Foreign buying, chiefly by managed funds in the United States, helped to create an extraordinary boom on the Continent last year. Share prices reached record levels in virtually every European country—the Federal Republic of Germany, Italy, Switzerland and the Netherlands were just some of the larger markets to benefit. Though some of them have faltered this year, Italy remains extremely strong and the French market has taken up the running.

Britain has seen a fairly steady 1985 rally turn into a frenzied spiral of buying this year, driven partly by a clutch of Wall Street-style takeover battles and by rumors of many more bids in the offing. Foreign investors are playing a greater role there as well, with the name of well-known U.S. arbitrageurs, such as Ivan Boesky, often cropping up as minor players—so far—in the bidding.

The upsurge in cross-border investment is part of a fashion in securities markets for "globalization," spurred mainly by the leading Wall Street houses such as Merrill Lynch, Goldman Sachs and Salomon Brothers. Increasingly, they try to offer their clients a global package—the ability to trade securities anywhere in the world, backed by their expanded research capabilities.

These firms, mainly U.S.-based, but also including some of the leading Japanese houses—and with British, German and Swiss banks aspiring to join them—trade shares in the world's biggest companies, regardless of their domicile, around the clock. Some pass their house "book" from New York to their Tokyo offices, on to London and back to New York again in the course of a day. Many recent British offerings, such as British Telecom, Reuters and Britoil, have included a big chunk sold to U.S. investors, though with mixed results: Most U.S. buyers of British Telecom shares barely even held on to them overnight, selling them back into Britain at a considerable quick profit.

So why should American money managers and private individuals want to invest in Europe? After all, Wall Street has been giving them a comfortable enough ride with a rally spanning the years of economic growth under the Reagan Administration. The answer is that many European markets have been performing better, and, for dollar-based investors, the U.S. currency's recent fall has made investing in strong European currencies such as the Deutsche mark and Swiss franc even more alluring.

Stock markets worldwide have been strong because of the return to fashion of financial assets such as stocks and bonds, which were made unattractive in the 1970s by soaring inflation. The arrival of more conservative Governments in the United States and Britain as well as in some other countries signaled a new determination to fight inflation. As the industrialized world emerged from recession, the United States led the way with a boost to the economy from heavy government spending countered by anti-inflationary monetary restraint from the Federal Reserve. Interest rates and oil prices began to fall, consumer spending and corporate profits took off, and the stage was set for a prolonged rally on Wall Street.

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Shares on the Paris Bourse (opposite page) have been rising in anticipation of the parliamentary elections. Currency traders (above) have been busy too.

In Europe, similar factors were at work. There was the prospect of a prolonged economic upswing accompanied by low inflation. But economies and company profits were slower to pull out of recession, and so the stock market strength also took more time to solidify. European professional investors have in any case traditionally put only a fairly small proportion of their portfolios into equities, though that is now changing as market liberalization and the sheer strength of the rally is spurring a more competitive atmosphere.

The single factor triggering the spectacular advance of European markets was, in fact, the decision of U.S. fund managers to invest part of their huge portfolios in them. For many of them, Japan represented the first venture overseas, and provided healthy profits as the economy grew during the late 1970s and early 1980s. But of late, the Tokyo market, though still basically strong, has become a more difficult market for investors with fewer opportunities for substantial capital gains, and a cloud cast by the potential effects of the yen's appreciation on Japanese exports.

So professional investors, helped by improved technology which enables them to keep a much closer watch on foreign markets, have been searching for other opportunities to keep up their performance. International investment has been encouraged by the intense competition for business among U.S. portfolio managers who constantly look for ways to outperform the key U.S. stock indices. The potential is still huge: It is estimated that only about one-fortieth of the $1,000 billion or so available to U.S. pension fund managers has been invested overseas.

Stock markets in Continental Europe are small by comparison with New York. So a decision by a U.S. fund manager to invest relatively small amounts can have a powerful effect on prices. Perhaps 60 percent of buying last year came from foreigners. In a sense, the hopes of foreign buyers are self-fulfilling—the more they buy, the more the market goes up.

In Germany, where share prices rose some 65 percent last year, investors are banking on a very low inflation rate and corporate profits expected to rise about 15 percent this year. As consumer spending has increased, consumer-based companies have attracted buyers in Germany as in other European countries.

Switzerland and the Netherlands have been attractive for the same fundamental reasons, and Swiss companies have been prominent among those making international issues of shares. But while these markets have been taking a breather in the early weeks of 1986, in a partial correction of last year's strength, Italy has become the star. In Milan, the enthusiasm of foreign investors has been fueled, and matched, by mutual funds set up for domestic investors as one of several moves across Europe to broaden share ownership. The impact of heavy share buying is all the greater because there are only relatively few listed companies

Continued on page 47.

Alexander Nicoll covers stock markets for the *Financial Times*.

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E.C. ENLARGEMENT BRINGS NEW HOPES AND NEW PROBLEMS

ENTRY OF SPAIN AND PORTUGAL AFFECTS PRACTICAL AND POLITICAL MACHINERY.

QUENTIN PEEL

At the Berlaymont building in Brussels, headquarters of the E.C. Commission and nerve center of the European Community, the growth of the E.C. last January 1 to include Spain and Portugal is being monitored with a mixture of hope and trepidation. Hope is certainly there: at the injection of enthusiasm brought by the new Iberian partners; at the reinforcement of the Common Market, expanding from 10 to 12 member states and from 270 million to 320 million inhabitants, as a base for economic growth; at the reaffirmation of the Community as a bastion of democracy, welcoming new members as they move from dictatorship to genuinely free elections.

There are also very real fears, however, about how the whole process of enlargement will work in practice, as the political inspiration has to be translated into economic and commercial reality. There is no doubt that the expansion of the E.C. will mean changes not just in size, but in style and character.

That process has to be managed through all the multitude of institutional reforms agreed upon during the eight long years of negotiation since Portugal, and then Spain, first applied to join the club. They range from the straightforward and predictable—expansion of the European Court of Justice to include a new judge from each new member state—to the complex and unpredictable, such as the new weighted voting system in the 12-nation Council of Ministers, the supreme E.C. legislative authority.

The changes will mean an alteration in political balance—in the European Parliament for example, where the arrival of 60 Spanish and 24 Portuguese members has appreciably weakened the center-right majority. They also inevitably mean an increase in the complexity of decision-making in the E.C., probably the single most serious failing which has dogged its development since the original six members signed the Treaty of Rome establishing the E.C. in 1957.

Most importantly, the new E.C. will have a different geopolitical balance between the member states, with a much stronger voice for the southern Mediterranean states to balance the dominance of the richer northern countries. It will also mean a greater influence for the peripheral members—from Denmark in the north; via the United Kingdom and Ireland; through Portugal, Spain, Italy and Greece—against the "golden center" of the Federal Republic of Germany, the Benelux countries and France. These changes will emerge both in the Commission, the bureaucracy, and the Council of Ministers.

Each successive enlargement of the E.C. has been accompanied by prolonged problems of digestion. After 1973, when Britain, Denmark and Ireland joined, a change of Government to Labor in the United Kingdom brought with it a demand for renegotiation of terms. That was followed by a long wrangle over Britain's budget contributions which in turn brought decision-making on many

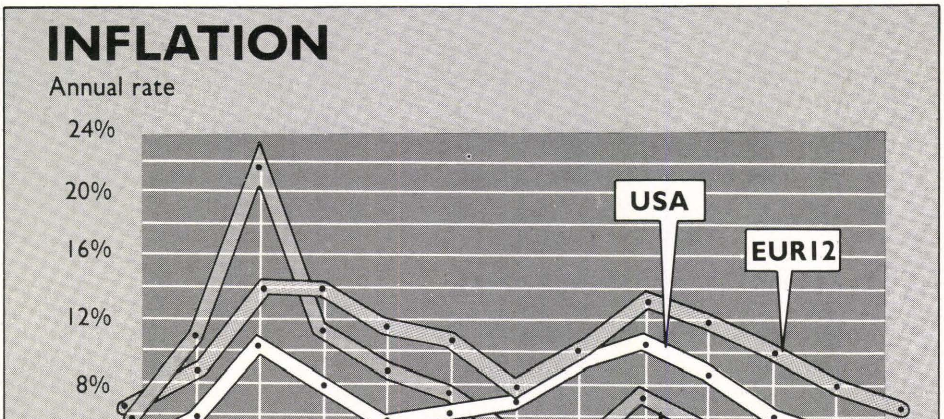


CHART ILLUSTRATIONS BY DALE GLASGOW

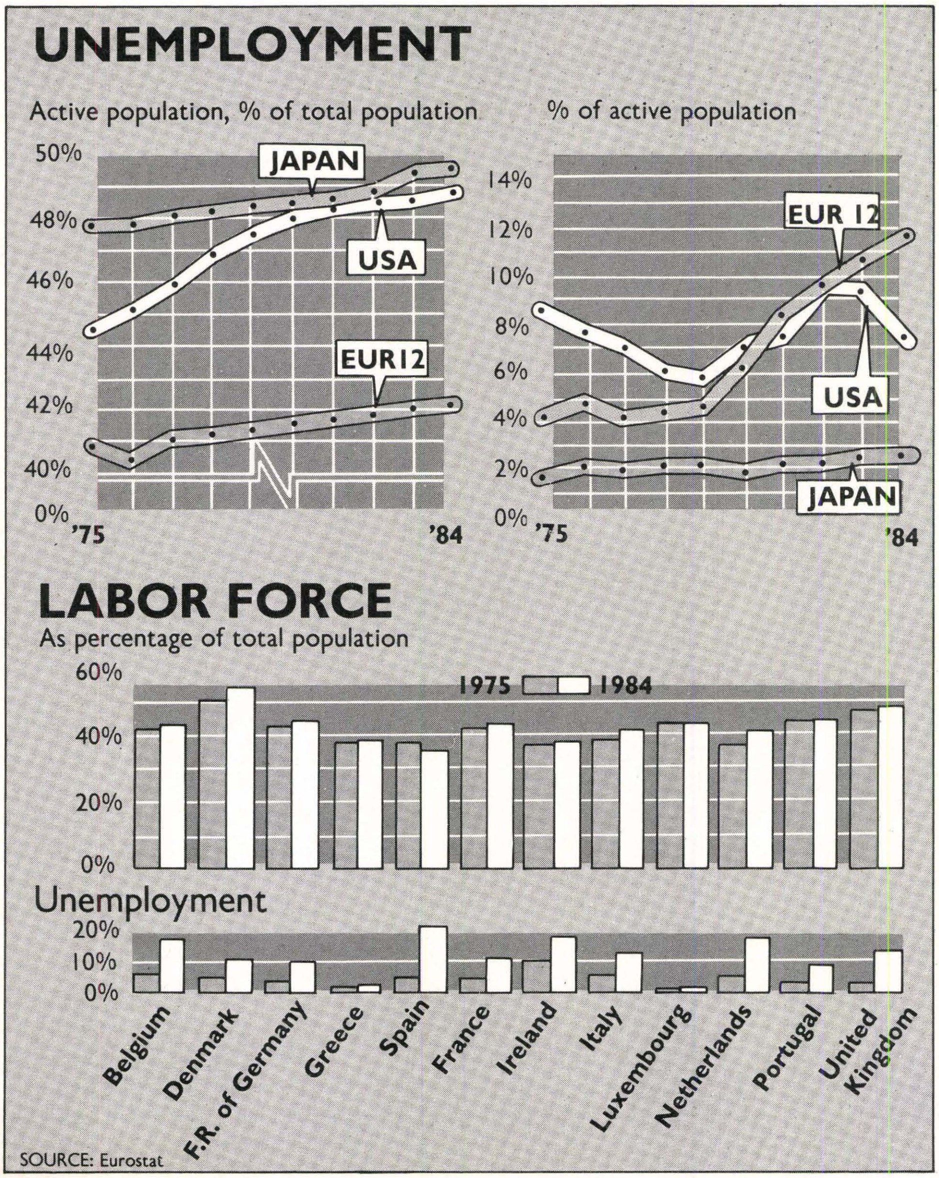
Quentin Peel reports from Brussels for the *Financial Times.*

other issues to a standstill until a new formula was agreed upon in 1984. Even the accession of Greece in 1981 caused real problems, with a new Socialist Government demanding a better deal and going so far as threatening to veto Spanish and Portuguese membership until it got it. Many of the issues are still unresolved.

Fears about the consequences of the latest enlargement was one of the driving forces behind last year's effort to reform the decision-making processes of the E.C. and amend its "constitution," the Treaty of Rome. The reforms finally agreed upon in Luxembourg last December, on the eve of the enlargement, were modest, but should still help streamline decision-making on the issue of removing internal trade barriers to the Common Market. That was the top priority, on which all the member states could agree. They also concurred to give the European Parliament, whose real powers are restricted to joint decision-making with the Council of Ministers on the budget, more chance of amending other E.C. legislation. Nonetheless, the final say will still remain with the Ministers, i.e. with the member governments.

The other key reform was to institutionalize the system of political cooperation on foreign policy issues, as opposed to the economic and commercial questions covered by the Rome Treaty. Once the reform package has been ratified by all the 12 national parliaments, a secretariat will be set up in Brussels to coordinate joint responses on key international concerns, such as the Middle East, East-West relations, Central America and southern Africa.

The specific institutional changes needed to accommodate Spain and Portugal could well prove more substantial in effect than these modest reforms, once intended to lay the base for a future "European Union." The most important change is in the voting system in the Council of Ministers, whereby each member state enjoys a number of votes related to its population and economic size. Hitherto, voting has been dominated by the Big Four—Britain, France, Italy, and Germany—each of which has 10 votes. Any two of them were enough to form a "blocking minority" to prevent an unpopular measure from being adopted.



In contrast, the smaller countries needed to be all but unanimous (Belgium, Greece, and the Netherlands having five votes each; Denmark and Ireland each with three; and Luxembourg with just two) to muster the necessary 19 votes to block a "Big Power" move by the rest. Such an alliance has been rare indeed. Into this cosy arrangement, from the Big Four's point of view, come Spain and Portugal. The former will have eight votes, the latter five, for a new total of 76. A qualified majority in the future will be 54, which means that a "blocking minority" will have to be 25. No longer will two big states be able to stand in the way alone.

The new lineup could prove particularly uncomfortable when it comes to budgetary questions. At one end of the scale, the "budget disciplinarians"—Britain, Germany and the Netherlands in particular—will constitute a blocking minority. At the other end, those with an interest in boosting the budget because they gain a significant net advantage—Italy and Greece, Denmark and Ireland in the north, and eventually Spain and Portugal in the south—will equally enjoy a blocking minority. The prospects for annual deadlock are very real.

The second important area for change to take place is in the Commission. Three new Commissioners have joined the 14 already there—two from Spain and one from Portugal. The challenge has been to find them worthwhile jobs. The main portfolios have had to be divided and subdivided to make the work go around, leaving several individuals decidedly frustrated. With 16 colleagues to accommodate in the "college" of Commissioners, President Jacques Delors now has an even harder task to forge the necessary consensus.

The national balance also has to be maintained in the top ranks of the Commission services. A big shakeout of department heads is already under way to make room for the new arrivals. Inevitably it will take time to get over the upheaval—further complicated by the need to work in two new languages on top of the seven already officially required.

In the European Parliament, the change in political balance is important as a barometer of political opinion, rather than in altering the actual policies of the E.C. The Parliament's role in legislation

Continued on page 47.

ARIANE ROCKET WINS NEW ORDERS

CHALLENGER TRAGEDY ALSO MAY INCREASE BOOKINGS FOR EUROPEAN SATELLITE LAUNCHER.

DAVID DICKSON

The setbacks to the U.S. space program caused by the explosion of the space shuttle Challenger on January 28, killing all seven astronauts on board, have provided a new twist to the increasingly tense competition for satellite launches between the shuttle and its unmanned European rival, the Ariane launcher. The Paris-based European Space Agency (ESA), under whose auspices Ariane was developed by a French-led consortium that included research and development teams from 10 different European countries, was one of the first to send a message of sympathy to the U.S. National Aeronautics and Space Agency (NASA).

Although spared a tragedy such as the shuttle disaster, European space engineers have had their share of disappointments. The latest occurred in September 1985, when an Ariane rocket that was to have launched two telecommunications satellites had to be destroyed shortly after lift-off—and in the presence of French President François Mitterrand—following the failure of its third stage to ignite.

At the same time, however, European space officials point out that the delays to several major commercial, scientific and military programs caused by the postponement or cancellation of shuttle flights planned for the near future, have dramatically highlighted what they consider to be a major weakness in the U.S. space program, namely NASA's decision in the mid-1970s to abandon non-reusable launchers in favor of the shuttle.

Unmanned launchers such as Ariane, the Europeans argue, will continue to offer a better solution for missions such as the launch of telecommunications satellites for which the presence of astronauts is not required. And while not wishing to be too openly seen exploiting the U.S. agency's misfortunes, officials of Arianespace—the company that took over the responsibility for the commercial operation of Ariane from ESA in 1984—have made little secret of their hope that shuttle customers whose flights are likely to be significantly postponed will look toward Europe for an alternative launcher.

At the end of February, for example, Arianespace chairman Frederic d'Allest announced that the company was in a position to make available facilities for the launch of eight extra satellites in the next three years, an announcement clearly aimed at American telecommunications companies and other shuttle customers now seeking to avoid excessive delays in the U.S. launch program.

According to d'Allest, the fact that Arianespace is in a position to offer what he describes as "assured" launch opportunities to shuttle customers suggests that Ariane and the shuttle should now be looked upon as complementary, rather than merely competitive, launch systems. Nevertheless, it is clear that commercial considerations remain uppermost. Indeed, competition is already fierce: Arianespace claims that it has now captured 43 percent of the market for commercial satellite launches and that it made a profit of $24 million last year.

The Ariane program was first proposed to European countries by the French National Center for Space Studies (CNES) in the early 1970s, following the failure of a previous attempt to build a European rocket based on Britain's Blue Streak missile under the auspices of the European Launcher Development Organization. Under the terms of the agreement reached in July 1973 with the European Space Research Organization—which evolved into ESA the following year—France agreed to cover almost 64 percent of the costs, the other main contributor being the Federal Republic of Germany at 20 percent. Other countries which provided financial support for the program included Belgium (5 percent), the United Kingdom (2.5 percent) and Spain, the Netherlands and Italy (2 percent each), with the prime industrial contractor being the French aerospace manufacturer Aerospatiale.

The first launch of Ariane took place in December 1979. After three further test launches and four subsequent "operational" launches, full responsibility for funding, manufacturing, marketing and launching was transferred from ESA to Arianespace, a fully commercial company, which was set up with backing from 13 major banks and 36 aerospace and electronics companies throughout Europe. CNES, nevertheless, retained 34 percent of Arianespace.

Since then, there have been eight further launches. One of the most important for European space scientists took place last July, when the rocket was used to launch the Giotto spacecraft toward its encounter in March of this year with Halley's comet in the first fully European interplanetary space mission.

Another important launch was in February—the first after last September's failure—when an Ariane rocket was used to place two satellites in low-earth orbit. One was the French SPOT-1 remote-sensing satellite, designed by CNES to provide stereoscopic photographs of the earth's surface to a resolution of 100 meters.

The March 19 launch of Ariane—the 17th overall—had to be postponed eight to 10 days after mechanical problems prevented the rocket from lifting off. The launch was the first to have been made from a second launch pad recently completed at the ESA site at Kourou in French Guiana. This time, the payload was made up of a Brazilian telecommunications satellite, Brasisat, and an American satellite, G-Star.

The Ariane program has had its share of setbacks. There have been three major failures so far. Prior to the ignition problem last September, the third stage failed during Ariane's fifth launch in February 1982. On that occasion, the problem was located in the turbopump, which feeds a mixture of hydrogen and oxygen fuels to its third-stage cryogenic motor—and the embarrassment had come from the fact that it was the rocket's first operational launch. Problems with valves in the first stage had also caused the failure of the second test launch in May 1980.

Overall, however, the launch record has been sufficiently successful to meet

David Dickson is European correspondent for *Science 86.*

the goals which the ESA member states gave the Ariane program when it was launched in the early 1970s: "To give Europe independent launch capability for its own satellites and to enable it to acquire a commensurate share of the international satellite launch market."

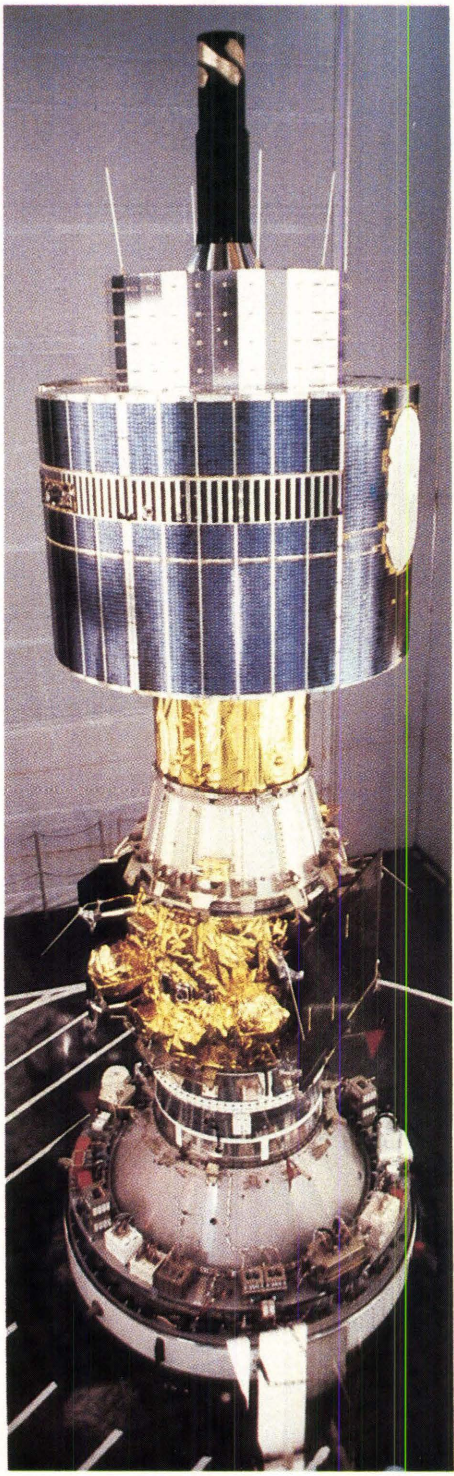
The commercial record is already impressive. According to Arianespace's d'Allest, the company had a turnover of $200 million last year—its first full year of commercial launch operations—and currently has orders for further launches worth $1.23 billion on its books for the next three years. Over 40 percent of these come from outside Europe. Reflecting this success, the company has recently opened a new sales office in Tokyo in addition to the one already operating in Washington, D.C.

On a worldwide basis, overall demand for satellite launches has not been quite as high as expected. Indeed, prior to the shuttle tragedy, Arianespace had already cut back initial plans for seven to eight launches a year up to 1990 back down to six. However, it now hopes that customers who may decide to switch from the shuttle to Ariane will take up the slack. Furthermore, company officials are already using uncertainties about the medium-term prospects for the shuttle program—as well as the increased costs that any technical or procedural modifications are likely to incur for shuttle launches—to argue the case for Ariane in front of customers still weighing up the relative merits for the two systems.

Considerable pressure is being put on Britain's Ministry of Defense, for example, to select Ariane for the launch of a military communications satellite, Skynet C, due to be placed in orbit in 1988. Two earlier satellites in the same series, Skynet A and Skynet B, were due to be launched by the shuttle, the first in June of this year, but now feature among those whose launch dates are likely to be postponed. Even prior to the shuttle disaster, Arianespace officials and French politicians as high as Mitterrand had been trying hard to secure the Skynet C contract—for example, by offering to cover the costs of modifications to Ariane that would be required. Recent events, they hope, will have strengthened their hands.

Up to now, Ariane has been able to offer a greater accuracy than the shuttle in placing satellites in geostationary orbit, but has been restricted by weight limitations, since the latest of the three versions that has been produced so far—Ariane 3—is still only able to place into orbit satellites weighing a maximum of 2,580 kilograms. The situation will improve considerably later this year, however, with the first launch planned for September of Ariane 4, a significantly improved version of the original design which has been under development by ESA since 1982. Depending on the number of boosters used—the rocket will be available in six different versions according to the precise requirements of customers—Ariane 4 will be able to carry individual satellites up to 4,200 kilograms, or up to three satellites at one time.

With the Ariane 4 development program almost completed, ESA engineers are already hard at work on a much larger version, Ariane 5, which is due for testing in the mid-1990s. One of its main technical innovations will be the use of a single cryogenic engine, known as HM60, to power the main stage. Plans to share the development costs of the HM60 engine and the initial planning for Ariane 5 were officially endorsed by the 12 ESA member states at a meeting of their ministers for space research held in Rome in January 1985. The plans form part of an overall 10-year program for the agency which also includes a commitment to participate in the U.S. space station currently being planned by NASA.



A typical Ariane rocket payload: ESA's Meteosat 2 and India's Apple telecommunications satellite.

Ariane 5 will be large enough to launch the large telecommunications satellites that are expected to come into service in the 1990s. The latest shuttle problems also have encouraged its designers to make its payload bay large enough to hold component parts for a space station.

France is also hoping that it can persuade its European partners to support its proposals for a small version of the shuttle, known as Hermès, which could be launched from Ariane 5 with a crew of four or five, and would—like the Ariane version—subsequently glide back down to the earth's surface. French officials argue that a combination of Ariane 5 and Hermès, which together would provide Europe with an independent capability for manned space flight, is an essential step toward its autonomy in space technology, which was endorsed in a joint resolution by the ministers attending last year's conference in Rome.

The possibility that Ariane 5 could be used for manned flight, however, has already placed both technical and financial demands on its development that did not exist for earlier versions, since these were able to incorporate narrower safety margins. (Arianespace officials say that they currently anticipate a failure rate of one in every 15 Ariane launches, a figure that would be totally unacceptable for manned flight.)

At the end of February, French space officials announced that they were carrying out a special study to discover whether they need to make any modifications to the design of Ariane 5 in the wake of the shuttle disaster. In particular, they will be looking closely at the joints used in the rocket's solid propellant boosters, which will operate on the same principles as those which currently appear to have been the cause of the shuttle accident, as well as the design of the launcher's safety system.

Plans for Hermès, currently under
Continued on page 46.

FRANCE

DESPITE UNEMPLOYMENT, OUTLOOK FOR FRENCH ECONOMY REMAINS BRIGHT AFTER FIVE YEARS OF SOCIALIST GOVERNMENT.

©LEE SNIDER/PHOTO IMAGE

AXEL KRAUSE

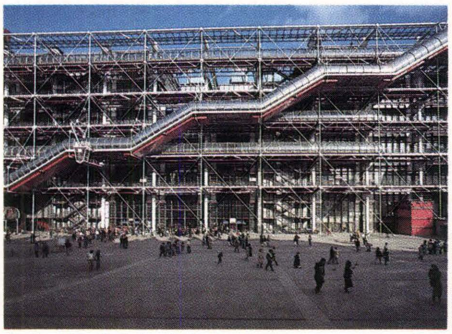
It was just before the March 16 elections. Lara Rachid, 22, who last worked as a night porter in a Marseilles hotel, was leafing through job offers in the French government unemployment office in the Paris suburb of Nanterre. Dejected, Rachid said he had no interest in economic reforms proposed by campaigning politicians from conservative and leftist parties. "I see little ideological difference between them," he said, "but what is worse, they do not address my problem of being unemployed, a *chomeur.* I simply won't vote," he added.

Rachid, whose family immigrated from Algeria in the 1950s, is among 2.3 million unemployed French men and women, representing a record 10.5 percent of the work force. Most of them are under 25 years of age. President François Mitterrand recently conceded that the surge in unemployment was "the principal failure" of his Government since taking power in 1981. That, Mitterrand added, would largely explain the defeat of the left in the elections.

Confirming Mitterrand's judgement, the conservative daily *Le Figaro,* in its last opinion survey published before the election, said that 77 percent of those interviewed considered unemployment the predominant issue, followed by future changes in purchasing power (39 percent), insecurity (37 percent) and maintaining social welfare benefits (34 percent). The conclusion is that unemployment, which is expected to continue rising by another 500,000 from now until 1988, is one decidedly grim phenomenon of French life that will not change much in the near future.

Despite the poor job outlook and emerging political tensions and uncertainties over how France will be governed from now on, the outlook for the

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



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Left, the Palais de Justice at Lisieux with the Cathédrale St. Pierre in the background. Above, the Centre Pompidou in Paris.

French economy remains relatively bright. This is reflected in another, sharply contrasting, phenomenon of French life: the booming bond and stock markets at the Paris Bourse, fueled mainly by enthusiastic and other foreign investors. "The fact is, judging by the strong market here, the French economy is not doing badly at all," commented a Paris broker.

What happened? Starting in early 1982, Mitterrand's Government totally reversed its loose, expansionist approach to monetary and fiscal policy and joined other industrialized nations in applying restrictive measures. That meant fighting inflation first and then pressing for modernization and profitability of French companies in both private and state-controlled sectors. The austerity program—implemented by former Finance Minister Jacques Delors, currently President of the E.C. Commission, and his successor Pierre Bérégovoy—has drawn steady, encouraging praise from the Reagan Administration, the international investment community and the Organization for Economic Cooperation and Development.

Today, the chief dilemma for the conservatives is that, according to most political observers, business leaders, bankers and diplomats, there is simply little room left for maneuvering, particularly for sweeping, "Reagan-style" reforms in the next several months as the rightists had planned. As recently as January, conservative leaders anticipating victory pledged quick reform of France's sluggish economy. They promised to lift price and exchange controls immediately, to cut income and corporate taxes, to boost defense spending and to gradually reduce the role of the state in all sectors of the French economy.

A key feature of their program was to denationalize about 30 leading banks and industrial, financial and communications companies. But gradually, these and many other reform measures were diluted and played down. Several tax proposals were shelved, and catch phrases, such as "a break with the past" were dropped, although rightists did not publicly renounce their plans.

"We have a program to streamline the economy through deregulation and the like, but there is much in France that simply cannot be changed easily," concedes a senior advisor to Jacques Chirac, the neo-Gaullist opposition leader and mayor of Paris. He was referring not only to unemployment, but to hundreds of sweeping reform measures introduced by the Socialists, many grudgingly—and publicly—endorsed by rightist leaders. Most political analysts said the measures would not be rescinded by a new conservative Government.

The Socialist-sponsored measures that became law included: raising the minimum wage, cutting the regular working week to 39 hours, adding a fifth week of paid vacation, cutting income and corporate taxes, sharply reducing government spending, substituting proportional representation for the existing winner-take-all system, decentralizing the national government administrations, abolishing the death penalty, doubling government spending on French culture and streamlining French financial institutions (including the Paris Bourse) while bringing about 600,000 French jobless workers into government-financed retraining programs.

Still another, major reform move announced just before the election, which surprised the French business community, was Mitterrand's ordering the sale of the government's controlling interest in the popular radio station *Europe 1* to Hachette S.A., France's largest communications company, which is privately controlled. The move, which followed the earlier establishment of two, privately owned television stations, took much of the steam out of the Rassemblement Pour la République (RPR) party's program for privatizing France's four remaining, but state controlled, television stations. The *Europe 1* move, declared RPR general-secretary Jacques Toubon, "goes right in the same direction we seek."

In an adulatory speech to a conference on French deregulation, as opposed to *dirigisme*, in late January, J. Paul Horne, the Paris-based international economist for the New York investment bank Smith, Barney, Harris Upham & Co. concluded: "The sheer number of innovatory measures by the present Government and Finance Minister Bérégovoy is impressive—even by New York and London standards—and especially considering the Socialists' point of departure in 1981."

Another qualified success, which rightist leaders also have had problems attacking, centers on the greatly improved financial results of major industrial companies and banks nationalized by the Socialists in 1982. Last year, six of the state-owned industrial companies increased their joint profits to about 6 billion francs from 4 billion francs the previous year. Some were in the red, poorly managed, or badly in need of reorganization and new injections of capital when the Socialists took over.

Nationalized companies which increased their profits in 1985 included Générale d'Eléctricité, an electrical and telecommunications company; Saint-Gobain, a glass-making and engineering company; Péchiney, a metals group; and Rhône-Poulenc, France's largest chemical company. Thomson, France's largest electronics company, and Bull, the computer manufacturer, both exceeded their targets of returning to profitability in 1985. The profits of 39 state-owned banks roughly doubled in 1985 from a year earlier to 3.1 billion francs, according to government officials.

Inflation has come down sharply—from an annual rate of just under 14 percent when the Socialists took over to just over 4 percent currently. French Government and private forecasters said the rate could fall to around 3 percent by the end of the year. Economic growth, while sluggish, seemed to be picking up slightly, thanks to lower oil prices. The franc remained strong relative to the Deutsche mark throughout the year, and although France's chronic trade deficit showed no signs of moving into the black, rightist leaders have deliberately avoided even hinting they would devalue the franc.

Meantime, Mitterrand, appearing dynamic and fit, told a campaign rally in the northern, industrially depressed city of Lille, that "we sought justice against the inequalities of society." As the crowd roared its approval, the 69-year-old French leader flatly predicted that "the right does not even dream of revoking some of the decisions we made," referring to the long list of reform measures introduced since he took power.

The French leader, according to political observers, also was calling attention to the fact that after 40 years as an eloquent, crafty supervisor and despite many months of poor showings by the left in opinion polls, he apparently had every intention of serving out his term at the Elysée Palace. Moreover, he was showing that he still had many political cards to play, regardless of the election outcome. These included going along with gradually returning state-owned companies to private ownership. Industry sources have estimated that the total potential volume generated by selling off state-owned companies would easily exceed 150 billion francs—and if done gradually, could be comfortably absorbed by the commercial markets. "The President will prove he is very flexible on many issues—you will see," commented a French business leader with close ties to Mitterrand.

The question of how Prime Minister Jacques Chirac would work, or "cohabit," with Mitterrand, when the new conservative majority emerged in the National Assembly, remained the center of heated controversy right down to the last days of the campaign. But political strategists were also making it plain that whatever happened, the President would still have the constitutional authority to not only appoint the Prime Minister, but to direct foreign and defense policies. That, Mitterrand reminded supporters in Arles, included "total responsibility for nuclear war." And, he added half jokingly: "Come on now! No one is going to hide me in a pot of flowers!"

Mitterrand's warning was not only designed to throw the opposition off guard, which it did, but also to fuel public confidence in his capacity to govern, reaffirmed in opinion surveys. He also focused public opinion on what had emerged as another key conclusion of most observers: That the truly significant political battle would be the next presidential election and that Mitterrand would be an active campaigner, determined to keep the Socialists in their position as France's leading leftist party.

Although the next presidential elections are currently scheduled for 1988, no political observer ruled out the possibility that the date may be advanced, depending on what happens in the period immediately following the March 16 election. One possibility widely mentioned was that Mitterrand would announce his resignation and call for new elections—presidential and legislative—sometime after the elections. Public opinion polls bolstered the idea that a "co-habitation"—or what the daily newspaper *Le Monde* called a "domestic Yalta"—would end in a political crisis. Nearly half of those interviewed in a *Le Monde* poll published on March 7 predicted that such an agreement would collapse before 1988.

The prospect of early elections materializing have dramatically cooled the initial reform zeal of Chirac and his key economic advisers who fear that implementing a sweeping "Reagan style" reform program, or "Thatcherism à la française," could gradually plunge France—and the franc—into crisis. That would create a situation ideally suited for Raymond Barre, Chirac's main rival for the presidency. The jovial professor of economics, who also served as Prime Minister, has repeatedly rejected the idea of "co-habitation" between a conservative Parliament and a Socialist President on the grounds that such a system would not work. Thus, Barre has repeatedly urged, Mitterrand should step down, assuming the conservatives win heavily, and call for a presidential election.

"The really crucial election in France is the presidential race—with Chirac battling Barre—so Chirac, or some other conservative Prime Minister, has every reason to be moderate on economic reforms until then," said the chairman of one of France's largest privately owned industrial companies. "This does not mean there isn't a lot to be done to reform France," he quickly added.

Indeed the new French Government must deal both with immediate and underlying structural problems, particularly those affecting reform of the economy. *Le Figaro*'s magazine published on March 8 a balance sheet of the Mitterrand Administration. The results, based on reports from outside French experts, reflected the following, decidedly mixed picture:

• France today can only count six companies among the world's top 100, compared to 11 in 1979, according to Roger Martin, former chairman of Saint-Gobain and a member of the Trilateral Commission. The combined financial results of 1,000 leading French companies showed a total net loss of 3.54 billion francs. "It will take years to improve the situation," Martin concluded.

• State financing for French universities has been declining steadily, which has stopped new hiring of young researchers, according to Henri Tezenas du Montcel, former dean of the Paris-Dauphine university. About 100,000 students leave school at the age of 16 without a diploma. Eighty percent of them, like Rachid, enter the ranks of the unemployed. "The contradiction between objectives proclaimed by the Socialists and the means to accomplish them is flagrant," du Montcel said.

• France's external debt more than doubled in five years, having risen from 123 billion francs at the end of 1980 to 488 billion francs at the end of 1985, said Yves-Marie Laulan, an economist who formerly was chairman of the North Atlantic Treaty Organization's economic committee. "Contrary to what Fabius said in a debate with Chirac on October 26, 1985, France's external debt as a percentage of GDP (which stands at 9 percent) is higher than that of Britain (6 percent), Japan (4 percent) and Germany (1 percent)," Laulan said. "Servicing the debt represents about 10 percent of the budget, but graver yet, our [current level] of debt threatens our national sovereignty, diminishing France's capacity to affirm its national independence," he added.

As France came out of its election campaign with a new Government, most observers expected that from now on, the political process would be slowed. As *The Economist* commented, "A divided French Government will lose some executive briskness." Foreign policy decisions also will require consultations with the new Prime Minister, the Foreign Minister and the Finance Minister. Mitterrand has already indicated, for example, that he will ask his new Prime Minister to accompany him to the Western economic summit meeting in Tokyo this May.

Looking beyond the immediate electoral horizon, it has become clear to many observers that France, and particularly its youth, were desperately seeking something new in the way of ideas, personalities and a fresh sense of direction. French voters certainly found little inspiration, or ideas, in the election campaign, widely regarded as one of the dullest and most lackluster since World War II.

In its last survey before the election, published on March 8-9, *Libération*, a leftist daily newspaper, asked those polled who they thought would be the best Prime Minister if the Socialists could choose. Surprisingly, it was not the incumbent, 40-year-old Laurent Fabius, who scored second, nor Delors, who came in third, but Michel Rocard, the 55-year-old maverick Socialist who was an unsuccessful presidential candidate in 1969 and who fought Mitterrand for the 1981 Socialist nomination. Rocard has already indicated that he will again seek the presidency.

More surprising, Rocard scored equally well based on responses to the following question: Who should be the next Prime Minister of France in the event that no majority emerged on March 16? Eighteen percent named Rocard, followed by Chirac and Fabius (both with 14 percent) and the neo-Gaullist leader Jacques Chaban-Delmas and Jacques Delors. "The aura of Rocard is decidedly influential," concluded *Libération*.

The picture that emerged of France in the spring of 1986 was a nation, that, as the *New York Times'* Richard Bernstein recently noted, "had moved closer to the rest of the world," thanks largely to Mitterrand. Yet many of the problems that brought him and the left to power, such as growing joblessness, have not been solved. Many reforms remain to be proposed and implemented. But to succeed in that endeavor, France, according to many observers, will require a new generation of more youthful and imaginative leaders who are not yet in positions of power. Former Agriculture Minister Rocard's growing—and perplexing—popularity, particularly among young people, is only the earliest reflection of that desire. It may well result in a new breed of French leadership emerging, possibly, before 1988. €

FRANCE TURNS TO THE RIGHT

SOCIALIST PRESIDENT MITTERRAND NAMES CHIRAC AS PRIME MINISTER TO FORM COALITION GOVERNMENT.

BERNARD MAZIERES

The right is back! On March 16, after five years of undisputed power, the Socialists found themselves once again on the opposition side of the aisle in the National Assembly. The coalition between the two right-wing parties the Rassemblement Pour la République (RPR) and the Union Pour la Démocratie Française (UDF) won a combined two-seat majority over the Socialists in legislative elections.

On March 20, President François Mitterrand appointed RPR leader Jacques Chirac Prime Minister and France found itself in a situation untested since the Fifth Republic was established: "cohabitation" between a right-wing parliamentary majority and a left-wing President. In the Elysée Palace sits Mitterrand, elected in 1981 for seven years; across the river, at the Hôtel Matignon, is Chirac. These are two radically opposite men who have always battled each other, yet who now must govern together in a new division of roles.

Until now, with a President and a Prime Minister on the same side of the political spectrum, France's Constitution was interpreted as giving all power to the Head of State—Mitterrand—with the Prime Minister merely executing the will of the Elysée Palace. Other interpretations, however, give the Prime Minister many spheres of influence, leaving foreign policy and defense to the President.

It is on this reading of the Constitution that Chirac intends to govern and, despite the presence of Mitterrand at the Elysée, to break with the Socialist experiment. It is true that the French electorate gave the right-wing coalition a very slim majority, but Chirac is well aware of this and will be only that much more careful.

In a way, the vote was a paradox. The proportional representation system put into place by the Socialists changed the rules of the game. Not in 20 years has the relative strength between left and right been so unfavorable to the left at 45 percent to 55 percent—a 10-point spread. Yet never has the Socialist Party been so strong. With close to 32 percent of the popular vote and 215 out of 577 seats in the National Assembly—an unexpected tally—the party's return to the opposition camp is an honorable one and almost a happy surprise. The voters gave the party credit for good results in its economic program as they became apparent toward the end of the parliamentary term.

The March 16 vote confirms the Socialists' position as the preeminent political force in France. The next goal for party leaders is to reach the threshold of 40 percent of the electorate—transforming itself in the process into a true social democratic party or, why not, something resembling the American Democratic Party. This is an absolute necessity for the Socialist Party since it is now the lone real force on the left.

The Communist Party suffered yet another setback in this election as it dropped below a critical 10 percent of the vote, making it almost a fringe party with only 35 seats. The Communists, strong until the mid-1970s, have not survived their temporary alliance with the Socialists and the party has dropped back to where it stood half a century ago.

The Communists' decline put them at the same strength as the extreme right-wing National Front led by Jean Marie Le Pen whose party was the big beneficiary of the switch to proportional representation. Without the changes, the National Front undoubtedly would have won only one or two seats. Instead, the far right has jumped suddenly from none to 35 members in the National Assembly, confirming the strength it showed at the European Parliament elections in June 1984. Crime, immigration and unemployment were the party's main rallying points. Mitterrand did miss his principal goal with the election law reforms—splitting the right.

One important consequence of the close election results is that the question of Mitterrand's resignation as President is no longer a viable one. In the first place, the balance of power is unfavorable to the left. Secondly, the March 16 vote was not an unqualified disavowal of Mitterrand's presidency. Thus, the results support "cohabitation."

Chirac's nomination as Prime Minister followed a kind of "arithmetical" democratic process according to which the strongest party of the coalition forming a parliamentary majority should head the Government. It is a job with high risks, but one that is in Chirac's interests. In the race among leading political figures in the new majority who are looking ahead to the 1988 presidential elections, Chirac needs to catch up with former Prime Minister Raymond Barre who was better placed in the polls.

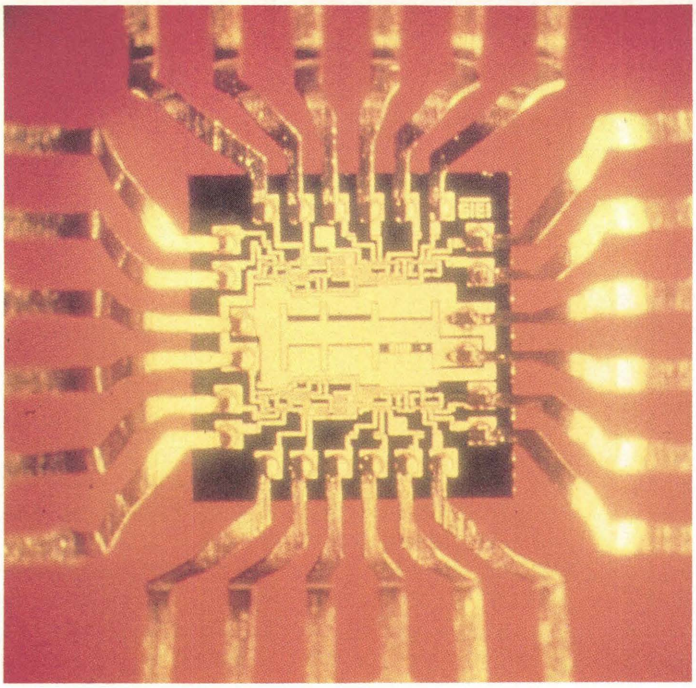
The Prime Minister knew he had to act fast and efficiently, so he put together a Government in which all the key posts are held by people close to him such as Edouard Balladur, as Minister of the Economy and Privatization, and Charles Pasqua, as Minister of the Interior. Nevertheless, the Government is sufficiently broad-based so that all the constituencies in the coalition are represented—the Republican Party close to former President and UDF leader Valéry Giscard d'Estaing, as well as the Center of Social Democrats which has ties to Barre.

This is not to say that the cohabitation Government is entirely safe from its own friends. Barre does not intend to sit back forever and watch quietly as Chirac is launched into presidential orbit. He, too, has ambitions in that direction. However, the first difficulty for Chirac could come from Giscard d'Estaing.

The new Government's main objective is to erase five years of management by the left, even if it means speeding things up by legislating outside of parliamentary procedures through the use of decrees. But there is a major obstacle to this tack: Mitterrand himself. Just how much readjustment to the accomplishments of his various Socialist Governments will the Head of State accept? Anytime he wants—but especially when it suits him the most—Mitterrand could dissolve the National Assembly or force a premature presidential election by resigning . . . the better to be reelected. And that would be the end of this forced marriage. €

Bernard Mazières covers politics for the French newsweekly *L'Express*.

NEWS OF THE E.C.



The E.C. Commission is seeking new legislation to fight the spreading problem of microchip piracy.

MICROCHIP PIRACY: COMMISSION FIGHTS BACK

The E.C. Commission has issued a proposal aimed at providing legal protection to designers and manufacturers of original microchip designs. The proposed Directive will provide a framework to allow member states to apply protection according to their own legal systems.

Microchip piracy is a growing problem in the high-tech world. Original designs for integrated circuits require large amounts of money and time to develop, but can be copied easily and cheaply by pirates. The copies can significantly reduce the return on the orignial developer's investment, hindering his ability to continue to invest in innovative designs.

The United States and Japan have already begun to come to grips with the problem, but legal protection in the European Community is neither complete nor uniform. It appears likely, however, that a number of legislative initiatives will be taken in the near future, partly in response to the American legislation (the Semiconductor Chip Protection Act of 1984).

Representatives of the European electronics industry have been expressing their concern over the situation to the Commission, and have been pointing out the risks that could result from inadequate or insufficiently rapid adaptation of applicable legislation in the member states of the Community. In the absence of such protection, many fear, semiconductors developed in Europe will not be adequately protected in the American market. Moreover, uncoordinated responses at the national level in different E.C. member states could pose new problems for electronics firms trying to develop their activities on the basis of a single, Europe-wide market. Substantial differences in national laws could directly and adversely affect the functioning of the Community's internal market in integrated circuits and related products.

The Commission's "framework approach" leaves the member states free to choose the form and methods they prefer for legislation, while setting down certain common principles. The proposed Directive seeks to specify what should be protected, who should benefit from the protection, which acts should be considered infringements and which should not, what limits should be respected as to the length of the protection, and, if provision is made for marking protected products, what mark should be prescribed.

In the longer term, the Commission believes, consideration should also be given to the adoption of further measures to ensure that new and unnecessary obstacles to trade in semiconductor products do not arise in the Community.

E.C. LOOKS TO TOURISM FOR JOB CREATION

The E.C. Commission proposed a series of measures in February designed to create employment through the development of tourism in Europe. The Commission's proposals are aimed at creating a joint "action program" among E.C. member states for the tourist industry, which currently accounts for around 4 percent of E.C. gross domestic product and absorbs more than 7 percent of private consumer spending.

Tourism has enjoyed rapid and uninterrupted expansion since the early 1970s, and expenditure on and revenue from international tourism have increased more than six-fold in the last 14 years. Tourism is a major element in the balances of payments of the member states, accounting overall for almost 5 percent of credits and 4 percent of debits, while some countries have much larger percentages. Tourism accounts for 20.8 percent of Spain's credits accounts, for example, and for about 18 percent of Greece's.

Tourism is particularly attractive to the Commission for its job-creation potential. Tourism is a labor intensive industry, which directly employs an estimated five million people in the Community, and its expansion would help offset unemployment in other sectors where growth has been slow.

Measures the Commission is recommending include:

• Simplifying border crossings within the Community;

• Greater flexibility in the air transport system;

• More staggering of annual

The E.C. Commission is proposing an "action program" to help create more jobs in the rapidly growing tourism industry.

holidays among member states;
• Standardization of information on hotels;
• Joint consultation on matters concerning tourism;
• More involvement of the tourism industry in environmental protection;
• Promotion of rural and cultural tourism.

COMMISSION SETS WORK PROGRAM FOR 1986

For the European Community, 1986 will be a year "either full of opportunity or fraught with danger," E.C. Commission President Jacques Delors told the European Parliament on February 19, in an address outlining the Commission's work plan for the coming year. Telling the European representatives that "the Community will have to prove to itself that it can live and prosper with twelve members," Delors said there were four central tests now facing the E.C.: the Common Agricultural Policy (CAP), the search for greater cohesion, the social dimension of European integration and growth, and the need for adequate financial resources.

Delors also underscored the need to guarantee European economic growth, which he has called the key to revitalization of the European venture. The Community's main economic tasks, he said, include removing the final barriers to trade within the E.C. and completing the internal market, gradually liberalizing capital movements, implementing a multi-annual framework program for expansion of research and development activity, and pursuing a cooperative strategy of economic growth.

The Commission's economic strategy, drawn up last year, is designed to let each country use its own margins for maneuver—including lowering interest rates, reducing the tax burden, providing more incentives for tax creation, stimulating productive investment, and so on—to revitalize economic growth in Europe. Such a strategy, the Commission believes, would enhance national growth rates significantly and reduce unemployment by 30 percent to 40 percent over five years. Beginning this year, Delors said, the rolls of the jobless should decrease by more than 700,000 annually.

"The Commission will therefore fight for its cooperative growth strategy," Delors told the Parliament, saying that it would continue to support a dialogue between employers and trade unions, propose measures to sustain growth by making markets more efficient, and work for the gradual strengthening of the European Monetary System (EMS). A stronger EMS, the Commission believes, could be central to the success of the plan.

The future of Europe's internal and external farm policy also features prominently in the 1986 work program. Noting the "formidable problems" of mounting surpluses, inefficient use of resources, and disputes over agricultural exports, Delors said that the basic principles of the CAP—market unity, Community preference and financial solidarity—must be adhered to while the fight against surplus production continues. Beginning this year, he said, the Commission would mark out its future course by implementing a program for development of Mediterranean areas, assisting rural development programs, and making co-ordination of the E.C.'s structural funds more effective.

Noting that the creation of a vast economic area was inconceivable without some harmonization of social legislation, Delors affirmed that "our ultimate aim must be the creation of a European social area. This idea would have been rejected as utopian or dangerous a few years ago. Today we see things more clearly: economic and social progress must go hand in hand."

Delors also addressed the issue of financial resources, telling the Parliament that while the Community budget should be administered with maximum strictness, the E.C.'s own resources had to increase from the current 1.4 percent of value-added tax it now receives if the Community is to achieve all of its objectives. "We need to combine rigorous management with financial imagination and political courage," he added.

On trade, Delors noted that the Commission's growth strategy was important in addressing world economic problems as well as those within Europe, and that a massive growth in world trade would do a great deal toward improving conditions everywhere, especially in the less developed countries. Other ways in which progress might be made, he said, include lowering interest rates to reduce the burden of the indebted countries, coordinated action by the commercial banks to provide fresh capital, orchestrated moves by the industrialized countries on export credits, greater concessional flows through the World Bank and the International Development Bank, and adequate public development aid. "We are also building Europe when we make our presence felt on the international scene, when we shoulder our responsibilities, when we respond to the appeals and the anguish of the poor nations of the world," Delors said.

In outlining the Commission's work program, President Delors made it clear that 1986 will be a decisive year for European integration.

DANES APPROVE E.C. TREATY CHANGES

Almost 75 percent of Danish voters turned out in a national referendum on February 27 to solidly approve a controversial package of reforms to the Treaty of Rome, the E.C.'s founding charter. The closely-watched vote, which reflected the strong differences of feeling in Denmark toward the European Community, resulted in a 56.2-percent vote in favor of the institutional and procedural changes agreed to by E.C. leaders at their summit meeting in Luxembourg last December.

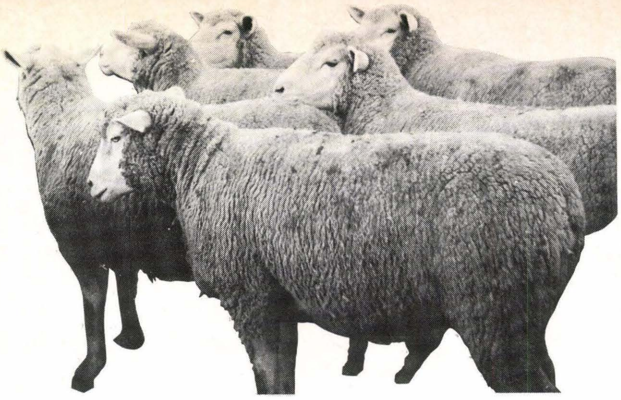
"This is a very important and indisputable 'yes' to the Community," said Uffe Ellemann-Jensen, Denmark's foreign minister. The referendum was considered a vital test of public support in Denmark for the Community, and had been called after the Folketing—the Danish parliament—refused to approve the reform package earlier this year.

The reforms are designed to streamline E.C. decision-making, build up Europe's economic and technological strength, and enhance political cooperation. They provide for majority voting by the Council of Ministers in certain areas where a unanimous decision is now required, and strengthen slightly the powers of the European Parliament. The reforms also cover monetary cooperation, research and technology, environmental protection and social policy, and include a separate treaty on coordinating member states' foreign policies.

Jacques Delors, President of the E.C. Commission, called the results of the Danish vote "encouraging for us all," and added, "I am confident that the future development enabled through the new provisions in the treaties will turn out to serve the interests of the Danish population as a whole."

Almost 44 percent of Danish voters were against the reforms. Recent polls indicate that hostility toward the Community is strongest among the extreme left wing, Social Democrats, young people (under 33 years), and blue collar workers, while white collar workers, Social Liberals and those belonging to the Government parties were overwhelmingly in favor of the reforms—and of continued Danish membership in the European Community.

Italy and Greece, which were awaiting the results of the referendum, joined Denmark in The Hague on February 28 to sign the "Single European Act." The other nine E.C. member states signed the Act on February 17. The reforms now go to the 12 national parliaments for final approval.



New farm reform proposals are designed to make Europe more competitive on world agricultural markets.

COMMISSION PROPOSES FARM REFORM MEASURES

Faced with mounting agricultural surpluses and a farm policy that it feels is not geared closely enough to the realities of the marketplace, the E.C. Commission proposed a freeze in February on most of the E.C.'s farm support prices for the 1986-1987 season.

The Commission's price proposals are based on the analysis and debate that has been underway since a discussion paper on the Common Agricultural Policy (CAP) was drawn up last year. If the proposals are approved by the Council, some prices would increase marginally while others would fall by 2 percent to 6 percent. Overall, prices would drop by an average of 0.1 percent.

The strictness of the measures reflects the Commission's determination to make the CAP more market-oriented. "You cannot fight for long against agricultural markets," explained Frans Andriessen, the E.C.'s Commissioner for Agriculture, in a recent speech. "There is no alternative to a more market-oriented price policy." By using market discipline to enhance European competitiveness, Andriessen indicated, the E.C. would also be able to better defend itself on world agricultural markets.

Additional measures were proposed to discourage overproduction of grain, beef and dairy products, where mounting surpluses are becoming increasingly costly and destabilizing to the markets. "The whole situation represents a time-bomb," Andriessen said, explaining why the Commission is pushing for a program of destocking that would bring the Community's farm surpluses down to more reasonable levels over the next two years. But to be successful, he stressed, such a program had to be combined with efforts to bring production into line with demand.

The Commission's main proposals include:

- A four-pronged approach to the grain sector, including: a freeze in intervention prices for most grains, with cuts for rye and durum wheat; a "co-responsibility levy" for grain farmers to offset the costs associated with surplus production; tighter quality standards for grain bought by E.C. intervention agencies; and shortening the period during which those agencies buy grain from 12 months to five months of the marketing year.
- A freeze in the milk target price, a 4-percent cut in the intervention price for butter, and a 3.5-percent increase in the intervention price for skimmed milk powder.
- A price freeze for beef and veal, and an end in 1987 to public intervention to stabilize the market.
- A price freeze and a system of "guaranteed maximum quantities" for rapeseed and sunflower seed.

Discussion of the price freeze will continue for some time in the Council, where initial talks indicate that the proposals appear to be acceptable to almost all the member states.

BRITE RESEARCH PROGRAM BEGINS

Contracts for the first of almost 100 projects under the E.C.'s BRITE program (Basic Research in Industrial Technologies for Europe) were recently signed, launching what promises to be a new era in European research into advanced technologies.

The BRITE program was set up in 1985 to stimulate the development of a solid foundation of advanced technologies to support traditional Community industries, especially by promoting transborder cooperation between firms, universities, and research institutes. It covers "precompetitive" research—an intermediate stage between fundamental research and the development work that immediately precedes marketing—in areas as diverse as textiles, aeronautics, chemicals and metalworking.

The BRITE program is planned to run for four years, with the Community contributing up to 50 percent of the costs of each project. Community funding of $100 million has been provided for the 1985-88 period, and the industrialists involved will contribute an equivalent amount. The rules require each project to have a minimum of two partners from different countries, at least one of which must be an industrial firm. In practice, the projects group together an average of four partners in three or four different countries.

Another E.C. technology development program, RACE (Research in Advanced Communications for Europe), has moved into high gear in recent weeks with the successful negotiation of contracts for the program's first projects. The initial "Definition Phase" of the RACE program, which will run for 18 months, is aimed at establishing the outline of a future pan-European Advanced Wideband Telecommunications Network and defining the technologies necessary to make it a reality by 1995.

The Commission has been promoting such a network for some time, arguing that future communications needs will require a system that can integrate the transmission of information in several different forms, including voice, text and video. Digital technology is making it possible to have a single network, and economics is making it a necessity. The RACE program will make the full benefits of advanced telecommunications available at reasonable cost to both business and domestic users by exploiting Community-scale production, while providing a decentralized approach by service providers.

In a third technology development program, ESPRIT (European Strategic Program for Research and Development in Information Technology), 11 new proposals for software technology development have been selected for funding, following a call for supplementary proposals late last year. The proposals include SFINX (Software Factory Integration and Experimentation), HTDS (Host Target Development System), Testing and Consequent Reliability Estimation for Real-time Embedded Systems, and CHAMELEON (Dynamic software migration between cooperating environments), among others.

E.C DECLARES ROAD SAFETY YEAR

European roads should be a great deal safer this year than in the past, due to a new E.C. campaign to make 1986 "European Road Safety Year." More than 50,000 people are killed on Community roads every year, a tragedy compounded by enormous economic costs. In order to reduce the toll, Transport Ministers in the E.C. are developing ways to tackle the main causes of accidents, including poor maintenance of vital parts of vehicles, bad weather, high speed and driver inattention.

The E.C. will bring together experts on motor design and manufacturing in an effort to construct trucks and cars more safely and improve braking for commercial vehicles. The Commission will also be proposing lower speed limits, stricter standards for carriage of dangerous goods on public roads, and harmonization of requirements for drivers licences. It also plans to promote research into various aspects of road safety, and to encourage exhibitions, conferences and seminars on ways to improve Europe's collective driving safety.

A new program to apply advanced technology to road safety is being explored by the E.C.'s Task Force for Information Technology and Telecommunications, which has set up a program known as DRIVE, for Dedicated Road Safety Systems and Intelligent Vehicles in Europe. Studies will be carried out under the DRIVE program on integrated vehicle control, vehicle guidance, navigation and communications, traffic control in urban areas, and traffic control on motorways. The initial studies will lead to the drawing-up of an action plan for the Community by July of this year.

EDUCATION: ERASMUS PROGRAM

The E.C. Commission has recently drawn up an ambitious program for encouraging European students to attend university in a member state of the E.C. other than their own. Baptized Erasmus (European Action Scheme for the Mobility of European Students), the program is aiming for a ten-fold increase in such students by 1992. Less than 1 percent of the roughly six million students in the Community benefit from the E.C.'s current exchange programs, and those who do go abroad for part of their studies more often than not head for the United States.

If the Community is to increase cooperation among universities, industry and national administrations, which it must do if it is to meet international competition and successfully meet the challenges facing Europe's future, the Commission feels that it is vital that the future leaders of Europe aquire a taste for Europe during their studies.

Erasmus would make possible 40,000 scholarships, as well as European seminars on specialist subjects and the creation of a genuine network of 600 universities in 1987 and 1,700 in 1989. The program would also make easier the academic recognition of degrees acquired in other member states and allow more contact among teachers throughout the Community. The Commission also envisages annual grants to staff and student associations prepared to add a European dimension to their activities, and the award each year of an Erasmus prize to a university and to 12 gifted students, one from each member state of the Community. Erasmus will cost 175 million ECU (about $140 million) during its first stage, which will run from 1987 to 1989.

HEALTH: EUROPE AGAINST CANCER

European cancer specialists gathered in Paris in late February for their second meeting this year to advise the Commission on steps to develop a Community action program to fight cancer. The specialists also met with Commission President Jacques Delors and French President François Mitterrand, and with other European officials.

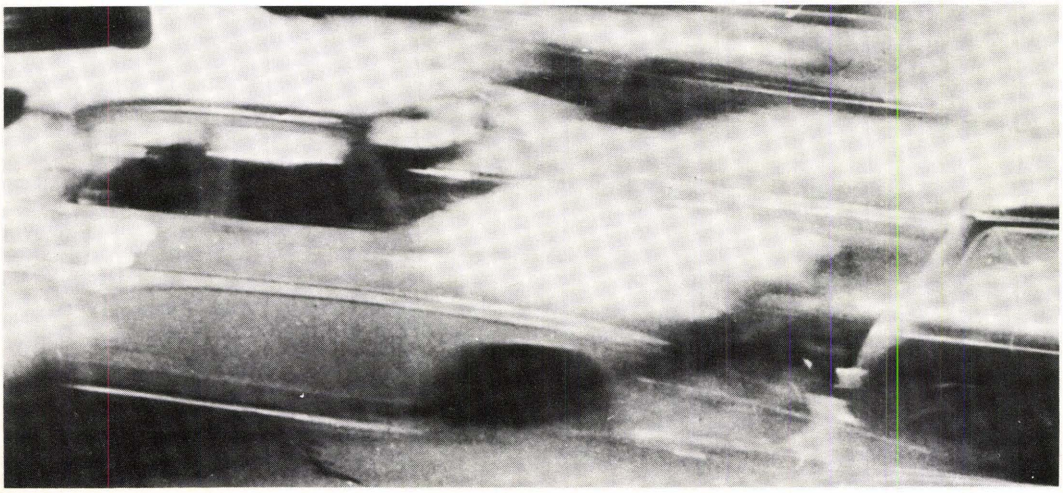
The specialists' meetings are being held in order to give the Commission the benefit of the greatest possible expertise in putting together a successful program of cancer prevention and control. The European fight against cancer entered a new and more active phase last June, when E.C. heads of state agreed at the Milan summit on the need for a coordinated strategy. As a result, the Commission began drawing up proposals for a five-year, $5 million action program, to be known as "Europe Against Cancer," and submitted a preliminary plan to the Council last November.

Among the Commission's proposals:

- Research to combat cancer under the new framework of technological research and development (1987-91) to be proposed shortly by the Commission;
- Development of a nutritional strategy (including alcohol consumption) as a means of supplementing existing Community action on food and consumer protection;
- Adoption of a common anti-smoking strategy, including the harmonization of regulations proposed by the member states;
- Creation of a central office for the exchange of information between the different national services responsible for cancer detection;
- Comparison and more efficient use of data collected in the member states from cancer records and health statistics in an effort to identify the factors causing cancer and affecting its treatment;
- Financing of a series of joint projects designed to improve public information.

The Commission has already agreed to set aside 2 million ECU (about $1.6 million) from its 1986 budget to finance some of the new initiatives.

With more than 50,000 people being killed each year on E.C. roads, the Commission is proposing a wide range of new safety measures.

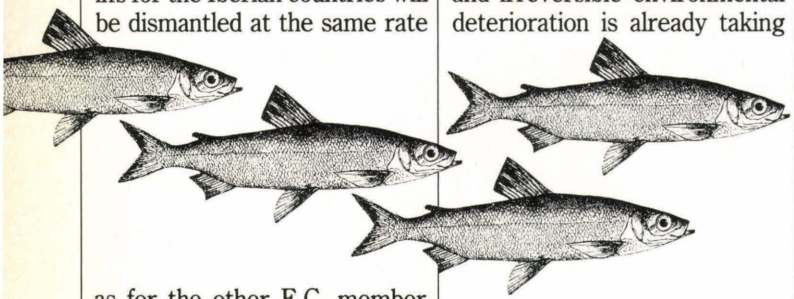


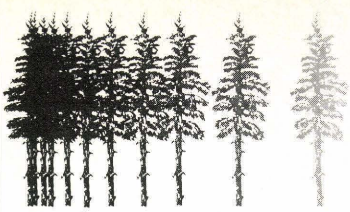
TRADE: E.C., EFTA REACH ACCORD

The E.C. and the European Free Trade Association (EFTA) concluded final negotiations on February 22 on trade relations between the two groups, following the entry of Spain and Portugal to the Community in January.

"I am very satisfied," said E.C. Commissioner Willy De Clercq, "that a difficult negotiation, which began inauspiciously last autumn, ended to the mutual satisfaction of both parties and within the desired time frame. The Community exports almost as much to the EFTA countries as toward the United States and Japan combined, so it was important to find with our privileged partners the means to integrate the new member states into the free trade system." De Clercq is responsible for trade and external relations for the Community.

E.C.-EFTA talks on the effects the enlargement would have on trade between the two blocs stalled last December. The E.C. has since agreed to set a transition period to phase in free access of Spanish and Portuguese exports, and EFTA industrial tariffs for the Iberian countries will be dismantled at the same rate as for the other E.C. member states. For agriculture, a sensitive area where the EFTA countries have a significant trade deficit with the Community, the concessions offered to the E.C. of Twelve will be the same as those offered to the E.C. of Ten, and bilateral tariff and non-tariff agreements between the Iberian countries and EFTA member states will be continued. Two other sensitive problems, involving Portuguese textiles and Norwegian fish, were resolved in the last days of the negotiations.





ENVIRONMENT: FOREST PROTECTION

The first international conference on trees and forests was held in Paris during February, bringing together delegates from 62 countries to discuss the threat of deforestation around the world. The problems of atmospheric pollution and forest fires in Europe, and of progressive desertification in Africa dominated much of the discussion, with E.C. Commission President Jacques Delors emphasizing that action to protect Europe's forests must be coordinated among all the countries of Europe.

"Man's treatment of the world's forest is a dramatic example of our blindness," Commissioner Stanley Clinton Davis, who is responsible for environment policy in the European Community, told the conference. "This vital resource is being cleared so rapidly in some parts of our world that serious and irreversible environmental deterioration is already taking place. The environmental consequences are disastrous and the long-term effects on the inhabitants of these regions may be devastating."

A recent Commission discussion paper suggests that damage to Europe's forests and the current trade deficit in wood products could both be improved by increasing afforestation and the productivity of existing forests. At present, despite the fact that fully one-fifth of the its surface is covered by forests, Europe is the world's largest importer of wood and wood products.

To increase wood production, the Commission is suggesting that farmers who are currently growing uneconomic crops turn to afforestation (given incentive, perhaps, by tax exemptions), and that small cooperatives be established to increase the output of land already used for afforestation.

Protecting forests from pollution and fire is the third element of the Commission's discussion paper. While the causes of decay in the northern forests are not totally understood, the evidence is very strong that atmospheric pollution is at fault. The Commission is committed to reducing emissions from all sources of pollution, and has already made proposals to reduce pollutant emission from cars, trucks, power plants and domestic heating installations.

COURT RULES ON SEX DISCRIMINATION

A recent decision in the European Court of Justice will ensure that no one in the European Community will be retired or dismissed from their job due to sex discrimination.

The case originated when a British woman, Mrs. M.H. Marshall, brought a case against her employer, the Southampton and South West Hampshire Area Health Authority, a state body. The employer had a policy of retiring men at age 65 and women at age 60, and when Mrs. Marshall was retired at age 62 she claimed she had been compelled to retire three years earlier than if she had been a man. The British Sex Discrimination Act 1975, however, does not prohibit sex discrimination which results from "provision in relation to death or retirement."

The English Court of Appeal therefore referred the case to the European Court of Justice, for a ruling under Article 177 of the Treaty of Rome on two points: whether Mrs. Marshall's dismissal was an act of discrimination prohibited by the E.C. Directive on Equal Treatment (76/207/EEC) and, if so, whether she could rely on the Directive in national courts, notwithstanding the inconsistency between the Directive and national law.

The Court held in her favor, and affirmed that the Directive could be relied on by employees of State bodies in national courts, in preference to national legislation.

The E.C. Commission regards this decision as particularly important because it makes clear to national judges that discriminatory dismissals are prohibited by the Directive and that, for the first time, a provision of the Directive has direct effect.

CONSUMER AFFAIRS: DOORSTEP SELLING

The Council of Ministers recently agreed on a Directive, first proposed in 1977, that will provide protection for consumers who purchase products from door-to-door salesmen in several member states of the European Community.

The Directive provides for a seven-day period in which consumers can reconsider the wisdom of purchases they have made from doorstep sellers, whether they pay in cash or through a credit arrangement. The Directive will also cover sales made in other settings.

Commenting on the decision, E.C. Commissioner Stanley Clinton Davis said that the legislation would restore the balance between consumer and seller where the consumer was most vulnerable. "Consumers can be exploited by doorstep salesmen," Clinton Davis noted. "They may be caught at a disadvantage and often be persuaded to make purchases or enter into agreements on the spur of the moment, giving them no chance to compare prices with those offered by other suppliers or to consider the decision carefully. This new legislation makes a valuable contribution to our general program of consumer protection."

BOOKS IN REVIEW

Confrontation or Negotiation, United States Foreign Policy and European Agriculture. Charles E. Curry, Wm. Patrick Nichols and Randall B. Purcell, eds. Associated Faculty Press, Millwood N.Y., 303pp., $27.50.

STEPHEN SCHMIDT

This book is a collection of 10 principal papers and eight reviews of those papers focusing on the factors that gave rise to the current tensions in U.S.-E.C. agricultural trade relations and on exploring U.S. policy options to diffuse these tensions.

Part I, made up of two chapters written by former U.S. Ambassador to the E.C. J. Robert Schaetzel and political science professor Ross Talbot, examines U.S.-European relations in historical perspective. Schaetzel highlights the economic and political forces which contributed to the establishment of the European Community and shaped its development through the mid-1980s. He also traces U.S. policy stances toward European integration and the Common Agricultural Policy (CAP). Schaetzel recommends the application of diplomatic tools of persuasion and negotiation in settling the current trade dispute. Talbot discusses the post-World-War-II environment and national aspirations that were instrumental in the formation of new European institutions and American misinterpretation of the importance of these developments. In his view, U.S.-E.C. agricultural trade relations "are only part of a much larger whole . . . and [thus] . . . must be evaluated within a political strategic perspective."

Part II focuses on the political and economic dimensions of the CAP as seen by two European professors, Michel Petit and Stefan Tangermann. Petit reviews the determinants and evolution of the CAP and its economic consequences which, in turn, have created pressures for reform culminating in the March 1984 compromise. He concludes that "external pressures have generally not been very effective in bringing about changes in the CAP." Petit believes, however, that budget constraints, along with policies pursued in competing countries, particularly in the United States, are going to play a growing critical role in shaping future performance of the CAP.

Tangermann attributes CAP-related problems to the supranational institutional framework in which policies are pursued. He points out that the possibility for governments to externalize economic and political costs of high price supports has raised the level of protection granted E.C. agriculture above what individual member countries would have aimed for had farm policy remained a national responsibility. Tangermann faults March 1984 reforms as being geared mainly toward reducing budgets, without addressing most other adverse results of the CAP. In a review of the above two papers professor T. K. Warley from the University of Guelph in Ontario agrees with their conclusions, but is also hopeful that "there are opportunities for external events to reinforce internally animated changes in the CAP and to channel them in internationally constructive directions,"

The third part of the book is devoted to a comparison of the effects of European and American farm and agricultural trade policies. Cornell professor Kenneth L. Robinson agrees that while the United States has lost export market for both wheat and feed grains as a result of E.C. policies, it and other exporters have benefited from the overpricing of cereals relative to cereal substitutes. He doubts that the proposed reforms would do much to ease the pressure on the export market.

Another chapter in this section uses econometric models to quantify the effects of changes in the U.S. exchange rate, foreign income growth and E.C. threshold price levels, on the value of U.S. exports and production of soybeans, wheat and coarse grains. The results suggest that threshold price levels had the least impacts the authors conclude that the United States and the E.C. should seek agreements for the even more important macro-economic policies which are outside the influence of agricultural policy. In a commentary on the previous two background papers, Susan E. Brown, first secretary for agriculture at the British Embassy in Washington D.C., pleads for greater restraint on E.C. support prices and more responsiveness to market needs. While defending the legitimacy of the E.C. as an exporter, she does not believe in the inevitability of mutually destructive agricultural trade war. Doanld M. Nelson, former Assistant U.S. Trade Representative for agricultural affairs, criticizes the authors for their failure to underline the dimensions of the differences between U.S. and E.C. support policies. Derwent Renshaw, first secretary for agriculture at the E.C. Commission's Delegation in Washington D.C., notes that the authors could have provided a more balanced assessment of the trade disputes by examining the effects of U.S. farm policy on European agriculture.

The final part of this book examines the differences in approaches to trade relations between the E.C. and the United States. Thomas Saylor, division vice president of Garnac Grain Co., scrutinizes the usefulness of existing and alternative trade negotiating mechanisms and concludes that the mechanism for resolution of trade disputes may be less significant than the commitment of negotiators and policy makers.

In a review of Saylor's papers, attorney Marsha Echols comes out in favor of putting the U.S.-E.C. conflicts into a world context, since bilateral problems can be solved permanently only on a multilateral basis, preferably under GATT auspices. Former E.C. Commission director-general for agriculture Claude Villain takes issue with Saylor's interpretation of negotiating positions and suggests that exporters should seek agreement on approximate market shares.

Wellesly professor Robert L. Paarlberg examines the pros and cons of five U.S. policy options: adjudication, retaliation, negotiation, collusion and competition—vis-à-vis the E.C.—in agricultural trade. He chooses competition as an appropriate and best available U.S. policy response to the CAP. Reviewer Vernon L. Sorensen suggests that "U.S. trade policy for agriculture needs to be pursued with a multifaceted approach . . . and in the context of the total trade picture facing the United States."

International relations professor Martin J. Hillenbrand concludes that the E.C. is not going to reform its CAP in a way to accommodate U.S. trade interests, and thus the two sides will be unable to find a negotiated agreement on agricultural policy or trade policy. This being the case, he hopes that neither the United States nor the E.C. will take actions that exacerbate tensions between the two.

In the concluding chapter, Stanford professor Timothy Josling calls on all involved to continue the search for modest improvements in the ways governments intervene in agricultural markets. Modification of these programs should, in Josling's perception, provide "opportunities to improve the extent to which they are consistent with agreed rules of international trade."

The book is stimulating; as much for the issues it raises as for those it attempts to resolve. The authors despite a certain repetitiveness, offer a fascinating series of policy scenarios and approaches which may aid U.S. policy makers and negotiators in dealing with current bilateral disputes. A major adverse feature of the book is its repetitiveness.

Stephen Schmidt teaches agricultural economics at the University of Illinois at Urbana-Champaign.

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.*

The Latin American Policies of U.S. Allies. Balancing Global Interests and Regional Concerns. William Perry, Peter Wehner, eds. Preager, N.Y., 1985. 185 pp. $29.95.

Collection of essays analyzing Western involvement in Latin America. Discusses the influence of U.S. allies in the political, social, economic and military affairs of this region. Examines the historical ties between Europe and Latin America and the increasingly important role of Japan, Isreal and Canada. Essays argue the case for "middle powers" as an alternative partner in international relations. Trade relations, political ties and development cooperation are discussed.

Consumer Protection. Th. Bourgoignie, et al. Editions UGA, Kortrijk, Belgium, 1984. 289 pp.

Essays written by scholars of comparative and international law discuss unfair contract terms, misleading advertising, enforcement of individual consumer claims and the role of the E.C. in protecting consumers. Well argued essays and texts of relevent legislation enhance the value of this book for legal scholars, students, and practitioners.

Autonomy and Interdependence: U.S.-Western European Monetary and Trade Relations 1958-1984. Thomas L. Ilgen. Rowman & Allenheld, Towtowa, N.J., 1985. 166 pp. $34.95.

Asserts that the weak economic position of the United States in the 1970s was a result primarily of increasing world interdependence and competition. Analyzes several theories held by scholars of economics and international relations concerning the evolution of the economic order. The author distinguishes several stages of this evolution. From 1958-1960, Washington pursues a strategy of interdependence among Western states and autonomy in the formulation of domestic policy. The period 1961-1967 is viewed as one of reform, while 1968-1973 is seen as a time of monetary crisis and the rise of protectionism.

European Political Facts 1918-1984. Cris Cook, John Paxton. Facts on File Publishers, N.Y., 1986. 280 pp. $24.95.

Facts concerning recent history of Europe from the Atlantic to the Urals. Includes lists of international organizations, heads of state and ministers and relevent data pertaining to this period. Describes the evolution of political parties and elections. Also provides brief statements on judicial systems and treaties as well as dependencies and colonies. Good reference book for students of European affairs.

External Debt Management. Hassanali Mehran, ed. IMF, Washington, D.C., 1985. 322pp.

Collection of papers presented at a seminar organized by the IMF Institute and the Central Banking Fund held in Washington, D.C., 1984. Examines the role of the IMF , Commercial banks and debtor states in managing the debt crisis. Paper topics include fiscal management techniques of external debt management, borrowing strategies and market conditions as well as case studies of external debt management in selected countries such as Chile, Finland, Malaysia, Spain, Thailand and Tunisia.

European Community's Participation in International Treaties. Johannes Fons Buhl. Center of International Studies, Princeton University, 1985. Occaisonal Paper No. 13.

Examines E.C. participation in international treaties as a legal personality in its own right. Also looks at regional international organizations as subjects of international law, analyzing European Community policy on concluding treaties. Treaties between the E.C. and third world nations are also discussed.

Determinants of Agricultural Policies in the United States and the European Community. Michel Petit. International Food Policy Research Institute, 1985. Research Report 51.

Compares and contrasts U.S. and European farm policies. Argues that the dynamic nature of the policy-making process renders the interaction between interest groups and agencies very important. Examines the evolution of agricultural policies in the United States and France form 1930-1980. Also discusses the U.S. Dairy Production Stablization Act of 1983 and the confrontation between the United States and the E.C. on international trade in agricultural products.

The Peace Movements in Europe and the United States. Werner Kaltefleiter and Robert L. Pfaltzgraff. St. Martin's Press, N.Y., 1985. 211 pp.

Peace movements captured public attention recently largely as a reslut of the deployment of medium range missles in Europe after the breakdown of negotiations with the Soviet Union. This collection of essays discusses the origin, goals, organization, support and activities of various peace movements throughout Europe and in the U.S.

Auto Industries of Europe, United States and Japan. Richard Phillips, Arthur Way. Ballinger Publishing Co., Cambridge, MA, 1982. 320 pp. $29.95.

This three part book describes the structure and growth of the auto industries among the world's three largest producers and with the help of many charts and tables, examines their prospects for the 1980's. Information on all major auto industries is provided with detailed accounts by country and company. Includes a financial assessment of the U.S. industry with chapters devoted to major U.S. corporations as well as the structure and changes in the European industry.

Le Traité d'Union Européenne. F. Capotorte, et al., eds. Editions de l'Universite de Bruxelles, 1985. 307 pp. FB 1,160.

The Treaty of European Union adopted by the European Parliament aims not only to strengthen the institutions of the European Communities, but to increase their powers vis a vis the national governments. This exhaustive study traces the history and force behind the idea of European Union. Discusses the goals and methods for achieving a more unified Europe and the necessary political will to make it a reality.

Textile Protectionism in the 1980's: The MFA and the EEC's Bilateral Textiles Agreements with Developing Countries. Hans Teunissen and Niels Blokker. Center for European Policy Studies, Brussels, July 1985. 44 pp.

Analyzes the Multifibre Arrangement and compares bilateral agreements which the EEC concluded with 20 less developed countries on the basis of the MFA Examines outward processing, quotas, growth rates and trends in E.C. textile imports. Concludes that the current bilateral agreements are as restrictive as the previous ones and in some respects do not conform with the MFA. Includes tables of import statistics and threshold levels.

Going International - How to Make Friends and Deal Effectively in the Global Marketplace. Lennie Copeland and Lewis Griggs. Random House, N.Y., 1985. 279 pp. $19.95.

A practical guide to developing the strategy and style needed to succeed in business anywhere in the world. Structured for quick access to information, it includes tips on getting started, marketing, promotions, negotiating proposals and understanding contracts. General guide and common sense advise make this book applicable to setting up business almost anywhere in the world.

State Aid to the European Motor Industry. K.N. Bhaskar & the UEA Motor Industry Research Unit. University of East Anglia, Norwich, 1984. 140 pp. 95 pounds.

Examines the problems facing Europe's motor manufacturers and the types of financial aid available. Also reviews E.C. policy on state aid, harmonization of taxation, removal of tariff and non-tariff barriers and the provision of grants and loans by the E.C. Commission. Distribution of aid by country and manufacturer, projected funding and state aid requirements by company are listed. Appendix includes texts of Article 85, 92 and 93 of the Treaty of Rome establishing the European Communities.

The Middle East and North Africa 1986. 32nd edition. Europa Publications, Ltd. Distributed by Gale Research Co., Detroit, 1985. 863 pp. $125.00.

Complete reference guide to the political, economic and social situation in the Middle East and North Africa. The first part contains a general survey of the region, the religions, the Arab-Israeli confrontation, the Jersusalem issue as well as the problems and politics of the oil industry. Part two lists regional organizations and their functions. Finally, country surveys outline the physical and social geographies, the history and economic situation of the region. Also includes several geographical and military maps.

Double Impact: France and Africa in the Age of Imperialism. G. Weslet Johnson. Greenwood Press, Westport CT, 1985. 403 pp. $55.00.

This collection of essays sheds new light on the French colonial experience and the African reaction to it, breaking new ground by looking at both sides of the colonial question. Examines the impact of African culture and society on the French colonists' agents, institutions and cultural life. The author asesses the utility of the double impact theory as a concept for understanding France, French colonial society and the colonial period which emeshed the two cultures.

The Politics of U.S. International Trade - Protection, Expansion and Escape. Stefanie Ann Lenway. Pitman Publishing Inc., Marshfield, 1985. 228 pp. $22.95.

This study brings into play both the domestic and international dimensions of contemporary U.S. international trade policy. Considers the influence of domestic interests in the formulation of trade policy. The author covers a wide range of topics including chapters on various industrial trade policies, a short history of U.S. trade policy and an analysis of several models for studying trade relations.

Barter in the World Economy. Bart S. Fisher, Kathleen M. Harte, eds. Praeger, N.Y., 1985. 300 pp. $39.95.

General discussion of barter in the international economy. Reviews the commercial practice of counter trade and its structure. Analyzes several barter scenarios as practiced in Easter Europe between industrial and developing countries as well as the role of the U.S. government in international barter. Also discusses the legal implications of barter and counter trade transactions and their implementation under the GATT.

THE COMMUNITY BOOKSHELF

To order these publications, please check the desired items and fill out the order form.

☐ **Towards a People's Europe.** *European File No. 3/86, Commission, Brussels, February 1986, 11 pages.* **Free**

☐ **An Industrial Strategy for Europe.** *European File No. 4/86, Commission, Brussels, February 1986, 11 pages.* **Free**

☐ **Europe's Common Agricultural Policy.** *European File No. 2/86, Commission, Brussels, January 1986, 11 pages.* **Free**

☐ **The Integrated Mediterranean Programmes.** *European File No. 1/86, Commission, Brussels, January 1986, 11 pages.* **Free**

☐ **Agricultural Aspects of Community Enlargement to Include Portugal and Spain.** *Green Europe No. 214, Commission, Brussels, 1986, 58 pages.* **Free**

☐ **Community Imports of Food and Other Agricultural Products.** *Green Europe No. 213, Commission, Brussels, 1986, 19 pages.* Outlines Community policy on agricultural imports including preferential trading arrangements and obligations under GATT rules. **Free**

☐ **European Investment Bank: 100 Questions and Answers.** *European Investment Bank, Luxembourg, 1986, 52 pages.* **Free**

☐ **European Investment Bank Statute and Other Provisions.** *European Investment Bank, Luxembourg, 1986, 34 pages.* Updated to January 1, 1986, including changes relating to the accession of Spain and Portugal. **Free**

☐ **A General System for the Recognition of Higher Education Diplomas.** *Bulletin of the European Communities, Supplement No. 8/85, Commission, Brussels, 1985, 11 pages.* Proposal for a Council Directive submitted by the Commission on July 9, 1985. **Free**

☐ **Nineteenth General Report on the Activities of the European Communities: 1985.** *Commission, Brussels, 1986, 400 pages.* Provides a general picture of Community activities in 1985. **$6.00**

☐ **The European Communities in the International Order.** *European Perspectives, Commission, Brussels, 1985, 163 pages.* Study by Jean Groux and Philippe Manin of the legal capacity and powers of the Community in the international system. **$4.50**

☐ **Vocabulary of Community Primary Law.** *Commission, Brussels, 1985, 365 pages.* French, Spanish, English list of basic terms used in Community Treaties with references to the Treaties' articles. **$20.00**

☐ **Sur les innovations technologiques.** *SCAD Bibliographic File C 1/85, Commission, Brussels, 1985, 85 pages.* Bibliography in French of Community legal measures to promote technological innovation and a multilingual listing of Community and non-Community publications. **$4.00**

☐ **Dossier bibliographique sur l'Espagne.** *SCAD Bibliographic File C 2/85, Commission, Brussels, 1985, 155 pages.* Bibliography in French of Community legislation and publications concerning relations with Spain as of November 1984 and a multilingual listing of non-Community publications. **$4.00**

☐ **Dossier bibliographique sur le Portugal.** *SCAD Bibliographic File C 3/85, Commission, Brussels, 1985, 83 pages.* Bibliography in French of Community legislation and publications concerning relations with Portugal as of November 1984 and a multilingual listing of non-Community publications. **$4.00**

☐ **Basic Statistics of the Community, 23rd edition.** *Statistical Office, Luxembourg, 1985, 289 pages.* A selection of the Community's basic statistics with a comparison with other European countries, the United States, Canada, Japan and the Soviet Union. Data for 1983-84. **$4.50**

☐ **Iron and Steel Statistical Yearbook 1985.** *Statistical Office, Luxembourg, 1985, 137 pages.* Data for 1982-84 on the Community's iron and steel industry. **$18.00**

☐ **Agricultural Prices 1973-1984.** *Statistical Office, Luxembourg, 1985, 316 pages.* Annual series for selling prices of primary agricultural products and costs of agricultural production inputs. **$14.00**

☐ **La Vigne dans la Communauté européenne.** *Statistical Office, Luxembourg, 1985, 117 pages.* Results of the survey on viticulture conducted in 1979-80. An English translation of the commentary is provided with the publication. **$5.60**

☐ **Methodology of EC Agricultural Price Indices (Output and Input).** *Statistical Office, Luxembourg, 1985, 228 pages.* **$13.00**

☐ **National Accounts ESA: Aggregates 1960-1984.** *Statistical Office, Luxembourg, 1986, 135 pages.* Data on the EC-10, Spain, Portugal, and comparison with the United States and Japan. **$10.00**

☐ **Structure and Activity of Industry: Annual Inquiry—Main Results 1981/82.** *Statistical Office, Luxembourg, 1985, 279 pages.* Data on the coordinated annual survey of employment, production, labor costs and size of companies in the manufcturing sector. **$16.00**

☐ **Carriage of Goods by Rail 1983.** *Statistical Office, Luxembourg, 1985, 145 pages.* Statistics for 1983 on the movement of goods by rail. **$10.00**

☐ **Carriage of Goods by Inland Waterways 1983.** *Statistical Office, Luxembourg, 1985, 170 pages.* Data on transport of goods in the E.C. on inland waterways by E.C. and non-E.C. carriers. **$9.00**

☐ **General Industrial Classification of Economic Activities Within the European Communities (NACE).** *Statistical Office, Luxembourg, 1985, 100 pages.* Nomenclature for collection of data on industrial production, employment and investment. **$2.50**

☐ **Labour Force Sample Survey: Methods and Definitions.** *Statistical Office, Luxembourg, 1985, 52 pages.* Methodology for the 1983 labor force sample survey. **$5.00**

☐ **Texts Relating to Agricultural and Rural Cooperation: Second ACP-EEC Convention of Lomé.** *Council of Ministers, Brussels, 1985.* Decisions of the Committee of Ambassadors on the Technical Center for Agricultural and Rural Co-operation set up under Lomé II.
Volume 1, 1983, 60 pages. **$2.00**
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FARM TRADE: A U.S. VIEW
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tween the U.S. and the E.C. systems. U.S. programs are designed to halt the growth of surpluses by paying the farmers to take land out of production, while the E.C.'s policy has been to pay farmers to produce more and more, regardless of world supply or domestic demand.

On December 19, 1985, the Congress passed and sent to the President for signature a bill which would:

• steadily lower support prices the government will pay as buyer of last resort for wheat, corn, rice, and cotton.

• continue acreage controls to contain production, both to limit government liability under the support programs and firm up prices. Farmers would also be paid to idle erodible land and penalized if they plowed it up. The recently passed Conservation Reserve will permanently retire 40 million acres once the program is fully in place.

• lower dairy price supports to discourage excess production. These steps hold better promise of beginning to bring our problem under control. Contrast this to the E.C.'s inability to follow through on the 1984 agreement to cut cereal prices for 1985-86 by 5 percent.

The E.C.'s heavy reliance on subsidies has a two-fold effect on the United States. First is the loss of our major export markets to Europe itself. As the E.C. has gone from importer to self-sufficiency to exporter for a whole variety of commodities, in the process it has stopped importing a number of items for which it once had been a prime U.S. customer. U.S. agricultural exports to the Ten declined from a record $9.8 billion in 1980 to $6.7 billion in 1984.

This article does not address trying to reopen those markets for I know that would be futile. But I will say that we will not tolerate attempts to stifle the sale in Europe of products such as soybeans and corn gluten feed which represent about $5 billion in export earnings for us.

The E.C. continually threatens to disturb the zero-tariff bindings it gave us for these products in past tariff-cutting negotiations. [A good, recent example is the E.C. attempt, unfairly, to use the accession of Spain and Portugal to the E.C. to restrict further the sale of U.S. corn, sorghum and oilseeds. We have fully supported the entry of Spain and Portugal into the E.C. even while knowing our exports will be negatively affected. But the E.C. is going too far and must be put on notice that we will not stand for the excess trade disruption.]

The second effect of the E.C.'s excessive subsidies is the harm they do to our international trading posture. During the early years of the CAP, the United States and other trading countries accepted the E.C.'s accelerated growth because the E.C. was not yet a major exporter of agricultural products. Even after the CAP's artificial props and barriers had begun to outlive their purpose, the situation did not cause much concern because, up until recently, consumers were buying a good deal of whatever the world's farmers produced. Also, with rampant inflation during the 1970s, commodity prices were so high that they masked the impact of the E.C.'s production policy. Then the bottom fell out.

Given the very different agricultural situation of the 1980s, the United States cannot condone the E.C.'s artificially induced surpluses' continued assault on world markets, where they drive down prices, edge out U.S. products, or both. Export subsidies have enabled the E.C. to become a major exporter of dairy products, beef, wheat, poultry and eggs—commodities in which, more often than not, they are at a competitive disadvantage in producing.

> The fact that the United States and Europe have so many things in common forms the basis for a resolution of differences even in an area as difficult as agricultural trade.

Were it not for these subsidies, the U.S. share of world trade undoubtedly would be greater. According to the U.S. Department of Agriculture, the United States will account for 93 percent of the increase in wheat and coarse grain stocks at the end of this marketing year and 69 percent of the decrease in world trade. Between marketing years 1983-84 and 1985-86, our wheat exports will be down 20 percent, while those of the E.C. are up 14 percent. Put another way, the E.C. is increasing its share at a time when world trade is decreasing.

The time is past when the United States can remain passive as the E.C. continues to stifle internal demand, limit imports, encourage overproduction, dispose of surpluses through export subsidies and, in general, add instability to world markets. The General Agreement on Tariffs and Trade forbids the use of subsidies which result in a state acquiring more than an "equitable share" of world trade. While we may never reach agreement on what is equitable, I believe I have a pretty good notion of what is inequitable—and that is market share achieved through subsidization of inefficiently produced goods.

Last May, the United States established a $2-billion Export Enhancement Program designed to increase U.S. farm exports and to encourage our trading partners to begin serious negotiations on agricultural trade problems. Personally, I hope that this subsidy program is short-lived. I hope that our trading partners take sufficiently meaningful steps to curtail their subsidies so that we can terminate it at an early time. I do not doubt that, in the current jargon, our pockets are at least as deep as those of the Community. But neither of us wants or needs or can benefit from a subsidy war.

The United States is prepared to go either way on this question. Either we all move together toward free trade in agriculture, or, with great reluctance, the United States will continue or even strengthen its subsidy program. European oversupply of food is, historically speaking, a quite recent phenomenon, and we have sought to be patient as the E.C. struggles with it. But now the E.C. must recognize, as we do, that overproduction at a time of weakened demand has only compounded agricultural trade difficulties. The only winners, aside from a few farmers who have grown rich under these schemes, are the Soviets and their East European allies who have been snapping up surplus E.C. stocks at distress sale prices.

The broader relationship between the United States and E.C. countries is one of political cooperation, mutual security and shared values. The fact that we have so many things in common forms the basis for a resolution of differences even in an area as difficult as agricultural trade. Each of us must be more realistic about the production incentives we unleash. We must pull together to adjust our domestic policies to market realities. For our part, the 1985 farm bill is a step in that direction. The opportunity is ours to move toward fairer and more rational market policies for American and European agriculture. We have the power, if we make the proper choices, to build the basis for a healthier new era for our farmers and, in so doing, to bring about an unprecedented future of growth, prosperity and service to mankind. €

FARM TRADE: A EUROPEAN VIEW Continued from page 15.

ers from the spectacular fluctuations seen elsewhere. Average incomes crept up in the early part of this decade, but, even in the E.C., the tendency is toward instability and severe disparity from region to region. Net added value at factor cost per work unit declined by 5.7 percent in real terms in 1985, against a 4.2-percent increase the previous year when perfect weather had inflated output.

In the United Kingdom, the 10-percent increase in 1984 was followed by a 17-percent fall in 1985; Ireland went from a 14-percent increase to a 12-percent fall; in Germany, the figures were 18 percent and 15 percent, respectively; and in France, 2.4 percent and 9 percent. Taking the alternative indicator of net income of the farmer and his family (income remaining after deduction of wages, interest and rent), the 1985 fall was 12 percent on average against an increase of 5 percent for 1984.

The mood is universally pessimistic. Sir Richard Butler, former president of the National Farmers Union of England and Wales, estimates that, on current trends of productivity, 450,000 hectares (1.1 million acres) of arable land would have to be idled by 1990 just to keep cereal production in the United Kingdom alone at its current 25-million-ton level. If the continuing impact of milk quotas and probable changes in the beef and sheep flock are added, another 300,000 hectares would be at risk. In all, some 6 percent of the total tillage and grass area in the United Kingdom would be taken out of production.

The imposition of generalized output curbs is widely expected. With income already heavily dependent on public support, the addition of quota-type restrictions would endow agriculture with the unwelcome status of a semi-nationalized activity. In Europe, the party is over.

Reform of the CAP—Past and Future.
The CAP is unrecognizable from the system which existed as little as five years ago. Consider the changes:

- Quotas imposed on the dairy sector and a further 3-percent cut now being sought.
- There are near-quotas on wine.
- There have been price cuts in the market place for cereals of some 20 percent over two years, achieved not by cutting back the official guaranteed price, but by using administrative techniques to force prices down. These include longer delays before farmers are paid for cereals sold into intervention, tighter quality controls and limits on the availability of intervention.

The remorseless pressure from budgetary constraint is almost certain to force at least set-aside programs and quite possibly full-scale quotas on cereals and other arable crops and the severe curtailment of intervention facilities for livestock.

It is important not to focus too much attention on the official, E.C.-established price levels. Price-cutting at the official level will not be accepted politically. Reform will take the shape of price freezes (meaning steady declines in real farm incomes), restraint on quantities produced and direct income support.

The Pressure of External Events.
A tidal wave of additional cost is engulfing the E.C.'s budget. The two main influences on the cost of the CAP are the level of the dollar and the state of prices on the world markets. As about 40 percent of CAP costs are in export refunds, and all the main traded sectors except dairy produce are dollar-denominated, the value of the U.S. currency is the single most important element in CAP costing. A 1-percent dollar decline against the European Currency Unit (ECU) costs about $100 million in a year.

The 1986 farm budget was estimated at 23 billion ECU in November 1985, when the dollar/ECU ratio was 1.2/1. Since then the dollar's decline has established virtual parity. The additional cost of this on the E.C. farm budget is put at about $1.5 billion. The E.C. operates on a budget with fixed limits. Unlike national governments, it can neither print money nor borrow money for current expenditure. And the E.C. ceiling on budgetary resources was raised only in January. Less than 100 days into the 1986 fiscal year, it is evident that the total budget requirements for the year could exceed the new ceiling.

To provide a further increase in E.C. total resources requires the endorsement of all 12 national legislatures in the E.C. member states. No one believes that there is a ghost of a chance of that before the next round of national elections. Of the two E.C. states that pay the most into the E.C. budget, the Federal Republic of Germany is scheduled to hold national elections next year and the United Kingdom is expected to do so. Thus, the E.C. will have to live within its resources at least through 1987.

That fact alone is going to put immense pressure on farm spending, particularly as other areas of E.C. outlay—measures to stimulate employment and research and development—are likely to compete increasingly with the CAP for cash.

On top of that, the U.S. Export Enhancement Program and the effects of the farm act have sent prices tumbling on world markets, inflating the subsidies the E.C. needs to match world prices, and a further 20-percent fall is predicted. These two elements alone—neither of which is under E.C. control—represent a more substantive force for CAP reform than the collected speeches of U.S. Congressmen and farm leaders put together.

The high level of the U.S. dollar in the years up to 1985 may have helped to bankrupt American farmers, but it bought time for the CAP. But time has now run out and the crisis which stalks America is set to pinch hard in Europe. The consequences should not be underestimated. Governments will come under intense electoral pressure to take national measures to mitigate austerity applied from Brussels, and this will inject a severe dislocation into the notion of the commonalty of the CAP. And a breakdown in the consensus over the CAP will certainly threaten the tortured search for economic and political unity within the E.C.

Keeping Reform on the Agenda.
Governments can only negotiate with people who are credible to their own electorates. It is bound to be immensely difficult getting change through the E.C.'s decision-making structures simply because it has to be accepted by 12 Governments each subject to pressures from their own lobbies and electorates. As the belief that the United States is dead set against the E.C. policies becomes more credible, the greater is the danger that reform will be seen not as an essential part of the E.C. modernization, but as a capitulation to U.S. pressures. And even the precarious consent there is now for change will be jeopardized.

The existing policies of the CAP cannot survive unamended. Prices set to meet the demands of farm incomes will lead remorselessly to the accumulation of surplus and budget crisis; prices set to meet the needs of market management will inevitably cause the headlong decline of farm incomes. The E.C. has to struggle toward a more market-oriented price policy, together with some form of direct support for producers with special needs. But the reform, while inescapably responding to the demands of external circumstances, must be capable of being seen as autonomous and voluntary, and not imposed by Washington or the GATT.

The reformers on both sides of the Atlantic need each other more than they need the wild men who talk of warfare. €

DEFICITS AND THE DOLLAR

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to do so. This might just be a flash in the pan, with the participants reverting to benign neglect as the crisis receded. It could lead to some formalization of a new regime, either quite quickly, or over time.

Suppose that the consensus favored a managed float, but that gradually the markets began to get the upper hand again. The question could then arise as to whether it might not be sensible to make a "jump" to a more formal regime in order to cash in on its stabilizing impact on exchange rate expectations. The establishment of the European Monetary System in March 1979—after quite a long period of trial and error—provides an interesting precedent. It was greeted with much skepticism, but in the event has worked better than expected by most experienced observers at the time.

All OECD countries other than the United States have for some time allowed exchange rate considerations to play a significant role in the implementation of monetary policy. If, under the pressure of events, this were to become true for the federal government, the main operational features of a new regime of monetary cooperation between the major central banks can be discerned. First, they would try to ensure that taken together they maintained an appropriate anti-inflationary policy stance. Second, they would stand ready to deviate in opposite directions from their medium-term domestic monetary objectives if the exchange rate between their currencies was moving out of line with the "fundamentals."

The governments concerned might decide to signal such a new approach to monetary cooperation through industrial innovation, which might lead to the emergence of a de facto triumvirate of the Federal Reserve Board, the Bundesbank and the Bank of Japan, with the responsibility for the day-to-day management of the dollar-Deutsche mark-yen nexus.

Summits and Other Institutional Issues

The issues involved in achieving greater exchange rate stability extend, however, well beyond the competence of central banks, so any institutional innovation in the monetary sphere would have to be paralleled by changes in the broader institutional framework for economic cooperation between the major countries.

There is widespread disillusionment with summit meetings, even—or especially—among those most closely involved. Here again, a crisis might be useful. If the imminence of a hard landing led to a decision to hold an "emergency" summit, various opportunities for institutional innovation could open up. Participation could be updated to bring it more in line with economic and political realities. Linkage with the existing international bodies could be strengthened. It might be agreed that meetings in a new format should be held regularly, perhaps twice a year, while retaining the existing annual format as a more political and media-oriented event dealing with foreign policy and defense issues.

It is to be hoped that, in responding to the crisis, some thought would also be given to tidying up the present institutional mess and paving the way to longer term reform. A joint secretariat, composed of officials from national capitals and the relevant international organizations, might be established to service the "new format" summits. This could help to break down the excessive compartmentalization of departmental interests—although this would also require progressive rationalization and reform of the existing international institutions. Something should be done to lessen the political pressures from the largest countries on the international organizations and strengthen their independence and objectivity. More input should be sought from the private sector, parts of which have become extremely knowledgeable about the issues involved in intergovernmental economic cooperation, and have a strong self-interest in its success.

The agenda for change in present international arrangements will remain blocked as long as nothing goes seriously wrong. But under the pressure of unpleasant events, this could change quickly. One of the great strengths of the United States is its capacity to respond to new problems; it is a "fix-it" country. With U.S. leadership, much could be done to improve the management of the world economy that now seems out of the question. The ideas canvassed here are not meant as a blueprint for reform. They are put forward simply in the hope of stimulating some more imaginative thinking in official and private circles. €

ARIANE LAUNCHER

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development by the aerospace company Dassault/Breguet, already envisage that it should be able to separate itself from the launcher under emergency conditions. According to d'Allest, CNES is now considering whether, in addition, Hermès should itself be equipped with ejection seats, and whether Ariane 5 itself should have the ability to terminate the thrust in its solid boosters.

The broader impact of the shuttle disaster, however, remains to be seen. The French proposal for Hermès has already generated skepticism among other ESA members—in particular the Federal Republic of Germany and the United Kingdom—where it is felt by some space engineers that greater cost effectiveness for specific tasks could be achieved either with unmanned systems or by continuing to rely for manned flights on the launch facilities offered by the space shuttle when it comes back into operation.

In contrast, France argues that, just as 10 years ago it had to overcome similar skepticism in suggesting that Europe should consider building its own launcher rather than relying on the United States, the time has come to make a similar political commitment to the combined Ariane 5/Hermès package—and that the new delays being experienced by the shuttle only underline this need. Some tough bargaining lies ahead. German Chancellor Helmut Kohl, for example, has on several recent occasions declined a personal request from Mitterrand to commit his country to support for Hermès, even though it has already endorsed the HM60 development program and initial work on Ariane 5.

Waiting in the wings is a completely separate proposal that has been put together by engineers with the U.K. company British Aerospace for an unmanned spacecraft that would take off in a horizontal position—like a conventional aircraft—and only subsequently pick up the speed necessary to escape the earth's atmosphere and place satellites into orbit. Known officially as HOTOL (which stands for horizontal take-off and landing), the vehicle also has been informally dubbed Ariane 6, since it is seen by some as the future direction in which satellite launch-vehicles are likely to go. Similar proposals are already being studied in the United States. (See *Europe*, Nov./Dec. 1985.)

Many important technical problems remain to be solved before it can be shown that HOTOL will work. The most difficult are those raised by the need to develop a revolutionary type of engine that would start by breathing fresh air and subsequently turn into a rocket motor. However, with Ariane now accepted as a major technological success for Europe, its space engineers are confident that they can meet such future challenges. €

POUL SCHLÜTER

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This fact is worth remembering whenever the debate turns to those skeptical Danes. For, at the same time, it is also worth mentioning that Danes are keenly interested in the implications of E.C. membership and what it does to our freedom of action at home and abroad. Undeniably, we are somewhat cautious when it comes to assuming new commitments, but, once we have done so, we do live up to them. Take a look at the cases involving treaty violations and you will see Denmark at the bottom of the list of offenders. In other words, in Denmark we take our membership seriously.

Also to be borne in mind is the variety of political styles found in member countries. We react instinctively against pompous declarations, and we feel most comfortable with practical, down-to-earth results. Whenever we are accused of dragging our feet the underlying explanation should not be ignored.

The Government will endeavor to restore the broad agreement on our market policy as we knew it in the past. All experience shows that consensus provides the best basis for pursuing Denmark's interests. It will also make it easier for our partners to read the signals beamed from Copenhagen.

We are fully aware that this has been difficult at times. In my preceding comments, I have described some of the aspects found in the attitude of many Danes toward the E.C., but there is still another dimension. In relation to central Europe, Denmark is a marginal area. Our history and background are different. Our relationship with the Nordic area is especially important. The close cultural bonds linking the Nordic countries have made it easy to establish a sound working relationship in a number of fields. The people see this as entirely natural and often find it hard to understand that various security policy affiliations and other factors place certain limits on our cooperation.

Denmark is the northernmost country within the E.C. and the southernmost in the Nordic area. This is clearly felt also among the people. I myself, however, do not view this as a schism. Our very location enables us to build bridges and serve as a liaison between the two groups of countries.

We are presently facing a constant shrinking of the world, while the challenges confronting the Western industrial nations escalate. We must respond at once to the demand of new technologies, and we must be conscious of our responsibility vis-à-vis the less privileged parts of the world.

We must stand united in meeting these challenges. I personally have never doubted that the E.C. is the right forum in which to shape our policies for the future.

E.C. ENLARGEMENT

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is very limited, except around the margins of the annual budget. The Iberian influx has most strengthened the Socialist group, already the largest single group, raising its members from 130 to 172 in the 518-seat assembly. Only nine joined the Christian Democrats, the main group in the center-right majority, and 13 Spaniards came into the British-dominated Conservative group. The end result is a center-right group of 256 against 218 on the left, with 20 Greens and 16 extreme right wingers and eight independents.

The outcome probably means that the Parliament will support more left-wing resolutions on international questions, such as the imposition of sanctions on South Africa, or the condemnation of U.S. covert activity in Central America, but such votes have no practical effect. On questions within its competence, such as the budget for the Common Agricultural Policy, the Parliament will remain hopelessly divided, with the confusion of differing national and ideological objectives splitting the vote unpredictably.

At the European Court of Justice, which is effectively a court of appeal on all questions of E.C. law, Spain and Portugal will each have one judge, and they will alternate in nominating an advocate-general. The Court of Auditors, also based in Luxembourg and playing a more prominent role in analyzing and criticizing the E.C. budget, also gets two new members.

The overall picture of the E.C. institutions after enlargement suggests another prolonged period of accommodating the personalities, the policies and the aspirations of the new member states. Most fascinating to watch will be the interplay of national ambitions in the Council of Ministers, and the extent to which Iberian interests—and external links in new directions such as Latin America—will become more prominent and more contentious.

The old Community will never be the same—the familiar Franco-German axis less powerful, the South more demanding of a bigger budget share. The outcome could mean a better E.C. balance between North and South, between rich and poor. It could equally mean a less cohesive and a more cumbersome E.C., gradually sinking back to being little more than a glorified free trade area. €

STOCK MARKETS BOOM

Continued from page 25.

big enough for large-scale investment. A drawback for the Italian market is that settlement of share deals can take a long time—a problem that the authorities are attempting to remedy.

The Italian Government has a strong interest in maintaining a healthy stock market because it plans to sell off some of the country's heavily state-owned industry to the private sector. Privatization is also in the air in France, where share prices have also been rising sharply this year. The market took longer than others to take off last year until a more optimistic view of the French economy took hold, and has more recently been rising partly on a view that the market climate is likely to be more favorable after the March 16 parliamentary elections.

Some of the factors that have aided Continental markets have been at work in Britain, such as steady economic growth, reduced inflation and rising corporate profits. But the London market is somewhat of a special case. Though parts of the British economy stand to benefit from falling oil prices, North Sea oil producing companies could lose out. In addition, the British Government has less scope to boost the economy through tax cuts because its oil revenues are falling. The British stock market is larger and more liquid than its other European counterparts, so it is less dramatically affected by spurts of foreign buying. What has boosted the market enormously, however, is the rash of takeovers.

Several well-known large companies succumbed to unfriendly bids last year, including the House of Fraser department store chain, which owns Harrods, and Arthur Bell, the whiskey makers. This year, the Distillers group, which makes Gordon's gin and a host of other famous spirits, is on the block as well as Imperial Group, the tobacco concern which recently sold Howard Johnson's. In a highly speculative atmosphere, many more large bids are rumored to be under way. Most investors have been getting in while the boom lasts. €

DENMARK APPROVES E.C. REFORMS

Two schools of thought have prevailed in recent years in the debate on the further development of cooperation within the European Community. One, representing the majority of the original E.C. member states, has stressed the need for institutional changes. The other, supported by Denmark, has considered the institutional framework to be sufficiently wide, and feels instead that the substance of cooperation should be given more attention. As long as the genuine political will was there, a solution to the problem was within reach. The "institutionalists" have countered by referring to the difficulties which have been so evident in the decision-making process and by affirming that these difficulties would grow as membership was enlarged to 12 countries. Add to this the role of the European Parliament which kept insisting on a greater share of responsibility.

The discussion of pros and cons came to a head in June 1985 when the member states decided to convene an intergovernmental conference on E.C. reform. Denmark, in conformity with its principles on the need for treaty amendments, did not recommend the holding of an intergovernmental conference. On the other hand, things being what they were, we did want to attend and make our viewpoints heard. The results of the conference (see *Europe*, Nov./Dec. 1985 and Jan./Feb. 1986), we think, show that we were rather successful in this endeavor. Those policy issues which we have always considered essential were included. One concerns the opening of the internal market, which now respects the right of an individual country to maintain higher standards regarding the environment and the work place. Another is concerned with intensified efforts in research and technology. A third policy issue focuses on environmental policy.

Policy issues which were clearly unacceptable to Denmark were left out, notably those concerning a reduction in the right of veto and the delegation of powers to the European Parliament. This caused some countries, among them Italy, to voice serious reservations about the result, which was found to be nothing less than meager. In the European Parliament, a majority has resorted to even more critical language.

Even so, the Danish parliament had its doubts about the result. It questioned whether environment concerns could hold their own against free-trade considerations. It was feared that the European Parliament might use its newly won concessions to grasp additional power.

> I personally have never doubted that the European Community is the right forum in which to shape Denmark's policies for the future.

In the Danish parliament, broad agreement on market policy is something of a tradition. Among the present four Government coalition parties, some would like to see Denmark more deeply involved in the process of integration. Conversely, certain Social Democrats and Radical Liberals take a skeptical view of our E.C. membership. But, as a general rule, it has been possible to reach agreement on a constructive and pragmatic line in our market policy. In this particular instance, however, we failed to keep our agreement intact. The Social Democrats and the Radical Liberals felt they had to counsel against Danish acceptance of the proposed E.C. reforms.

Together with two left-wing parties, they hold a parliamentary majority against the Government's minority. For several reasons, I found it wholly unacceptable for Denmark to turn down the proposed reforms and thus be responsible for hurling E.C. cooperation into a state of emergency—precisely at a time when plenty of E.C. problems are awaiting a solution. The all-important reason was that our wishes had been complied with to a degree that a "no" on our part would leave our partners totally bewildered. I feared they might find a "no" tantamount to the beginning of Danish withdrawal from the Community. In politics, this kind of assessment easily becomes self-fulfilling.

Afraid to take the responsibility for that sort of development, the Government decided to call a referendum, which served as a safety valve. We did so in full recognition that, in a representative democracy, such a step should only be an emergency measure. Our hunch was that in this vital matter, the electorate might take a position different from that of their elected members of parliament. It is also worth noting that even though they had voted against reform in parliament, the two aforementioned opposition parties readily declared themselves prepared to respect the decision of the voters, even in the event of a "yes."

Fortunately, the pro-reformers won. More than 56 percent of the voters opted for Danish agreement to the proposed reforms. Slightly less than 44 percent went against this. The result was most gratifying. Some have construed the result to mean that the people's support of our E.C. membership is waning and clearly below the 1972 level, when 63 percent voted for Danish entry. This is a fallacy. In the 1972 referendum, the Social Democrats and the Radical Liberals, which together represent 35-40 percent of the electorate, encouraged their voters to vote for Danish accession. This time they recommended a "no." As a matter of fact, the percentage in favor of the E.C. is higher today than in 1972. According to a recent survey, a large majority of those who in February went against the proposed reform still wish Denmark to remain a member of the Community. My own estimate is that today as many as 75 percent of the Danish voters are in favor of E.C. membership.

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Poul Schlüter is the Prime Minister of Denmark.

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