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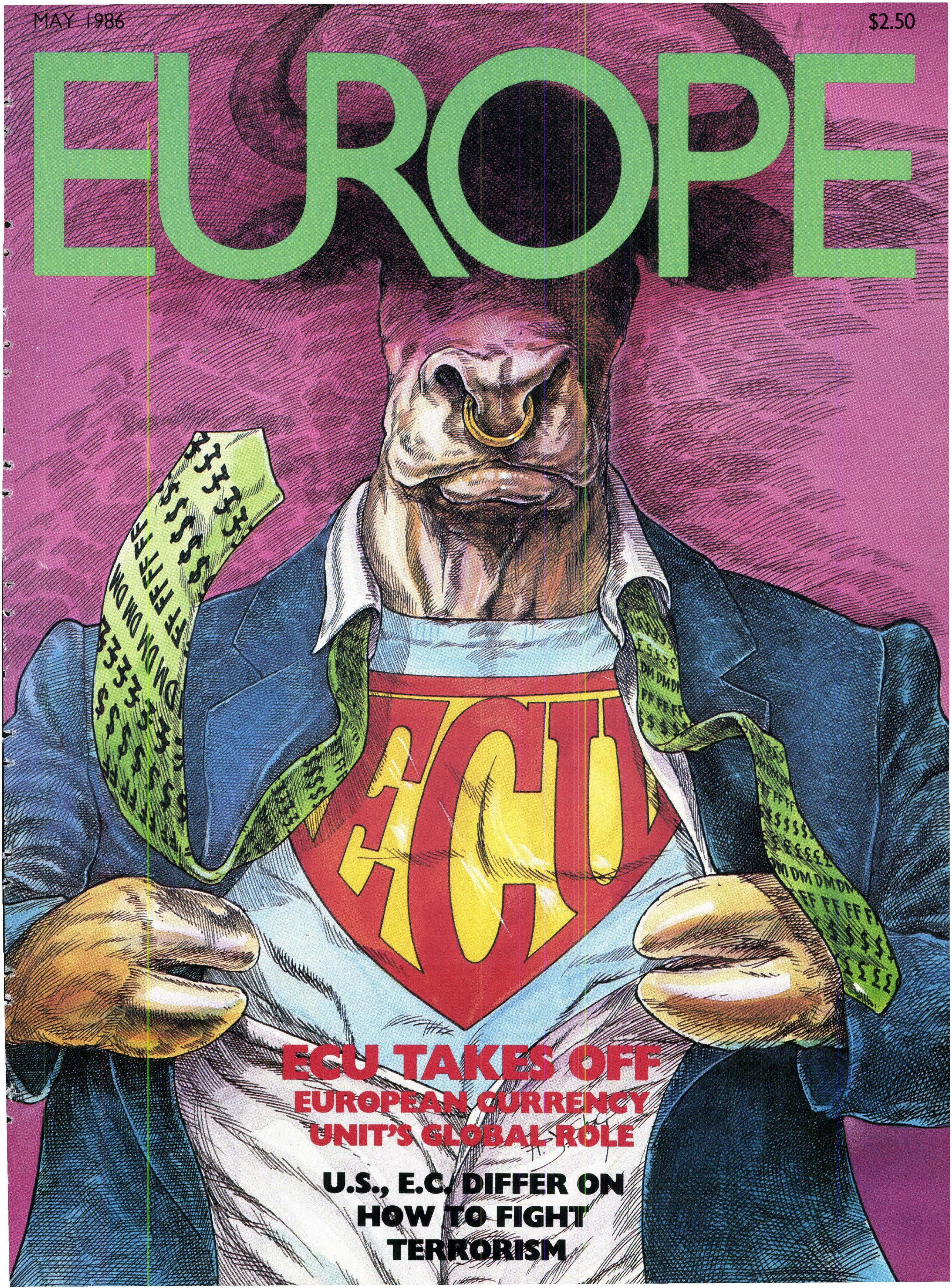

ECU TAKES OFF
EUROPEAN CURRENCY UNIT'S GLOBAL ROLE

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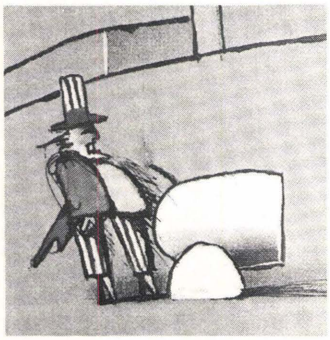

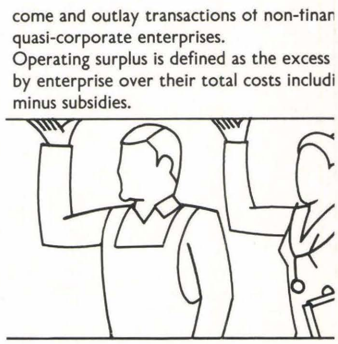

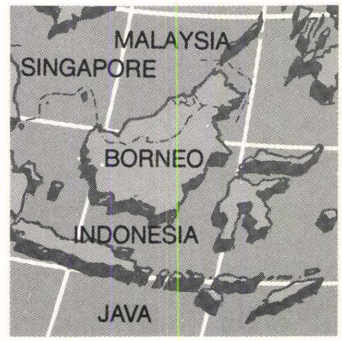

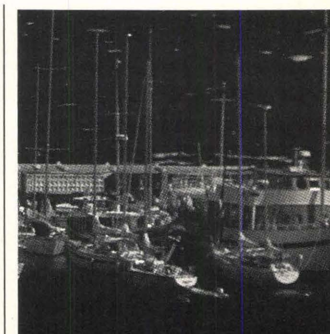

COVER: The European Currency Unit has a growing role in international finance. Illustration by R. J. Shay.

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PUBLISHER'S LETTER

What is an ECU? Is it an Australian bird? Is it a male Irish wolfhound? No, it is a European Currency Unit. The European currency is growing daily and is on the brink of becoming one of the world's most important financial instruments. The ECU has played a crucial role in establishing monetary stability in Europe, and the lessons which the European Monetary System (EMS) may have for the reform of the global monetary system make the subject of our cover story this month.

The leaders of the Western economies have been meeting for their annual economic summit in Tokyo. The atmosphere, regrettably, was still strained with tensions over international trade. Despite promising developments in the world economy, especially the weakening of the dollar and the drop in oil prices, the potential for protectionism and retaliation remains alive. One of the more disturbing factors is the simmering U.S.-E.C. dispute over changes Spain and Portugal are making in their trade policies as they adjust to membership in the European Community. The United States has said it will restrict certain European imports in response to these changes, while the European Community is arguing that restrictions are unjustified and should be settled in the General Agreement on Tariffs and Trade (GATT), the world trade body. We hope that the dispute will not degenerate into a mutually destructive trade war, for the enlargement holds too many overall benefits—for the United States as well as for Europe—to squander in such a way.

Last year's summit in Bonn produced a communiqué that underscored the importance of keeping the world trading system open. "Protectionism," it read in part, "does not solve problems; it creates them." Words to remember as we seek to resolve our differences. Cooperation on trade and monetary issues in recent months has shown real results, from the orderly decline of the dollar to the start of preparations for a new round of international trade talks. We should continue in the same spirit of cooperation, and end our disputes through negotiations in the institution we both set up for that very purpose—the GATT.

The current trans-Atlantic dispute is discussed in this issue by H. Peter Dreyer, who reports on E.C. affairs for *The Journal of Commerce.* Dreyer warns that the threat of a trade war between the United States and the Community is a very real one. Ian Davidson of the *Financial Times* examines the American/European differences in understanding over the nature of terrorism and how to deal with it, and what the Europeans have learned over many decades of heart-rending experience.

Elsewhere in this issue, Paul Cheeseright talks to the man responsible for the European Community's trade policy and external relations, Commissioner Willy De Clercq. James David Spellman discusses the growing importance of the Pacific Rim to U.S. trade, and Stanley Crossick looks at changing European policy toward small and medium-sized business and talks with Abel Matutes, the Commissioner spearheading the move to revitalize the E.C.'s smaller enterprises.

Denis Corboy

AROUND THE CAPITALS

BRUSSELS

A Chocolate Lover's Dream

An attempt is being made by British confectionery manufacturers to persuade the European Community to do away with the laws that stop their chocolate from being exported to the Continent. British chocolate, like that from Denmark and Ireland, contains a small percentage of vegetable fat and thus fails to meet Continental regulations that insist on the use of only cocoa and butter in the chocolate-making process. It is likely that these laws may disappear altogether in any case as the Community marches toward a free internal market, and the British candy manufacturers will be on the war path. A Belgian Member of the European Parliament, asked whether this prospect worried his country, said, "Look, if you made Rolls Royce cars, would you be concerned about a Volkswagen sales promotion?"

The Belgians are seldom boastful, but this elegant comment nicely underlines the longstanding pride they take in their chocolates. "Brussels is the mecca for the world's chocoholics," comments a city guidebook, and few visitors would begrudge this claim. The British are said to eat more chocolate than the Belgians, but you have only to see the long lines at top London department stores for imported Belgian chocolates—at four or five times the price of home produced candies—to know where they turn when they want something special.

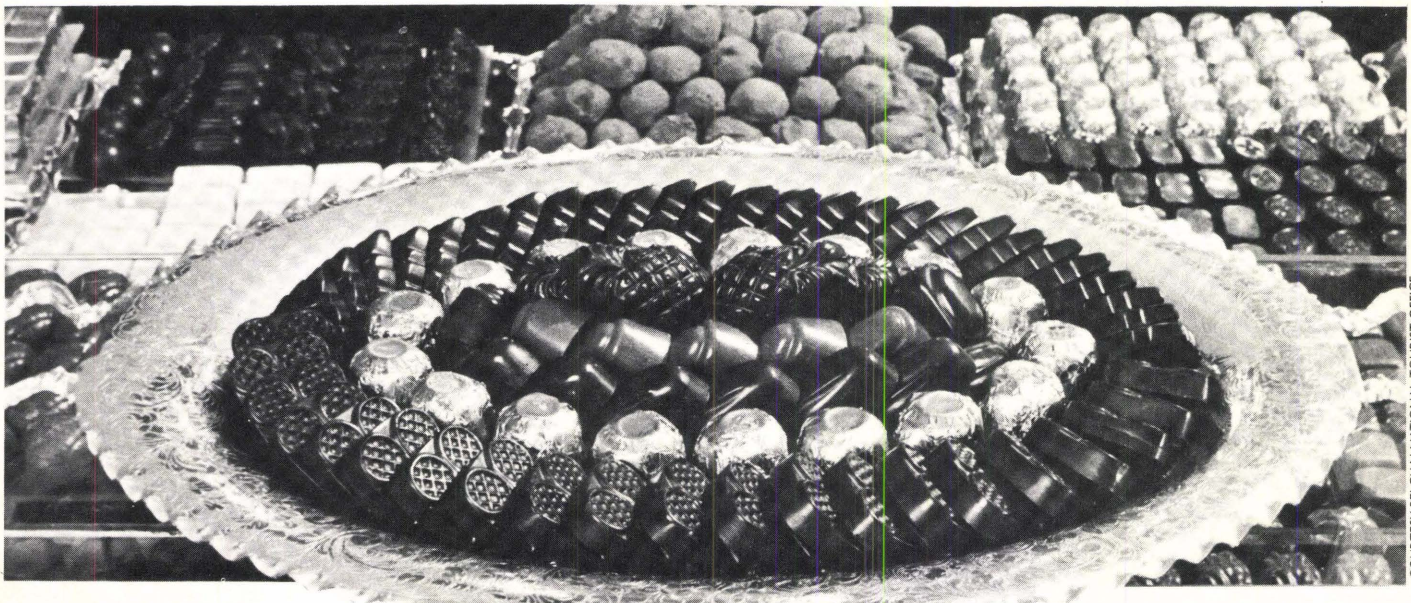
In Brussels, one takes such things for granted. There are shops at just about every street corner selling handmade chocolates with an astonishing variety of sumptuous fillings ranging from traditional and exotic nut mixes, to local and tropical fruit and fresh cream and butter. One is advised to eat them within three days of purchase—a major reason why they are fussy travelers and seem expensive in other countries. In fact, at $3 per pound they are hardly a luxury to Belgians—as their rapid purchase and consumption suggests. In Neiman-Marcus, however, precisely the same amount of the same chocolates will cost about $25.

A careful selection of ingredients is part of the reason for the supremacy of the Belgian chocolate makers, but probably more important is the traditional painstaking method of manufacture by hand. There are relatively few firms involved and they are large only in reputation—Neuhaus, Godiva, Corné, Toison d'Or, Wittamer and Leonidas are among the best-known names, each of them with a kind of following one would normally associate with smart restaurants. The opening up of markets outside Belgium, and particularly in the United States, is attributed to Godiva, which is owned by the Campbell Soup Company, and has a factory in Pennsylvania.

But the traditions would not be able to survive if the Belgians themselves were not such eager and highly discriminating chocolate eaters. I have seen enthusiasts linger over a bite and then analyze it with the scientific relish of a wine connoisseur—"A good texture but the filling is under-flavored, giving a weak overtaste" said one critic. Presumably the people one sees stuffing themselves on the streets are tourists, like an Englishwoman who recently confessed in a British newspaper to eating the contents of a one-pound box in less than an hour!

The Belgians will not object. They will admit that, to begin with, the fashion for their chocolates abroad might owe something to snob-appeal, but are clearly more gratified when it turns into an addiction. Direct export sales by manufacturers are not a large proportion of total output at present, but actual foreign consumption must be much higher if the quantities taken back by tourists and business visitors have anything to go by. Belgian chocolates are probably the most popular purchase that British visitors make in Brussels.

One doubts that this will change much if and when the British equivalents of Hershey bars and Baby Ruths are allowed to enter the Belgian and other E.C. markets. To Continental purists, such products containing vegetable fats should not be called "chocolate." But, as the E.C. Commission points out, they are known and enjoyed under this name by tens of millions of consumers. The Belgians are surely right nevertheless in fearing little from the coming invasion.—ALAN OSBORN



COURTESY BELGIAN NATIONAL TOURIST OFFICE

LISBON

The New Iberian Relationship

For most Portuguese, the single most significant impact of their accession to the European Community will be their new relationship with Spain as an E.C. partner. This will hold true in all areas—external relations, transport facilities and trade flows—and will be closely observed by historians, diplomats and businessmen. The problem is not a new one. Through the ages, Portugal conquered and maintained its sovereignty against Spain. The country deliberately turned away from Spain, its only neighbor, and tried to live an insular existence, as though separated from the European mainland, and concentrating fully on the advantages offered by its long Atlantic coastline. It was Portugal's longstanding alliance with Britain, now 600 years old, that made possible such an isolationist policy and served as a basic guarantee of national independence.

In the mid-1970s, with the Portuguese decolonization process underway, and the restoration of democracy in both Spain and Portugal, some relevant new elements were introduced into the delicate balance that had sustained the Iberian relationship. The progressive vanishing of Spain's isolationist policy and Madrid's moves to take part in the European integration movement, as well as seeking membership in the North Atlantic Treaty Alliance (NATO), confirmed a clear change of attitude. Very soon, the two countries would become partners in common multilateral communities, the E.C. and NATO.

Slowly, the strategic guidelines of Portuguese foreign policy are being re-mapped and adapted to the changed course. After a 25-year experience of free trade with Western Europe—when Portugal was a member of the European Free Trade Association—Spain may now, as a result of accession to the E.C., become Portugal's major new market.

This sounds simpler than the facts allow. Trade barriers between the two countries are still much higher than those remaining between Portugal and the rest of the E.C. member states, and the sophisticated protectionist system that Spain established during the last two decades has worked very efficiently as a disincentive for exports, the trade balance being traditionally favorable to Spain—even in 1984-85, when Portugal was showing a surplus with almost all other West European economies.

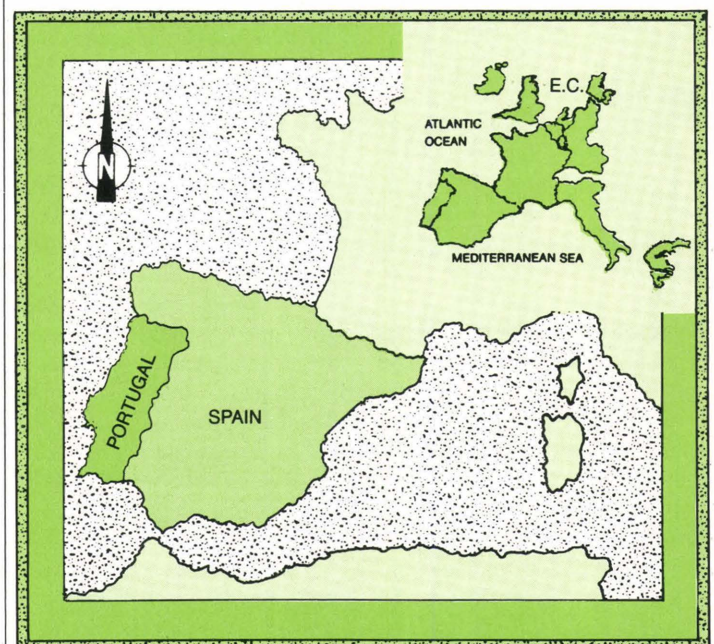
For the first year of common E.C. membership, the prospects are not very bright at all. Although there is a growing interest in the Spanish market among the Portuguese business community, non-tariff barriers, bureaucratic procedures and import regulations imposed by Spain may prove to be stronger than the optimistic free-trade arrangement bilaterally negotiated within the framework of simultaneous E.C. accession.

Spain, on the other hand, will certainly improve on its past performance. With a strong industrial base and a much more diversified export structure, it will undoubtedly wish to explore the open Portuguese system, substituting imports from other E.C. members and making good use of comparative advantages such as geography, lower transportation costs and better prices.

Studies recently published by economic institutions in Portugal give some quantitative support to the intuitive worries expressed by industrialists and businessmen. In fact, simulations made with selected products, in order to analyze the import creation effects resulting from E.C. membership, show that in most cases the stronger competition on the Portuguese internal market—will come from Spain. All agree that this is only to be expected, but important difficulties could arise if there is no significant compensation in the development of exports to Spain due to the more or less disguised obstacles to free trade.

The E.C. Commission is already mediating the first dispute between the two countries about technical regulations of trade, and is preparing a solution to be presented to the E.C. Council of Ministers. Everyone is aware of the political problem that could arise from an unbalanced relationship between the two Iberian states: Madrid knows how sensitive this issue can become and Brussels, after eight years of enlargement negotiations, has also become finely attuned to the problem.

Lisbon seems prepared to adopt the new rules of the game. But in the meantime, the new President and his Prime Minister will go to London this month to celebrate the 600th anniversary of the Treaty of Windsor that initiated the longstanding Anglo-Portuguese alliance.—JOSE AMARAL



Membership in the European Community will bring many changes into the Portuguese-Spanish relationship.

MADRID

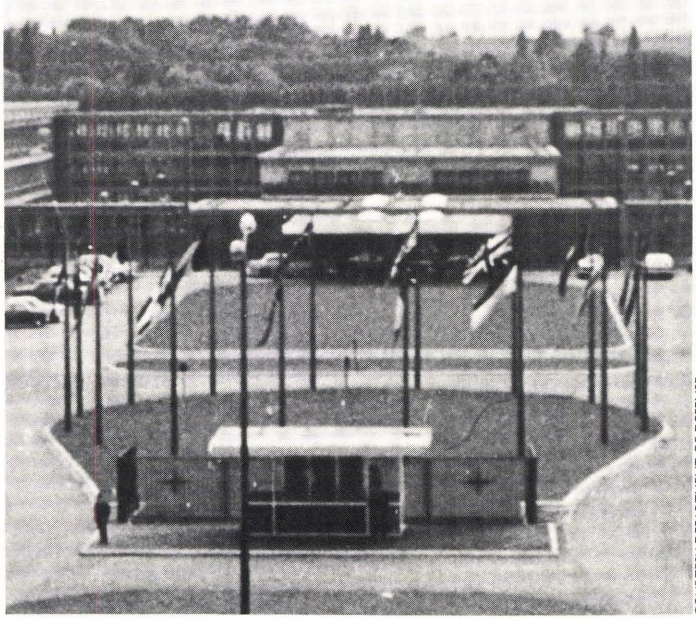
The Referendum Aftermath

Now that a majority of voters has said "yes" to continued Spanish membership in the North Atlantic Treaty Organization (NATO), Spain has fully anchored itself, at last, among the Western community of nations, and the country has ended centuries of wavering and isolation. Madrid can now look forward to becoming a capital on the same circuit as, say, London, Rome and Bonn, when it comes to seeking a coordination of national interests in areas such as defense, trade or foreign policy, be it within NATO or the European Community. Some commentators have already suggested that, as a result of the referendum decision, Spain will now cease to be "different" in the old obstreperous, haughtily proud sense of the term, and even become "boring" as it is gradually homogenized.

But if the referendum campaign was any guide, all this looks a good way off. There was much short-term maneuvering on the part of politicians of all parties during the referendum campaign in their eagerness to exploit the event as an occasion for a domestic power battle. It all proved once again how slippery a way of consulting people a referendum can be. Campaigning ranged from soul-searching about Spain's national identity—a debate into which intellectuals plunged themselves as eagerly as the better equipped politicians—to some remarkably exaggerated arguments to which several Cabinet ministers contributed as they tried to hector the increasingly confused Spanish electorate into giving a "yes" verdict.

Prime Minister Felipe Gonzalez' major problem throughout the campaign was the memory of his very eloquent and adamant stand against continued Spanish NATO membership while in opposition. His election in October 1982, however, brought on a complete about-face on defense policy within the Spanish Socialist Party. The Premier unceasingly battled against public opinion polls affirming that there would be a majority of "no" votes. He made virtually nonstop appearances on state television appealing to the electorate in the final hours of campaigning. "Felipe has all the good qualities of a good film star," observed Pilar Miró, Spain's best-known woman film director, who advised him throughout his carefully devised campaign, although Gonzalez' use of the state television produced widespread protests from the rest of the media and the opposition. The Premier's only public appearance in Madrid was before 6,000 party stalwarts in a closed sports stadium.

Behind the hectoring tones that the campaign assumed lay the decision by the right-wing opposition parties to boycott the entire proceedings. Fraga, although a fervent pro-NATO man at any other time than this referendum, called on his supporters either to abstain or, if they really wanted to "punish" the Socialist Government, to join the ranks of the Communists and peace groups—which mushroomed during this campaign—with an outright "no" vote.


COURTESY DEPARTMENT OF DEFENSE

The referendum decided that Spain would remain a member of the North Atlantic Treaty Organization. Above, NATO headquarters in Belgium.

Ordinary Spaniards learned nothing from the debate about the precise conditions that their Government set down to limit Spain's commitments to NATO—such as nonnuclear status for national territory, nonintegration into NATO's command structures and a progressive reduction of the U.S. presence and bases on Spanish soil, issues which the Socialist Government sought to "sell" to voters at the referendum, although the negotiations with Washington on these points have yet to commence.

In the end, many Spaniards accepted the linkage between joining the European Community, which they did on January 1, and staying in NATO. And it was that groundswell judgment of theirs that gave the referendum its abiding significance, and eased the nervous anticipation of several Western governments when it appeared at one point that Spain might not deliver.

By keeping his promise to call the referendum, an item included ambitiously in the Socialists' 1982 general election manifesto, Gonzalez opened a virtual Pandora's box of popular sentiment. The realization that leaving the alliance, which Spain had entered under the previous Government, would be very problematic, was acknowledged by party leaders, and the Gonzalez Government campaigned so heavily on the European aspects that any onlooker might have been left with the impression that Spain was joining the ill-fated European Defense Union of the 1950s.

The peace groups and the Communists, on the other hand, exploited the rich vein of anti-Americanism, reminding the population of the agreement reached in 1953 to allow American bases onto Spanish soil and, even, the loss of Cuba to the Americans in 1898! And a senior Foreign Ministry official recalled that while President Dwight Eisenhower and General Franco embraced at Madrid's Barajas airport in a follow-up meeting to that 1953 bases agreement, there were still many Spaniards in jail serving sentences imposed by the regime for having distributed pro-Allied war propaganda during World War II.

Fraga's call for a systematic boycott of the referendum undoubtedly swelled the ranks of "yes" voters who simply preferred "the devil of the present Government" of Gonzalez to an uncertain alternative. But despite the favorable referendum outcome—more than nine million voted in favor and just under seven million against the Atlantic alliance—there was some disgruntlement. Disappointed Socialist voters grumbled that while Gonzalez might have kept his election promise to hold a NATO referendum, his Government had, in the process, forgotten the promise to create 800,000 new jobs, which meant that unemployment was actually on the increase. And in two of Spain's most developed and politically independent-minded regions, Catalonia and the Basque country, decentralization of powers proved in a majority of voters' minds more important than defense matters and whether or not they belonged to NATO. In both areas, majorities voted "no" simply to manifest dissatisfaction with the slowed-down pace of decentralization since the Socialists won power in Madrid. But then, Spaniards often consider the part to be more significant than the whole.—RICHARD WIGG

LUXEMBOURG

Banking On The ECU

The fact that travelers checks denominated in European Currency Units (ECU) have now been introduced in Luxembourg is not riveting news, even in a country where banking has a special religious status. The fact that it is such a commonplace event, however, does tell us something about the public's growing acceptance of this relatively new currency, and this, in turn, has vital implications for Luxembourg.

Two points are important—the irregular but often striking evolution of European monetary cooperation, and the vigorous search for a new identity in banking within the Grand Duchy. An American bank executive recently offered a novel perspective on the situation in an address to businessmen in Luxembourg. "The skeptics looked at the end of the Eurodollar boom and thought it meant the end of Luxembourg as a banking leader," he said. "But I see a closer parallel with the Federal Republic of Germany, which built Europe's most successful economy from the ruins of the war." Although this comparison might seem a little strained to many Luxembourgers, they would not quibble with its underlying message.

There is, however, another analogy, which might give a better understanding. Some 50 years ago, Luxembourg launched commercial radio in Europe and, in spite of the opposition from national broadcasting authorities, it spread to become a commonplace, listened to by large numbers all over Europe. Today a similar battle may be on the way in the monetary field with the enterprising young Luxembourgers pitting their commercial wits against the more staid financial establishments of its neighbors, France and the Federal Republic of Germany. The similarities should not be pressed too far, but they do suggest something of the zest with which bankers in Luxembourg are relishing their new challenges.

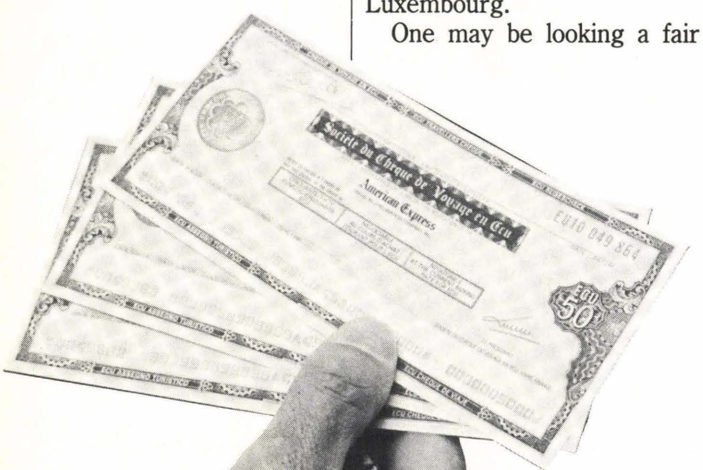
The rise of the ECU is probably the most dramatic illustration of the way in which patterns are changing in the European currency markets. Launched in 1979 as a means of denominating the financial transactions of the European Community, the ECU has since grown to become the third-largest currency in international lending, a reserve asset widely held by central banks and increasingly the means for multinational companies and individuals to settle their foreign debts.

The ECU, currently worth roughly $0.92, is a composite of the weighted values of most of the E.C. currencies. Its charm to holders is its unique blend of yield with stability. In recent years, it has held its value better than any national currency, excepting the German mark, while at the same time giving a return exceeded only by that from more volatile money, such as sterling. You cannot yet rattle ECU coins in your pocket or stuff its notes in your wallet, but you can open bank accounts in it, buy investment house units denominated in it and even, in some advanced restaurants and hotels, pay your bills with it.

At some distant date, the ECU may very well take over from sterling, marks and francs, to form a single currency for the Community. If this happens, it will do so only as the outward symbol of the full integration of the economic, tax and monetary systems of the Twelve. It is the march toward this union, rather than the rise of the ECU itself, that chiefly interests Luxembourg.

One may be looking a fair way into the future at this point but it is not fanciful to see Luxembourg eventually emerging as the Community's central banker, or, even more ambitiously, playing the kind of role for the E.C. that the City of London does for Britain. This suggestion would be scorned in London, as in Paris or Frankfurt, but these Luxembourg claims are not absurd. Its central location and its lesser political significance in a Community of heavyweights are obvious assets. But probably much more important is its banking and monetary expertise and experience.

This last point may be a slight exaggeration. Banking skills in Luxembourg will never match those of London or other major E.C. financial centers. But its devotion to money management is unrivaled, as is its eagerness to exploit new fields now that the Euroboom years are over. The stakes in the new banking game could be far higher for Luxembourg than those suggested by the annual profit and loss accounts.—ALAN OSBORN



ECU-denominated travelers checks have been introduced recently in Luxembourg.

BONN

A Monumental Problem

President Ronald Reagan's controversial visits to Bergen-Belsen and Bitburg in May 1985 to commemorate the 40th anniversary of the end of World War II have revived the discussion in the Federal Republic of Germany about the lack of a national war memorial. The bitter polemics that resulted from the President's visit, it is often argued, could have been completely avoided had he been able to lay a wreath at a national memorial, as all foreign state visitors to Washington lay wreaths at the tomb of the unknown soldier at the National Cemetery in Arlington, Virginia.

The trouble is, however, that Germany's own recent past remains too controversial an issue to allow political leaders to agree on a single national memorial. Some would like to see a memorial that honors all those who died of war or tyranny in World War II. But there are others, such as the Jewish and Gypsy communities and those who had to flee abroad after the Nazis came to power in 1933—notably many Social Democrats—who complain that such a memorial would lump together the victims and their persecutors.

Further, it is clear that Chancellor Helmut Kohl's Christian Democrats are unwilling to raise a national memorial only to the victims of the Nazis, while the Social Democrats will oppose any memorial that honors only the German soldiers who died during the war. And, of course, there is also the problem of civilians killed in Allied bombing raids and the Germans expelled from Eastern Europe who were either killed or who died during the long trek westward.

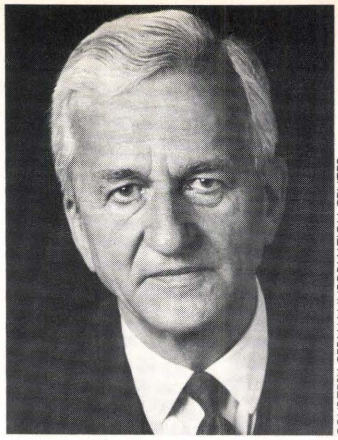
The question of a national memorial has been around since the early 1960s, when then President Heinrich Lübke unveiled a small bronze memorial tablet in the "Hofgarten," Bonn's main park in front of the residence of the former Prince Electors. The first wreath ever laid there honored the citizens of the German Democratic Republic who died in their abortive revolt against Communist rule in 1953, and for many years afterward the spot served as a substitute for a memorial where visiting Heads of State were taken to lay their wreaths.

At the beginning of the 1980s, however, then President Karl Carstens moved the tablet to Bonn's North Cemetery where, according to him, it would be easier to protect foreign visitors, while others had complained that the former "Hofgarten" site lacked dignity. Ever since, parliamentary deputies have been discussing various solutions to this problem.

The Communist regime in the German Democratic Republic solved this problem a long time ago. Into their territory fell the *Neue Wache,* or New Guard, designed by architect Karl Friedrich Schinkel and erected on Berlin's Unter den Linden showpiece boulevard in 1816-18. It is a small and simple structure in the style of a Roman *castrum* with four corner towers and, in front, a rich Doric portico with six columns. It was Schinkel's first and, many claim, his best work. In 1931, under the Weimar Republic, it was rededicated as a memorial to those who had fallen in World War I. And then, in the late 1950s, the Communist regime simply rededicated it again—to the victims of fascism and militarism, although this is not immediately obvious to all visitors, who find themselves confronted with a round-the-clock armed guard in steel helmets that does the goose-step made so infamous by the Nazis.

Bonn lacks any such historic possibility, which means that a national memorial in the Federal Republic of Germany would have to be specially designed. This, of course, raises that awkward question of whom or what the memorial should commemorate.

President Richard von Weizsäcker caused a sensation in a speech on May 8, 1985, the 40th anniversary of Germany's capitulation, when he outlined this necrology: "Today, we mourn all the dead of the war and the tyranny. In particular, we commemorate the six million Jews who were murdered in German concentration camps. We commemorate all nations that suffered in the war, especially the countless citizens of the Soviet Union and Poland who lost their lives. As Germans, we mourn our own compatriots who perished as soldiers, during air raids at home, in captivity or during expulsion. We commemorate the Sinti and Romany Gypsies, the homosexuals and the mentally ill who were killed, as well as the people who had to die for their religious or political beliefs. We commemorate the hostages who were executed. We recall



German President Richard von Weizsäcker.

the victims of the resistance movements in all countries occupied by us. As Germans, we pay homage to the victims of the German resistance—among the public, the military, the churches, the workers and trade unions and the Communists. We commemorate those who did not actively resist, but preferred to die instead of violating their consciences." That list, and especially the order in which it was drawn up, has not been universally accepted, even—or perhaps particularly—by Weizsäcker's own Christian Democratic Union.

Friedrich Bohl, a Christian Democratic Member of Parliament born two months before the war ended in 1945, explained the view of many in a radio interview at the end of the year. "The President's necrology has the disadvantage that it simply cannot be exhaustive and perhaps also stresses certain things differently than would one who visits the memorial." Upon hearing that, a Social Democratic Member of Parliament was widely quoted as commenting: "The idea of a national memorial has just died."—WELLINGTON LONG

DUBLIN

Teachers Go On Strike

Since last September the Irish school system has been shaken by a growing teachers' revolt over an unsatisfied pay claim. This is most uncharacteristic of a sector in which there has been almost unbroken peace since a prolonged elementary school teachers' strike in the late 1940s that helped to bring about the fall of the Government of Prime Minister de Valera after 16 years of unbroken rule.

This time, a cost-conscious Government is again digging in its heels over a special 10-percent pay increase to the country's 40,000 teachers, which includes even those teaching in private schools, whose salaries are paid by the Government. Recommended by an independent arbitrator, the award was to compensate teachers for the way in which their pay had fallen behind that of other public employees.

Normally, the arbitrator's decisions are accepted by both sides. The suggestion to pay the 10 percent in two phases, in September 1985 and in March 1986, was rejected, however, by the Government, which insists on paying the amount in three phases beginning in December 1986 through July 1988, thereby being able to save $100 million. It has passed new legislation to prove it means business: So the stage is set for a showdown.

Since last September the teachers have been conducting a series of short strikes. The stoppages have greatly inconvenienced parents and students alike, but the teachers' unions hoped that pressure from parents on politicians would bring about a change of heart by the Government. This tactic so far has failed.

The most serious threat the teachers can pose is to disrupt the end-of-year school examinations, especially those leading to the Leaving Certificate, the results of which help to determine the pupils' future careers. Any threat to these examinations, which take place in June, would be viewed with dismay by both parents and students, and could quickly diminish the support they have given the teachers' case until now.

The Government insists that the teachers have been getting a fair deal. On top of the 10 percent, there will be a further 7.5 percent due to the entire public sector over the next 18 months. That adds up to a nearly 20-percent pay raise at a time when inflation in Ireland is at its lowest level since 1968: 4.5 percent. The Government's presentation of the "fair deal" tends to ignore the phasing-in element in the pay raises, but its argument carries weight against a background of an 18-percent unemployment rate, massive public debt and the total job security that teachers enjoy.

But such arguments only stiffen the determination of the teachers, whose morale has fallen in recent years in face of difficult working conditions. According to one union leader, elementary school teachers are being "harassed, reviled, abused and assaulted." A survey has shown a "high level of stress-related illness" among

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teachers and a trend toward early retirement.

There is no doubt that the increasing social problems linked to record unemployment, a high crime rate and alcoholism spill over into the classroom. Since the abolition of corporal punishment in 1982, many teachers find it difficult to maintain discipline, especially in classes that can have up to 40 pupils. Furthermore, the high unemployment among the young population has meant that many pupils, who would normally have left school at the age of 15, are now staying on but without any real interest in their studies. At the same time, however, the university entry-level standards are rising, which means that there is increased pressure on teachers from the ambitious students and their parents to get better examination results.

Critics of the teachers' stubborn behavior over their pay claim point out that with 15 weeks' paid holidays per year, they have a better chance to compensate for stress in the workplace than any other group. Moreover, they argue, teachers can earn extra income by correcting examination papers during their holidays. One teacher angrily retorted in a letter to the newspapers that correcting examination scripts can only be compared to "George Orwell's description of Welsh miners' toils, i.e., a living hell." She went on: "One's back aches, eyes are strained, nerves frayed, one works on a very strict time limit and at the end of the day one pays 60 percent tax on one's earnings." It is certainly another way of looking at it.—JOE CARROLL

COPENHAGEN

Tightening The Belt

The Government of Poul Schlüter may have won a decisive victory in the referendum about continued E.C. membership at the end of February, with about 56 percent of the votes supporting the Government stand on E.C. treaty reforms, but the victory was not as overwhelming as opinion polls had led the optimists to believe, and gave the Government no time to indulge in festivities.

The reason for this is that public employees, traditionally considered to be among the least militant on the Danish labor market, have begun to rebel against the latest proposed economic cuts. Teachers led nationwide protests at the end of March, and very tough negotiations are expected when the biannual round of wage talks starts in the late fall.

In an attempt to reshuffle and rejuvenate the Government, Schlüter brought in six new ministers and acted to stem the rapidly deteriorating balance of payments. New taxes on energy—to prevent the drop in oil prices from translating into extra consumption—were introduced, as was a new twist of the tax screw on the traditionally highly-taxed alcohols, wines and television and video equipment. A total expected income of about $1.2 billion did not convince most economists that this would be sufficient to enable the Government to achieve its aim of eliminating the deficit on the balance of payments by 1988.

How the Government will handle developments in the public sector may be crucial both for the economic and political performance in the next two years. Although the Government has managed to stop growth in employment in the public sector—measured as a percentage of gross domestic product, there is even a slight drop in the importance of this sector now—the level of public expenditure relative to total national income, about 60 percent, is still among the world's highest, and a major shift of resources from the public to the private sector is proving to be an extremely difficult process.

Many public employees feel left out because they have been largely excluded from the rising standards of living that have taken place in the private sector since 1982 and there are many signs that they are now preparing to make their stand. Added to this is the fact that many of them have until now voted for the conservative party of Poul Schlüter, which makes the challenge to the Government even more serious.—LEIF BECK FALLESEN

COURTESY DANISH TOURIST BOARD

Many Danish public-service employees feel left out because they have been largely excluded from the rising standard of living in the private sector since 1982.

PARIS

Saint Of The Poor

When French voters went to the polls last month, there was one issue that concerned them above anything else—unemployment. Exit polls at voting stations showed that 75 percent of French voters cast their ballots for the party they thought would do most to ease this overwhelming problem. With a jobless rate of well over 10 percent, the poor, the unemployed poor and the unemployed have become a *cause célèbre* in France. The wide recognition of their plight is partly due to a comedian named Coluche.

Coluche built on the popularity of his lowbrow wit to turn attention to those who have lost their jobs, the families who are too big to survive on a meager income and the legions of those who have been unemployed for so long that their benefits have run out. To help the swelling numbers of the needy, Coluche started a project to distribute free food. He called his handout centers *restaurants du coeur*—restaurants of the heart.

He set up 200 restaurants all over France, of which an outlet in a down-and-out quarter in the 19th *arrondissement* of Paris is typical: an unheated red and white circus tent set up on a vacant lot surrounded by warehouses and derelict buildings. Hundreds of poor trudge through the forbidding neighborhood every day for their share of potatoes, cans of meat, yogurt, boxed pastries and bread. Many are immigrants who show proof that they have a family of as many as 10. They get food for 10—to be carried away discreetly in their own baskets or bags—no questions asked, no embarrassment. "I come here every day," says one tramp who looks much the worse for wear after weeks of frigid temperatures. "Until Coluche came along, I was always hungry. I still have to sleep outside, but now I can at least eat."

Coluche has become a virtual French hero. He appears everywhere on television, can be heard daily on the radio, read about in magazines and seen at special events. He regales with a sense of humor that sometimes ranges to biting wit against racism, inequality or the foibles of politics.

He began the restaurant project as winter set in and was determined to find enough funding to keep it going until the first day of spring. He did—by soliciting corporate and private donations to fill his charity coffers with enough money to hand out 100,000 meals a day. The biggest boost, however, came from an event only Coluche could have pulled off. In the middle of the parliamentary election campaign in January, he staged a Jerry Lewis-style telethon and persuaded the country's top politicians from the entire political spectrum to appear—even the President of the Republic delivered a prerecorded statement of support. The tax law was changed to allow the donations to be deducted, and 20 million francs worth of checks came flooding into the offices of the *restaurants du coeur* in the week after the event. One newspaper appeared the next day with a banner headline reading "Saint Coluche!"

If that seems a little exaggerated, it is at least evidence that Coluche is apparently a lasting phenomenon. At 41, he is still primarily an actor and a comedian, his trademark being the image of a working-class, overweight buffoon usually dressed in coveralls and showing a penchant for bad jokes and a disdain for politicians. He has never hesitated, however, to get involved in politics. Although he manages to appeal to most political persuasions, he is openly leftist and supported François Mitterrand for President in 1981.

Coluche, whose real name is Michel Colluchi, has used politicians to his own ends in promoting his *restaurants du coeur*. Thanks partly to his political connections, Coluche can serve up his meals for about six francs a head, by getting surplus European Community meat and food donations from several companies. Breton farmers contributed 360,000 eggs and the potatoes were bought at a token 10 centimes a kilo. It has all helped the poor through a cold winter, as well as making the hardship of the needy a prominent issue in France. Says Coluche of his *restaurants*: "Why not? France is, after all, a country of great eating."—BRIGID JANSSEN

ROME

Creating A New City Center

Florence, the great city of the Renaissance, which every serious visitor to Italy simply has to see, is planning to create a new city center. Using the most modern architectural techniques, the new development will consist of offices, shops, plazas, apartment buildings, tower blocks for students and an exhibition center.

Before readers expire from apoplexy, it should be pointed out that the authorities in the Tuscan capital have not lost their senses: They are not planning to knock down the historic center of Florence—the cathedral and the Renaissance *palazzi* that surround it—and to start from scratch. The new project, which will cover about one square mile, is to be erected on a virtually empty site a good two miles from the old center on the road to Prato.

But the protests against the plan by conservation groups are so bitter that one might almost imagine that the destruction of the historic center indeed forms part of the plan. They claim that the new project will cause the "degeneration" of the city, while its advocates insist that the development is essential to save Florence from suffocation.

Florence is rich, famous and still neatly contained in a magnificent setting between two ranges of hills with the River Arno running through the city. With a population of 440,000, it is also still manageable in size. But the problem is that Florence is both too precious and too popular. As is the case in most Italian cities, the historic city center is inviolate: very little of its structure can be changed.

From Easter onward, the start of the tourist season, the city is virtually under siege. About seven million people visit Florence each year, of whom more than two million stay there for at least one night. Most of them throng to the center, between the Piazza del Duomo (with the cathedral and the Baptistery) and the Piazza della Signorina, containing the Palazzo Vecchio (the city hall) and the Uffizi Gallery.

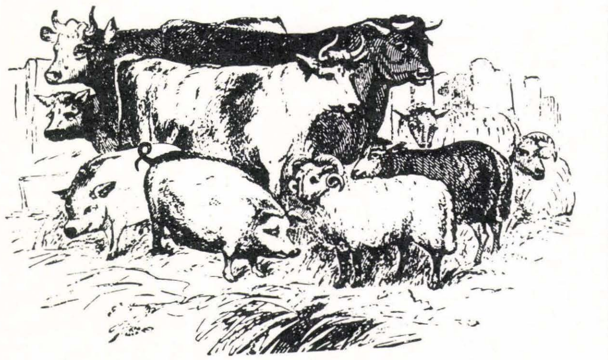
While this regular abundance of tourists—the city never has to advertise for itself—means easy profits for hotels, restaurants and shops, it also means that craftsmen and artisans must pay high rents if they want to stay in the center and that other businesses face a shortage of space if they want to expand.

According to a report by an Italian social research organization, Florence was lagging behind badly in creating new businesses in services such as data processing, and Florentine businessmen have become too complacent. The report also emphasized that while plenty of other Italian cities had something of the artistic wealth of Florence, they had not allowed themselves to stagnate.

The idea of developing a new center on the outskirts of the city is aimed partly at meeting the need for new office space and housing in an area that is now rendered almost inaccessible by traffic and tourists. One of its keener advocates is a man who cannot be accused of lacking artistic sensibilities: He is Massimo Bogianckino, the Mayor of Florence, who until last fall was a full-time opera house manager running the Paris Opera. He decided to take on the challenge of being the Socialists' Mayor of Florence, out of what he calls "civic sense." Unlike many Mayors, he is an experienced administrator, though not, of course, a politician.

He sees the new projects, for an area called Piana di Castello, as a chance to rejuvenate Florence. The city, he says, is "overloaded. We have to be able to breathe. Florence talks, while others produce." The new development will not distract from the allure of the existing center of the city, he feels. "The center of Florence is a miracle that will not lose its magic power. But there must be a chance to create new things in architecture. If things stay as they are in Italian town planning, people 50 years from now will say that "only the Fascists in the 1930s had any imagination in urban development." The Fascists are well known for their monumental architecture; postwar Italy has until now preferred piecemeal development.

None of these arguments convince the conservationists, however, grouped together in an organization called "Firenze Viva"—Living Florence. They believe the scheme is totally out of keeping with the character of the city, that it will make Florence too big and that it will undermine the existing city center. They not only want the project stopped, but are also clamoring for strict rules aimed at reversing the changes already taking place in the center of the city. They want the council to forbid the conversion of "traditional" shops in the center to new uses, and to persuade those businesses that the conservationists think are out of keeping with the character of Florence to move elsewhere. The city council, it says, should lease property to people prepared to live in the center who will promise to carry out activities "in tune with local traditions." Bogianckino thinks this is a sure recipe for suffocation: "If we don't have a project for the future, Florence won't have a future," he says.—JAMES BUXTON



LONDON

Birthday Of A Famous Book

Eight hundred years ago, work was being completed on one of the most uniquely valuable historical documents compiled in any country at any time. Today the Domesday Book remains an extremely useful working tool for medieval historians, and, in this anniversary year, it can still be seen on display in the Public Records Office in London.

Among other things, the book gives a graphic picture of how thoroughly one ruling class can be deposed and another installed in the wake of a famous victory. William the Conqueror's triumph over the English at the Battle of Hastings in 1066 was not only the last successful invasion of these islands, but also led to the most thorough social and political upheaval in the nation's history.

But after 20 years on the throne, William I clearly felt that he had an inadequate grasp of the pattern of land ownership and wealth in his new kingdom. According to the Anglo-Saxon chronicler, he passed the Christmas of 1085 at the Abbey of Gloucester and after the feasting "had much thought and very deep discussion with his council about this country—how it was occupied with what sort of people. Then he sent his men all over England into every shire and had them find out how many hundred hides there were in each shire." A hide was 100 acres of land that could be tilled by one plough in a year.

England was divided geographically and the task of assessing each region was allotted to seven or eight panels of commissioners. Each compiled an elaborate account of the royal estates or manors and of those of the king's tenants-in-chief. Wealth was assessed not only by an account of land owned by individuals, but also by their livestock. The Anglo-Saxon chronicler remarked sniffily that he could not understand how the King could stoop so low as to interest himself in the number of his subjects' pigs.

This extraordinary operation provoked riots and many perjuries, for people feared that the result of the census would lead to heavy new property taxes. William set up special courts whose tough penalties led the populace to regard their sittings as Judgement Day—hence the report became known as the "Domesday," or "Doomsday," Book.

Although invariably referred to as one book, it actually consists of two volumes that are rather different from each other. The Great Domesday appears to have been written by a single author and contains a summarized record of all the counties except for three.

These three counties, Essex, Norfolk and Suffolk, are covered by the Little Domesday, which contains the unabbreviated returns. As a result, historians are much better informed about the economy of East Anglia than of any other part of England. As a whole, Domesday is a remarkable compilation of relevant facts for daily administration, which was why, no doubt, it was preserved until it became an object of real fascination for historians.

The book testifies to the complete destruction of the English ruling class by the Norman invasion. After the conquest, lands that had belonged to 4,000 to 5,000 English earls and minor aristocracy were redistributed among just 180 barons of Continental origin. Only two Englishmen held lands directly from the King as tenants-in-chief, and both came from minor families that had clearly prospered by cooperating with the new regime. One-fifth of the land was controlled directly by the King himself, a quarter by a ring of senior nobles bound to the King by marriage, official status or longstanding friendship, a quarter by the church and the rest by other barons, mostly from France.

Ironically, it is unlikely that the King ever read the monument to his successful seizure of power in England. Although work on the book may have been completed before he sailed for Normandy in the summer of 1086, the writing up most certainly was not. William died in France in September 1087 after being injured by the iron pommel on his saddle after his horse had stumbled. So ended a reign that had transformed the government and social system of England and, in its chronicling, bequeaths us today the priceless Domesday Book.—JOHN WYLES

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May, 1986

U.S., E.C. EXCHANGE THREATS ON TRADE

BOTH SIDES PREPARE LISTS OF GOODS TARGETED FOR RESTRICTIONS.

H. PETER DREYER

The conflict, once more opposing the United States' trade interests against those of the European Community, was not entirely new. Officialdom had been fully aware of it since the beginning of this year. But it was not until March 31 that it came out into the open. And it did so in an aura of acrimony which distinctly transcended what has come to be seen as normal on the many occasions in the past when the United States and the E.C. were at loggerheads.

And the dust still has not settled. True, some conciliatory noises can be heard. Spokesmen on either side have voiced the hope that the matter can be disposed of without aggressive action. And top figures from the United States and the E.C., as well as experts at various levels, are in almost constant contact, even if not yet properly negotiating.

But an observer listening carefully to the pleas and the reasoning in Brussels and Washington is made to feel that, so far at any rate, the gap separating the two has not narrowed. In fact, and this might make matters worse still, he is left with the impression that the two are confronting one another with altogether different concepts, for which it would be difficult eventually to arrive at a common denominator.

Hence the situation which has evolved is assuredly a very grave one. It is imaginable that the catch phrase of "trans-Atlantic trade war," which in the past has been considerably debased by frequent and unwarranted use, may for once turn out to be apposite. It was surely not for nothing that E.C. Commissioner Willy De Clercq, who is responsible for foreign affairs and who is hardly a man given to overstatement, told American journalists that this was probably the most serious problem since he had assumed his present office at the beginning of 1985. In much the same vein, U.S. Commerce Secretary Malcolm Baldrige talked of an unusually dangerous situation. What, then, has happened? Why is the quarrel so fierce? What is at stake?

At the base of the controversy is a disagreement about agricultural policy measures taken by the E.C. in connection with the accession—at the beginning of this year—of Spain and Portugal. More specifically, effective March 1, 1986, the E.C. imposed restrictions on U.S. agricultural exports to these countries which the United States claims to total about $1 billion.

The restrictions in Portugal include quotas on imports and consumption of oilseed products, on one hand, and a requirement that Portugal purchase at least 15.5 percent of its grain from other E.C. countries. In the Reagan Administration's view, these measures are illegal under the General Agreement on Tariffs and Trade (GATT), and therefore ought to be rescinded.

As for Spain, tariffs on imports of corn and sorghum were replaced by the E.C.'s variable levies system. This means that charges are now equivalent to a tariff in excess of 100 percent. Because Spain committed itself in earlier trade negotiations to a tariff not higher than 20 percent ad valorem on these two commodities, GATT rules (that is to say, Article 24-6) require the E.C. to negotiate compensation with the United States for the losses occasioned to U.S. exports by these higher levels. It might be noteworthy that, as regards the Spanish measure, Washington does not deny its perfect legality—in contrast thus to the two affecting sales to Portugal.

The E.C. response to the U.S. claims can be summed up as follows: In the case of Portugal, the E.C. maintains that it is much too early to assume that there will be any loss for U.S. exporters at all. The quota on oilseeds, for instance, has been set at 20 percent above the average of 1983-85 imports. (Against this, the U.S. side argues that quota restrictions are illegal under the GATT anyway, and moreover tend to have a negative trade effect in the long run.)

As regards Spain, the E.C. has declared many times, and has done so again in recent weeks, that it is perfectly willing to undertake the requisite negotiations in line with GATT Article 24-6. Such negotiations also followed the first E.C. enlargement to include the United Kingdom, Denmark and Ireland, and the second, to include Greece.

This is all very well, say the Americans. But these negotiations will take a long time and might not even get underway until much later, as all the necessary trade data will have to become available first. Yet the loss to U.S. farm exports, running into hundreds of millions of dollars, is an immediate one. Consequently, it would be no more than equitable to start a "mini 24-6" negotiation now, limited to the anticipated farm produce export losses.

This is hardly an idea that will entice the Community. For, in its view, the overall impact of the latest enlargement on U.S. trade will be positive rather than negative. The sharp reduction of Spanish and Portuguese customs duties from their present high levels is bound to give much easier access to U.S. merchandise in these two markets. Consequently, the outcome of the—comprehensive—24-6 negotiations might well be that the E.C. owes no compensation at all, a result which would be prejudiced somewhat if earlier compensation in the agricultural realm only had been found necessary.

A description of the "battle lines" currently drawn up by the United States and the E.C. would not be complete if it failed to mention also a dispute over whether the objection to E.C. measures had or had not been entirely predictable. "We have kept you fully informed at every stage of the enlargement negotiations," insists the E.C. "This is not quite so," countercharges Washington. "Many details were left open, and in fact are still coming in now."

It is this mixture of conflicting views, appreciations and interpretations that provided the background for the quarrel's reaching the public domain, as it were. When it did, furthermore, it did so with a bang. The White House, running out of patience it would seem, because weeks of behind-the-scenes discussions with the E.C. had not gotten anywhere, said that unless the E.C. rescinded its illegal quotas and promptly provided compensation for its increased tariffs, the United States would offset the new restrictions by setting quotas and raising tariffs on E.C. products entering the U.S. market.

This produced an angry retort from Commissioner De Clercq, who called the U.S. threat unfriendly, needlessly aggressive and difficult to understand. He warned that this confrontational approach risks leading to open commercial conflict, and has since said that "we do not like this Rambo type of diplomacy."

The measures which the United States is proposing to take—as of May 1, 1986, in respect of the Portuguese situation, and two months later in respect of Spain—might affect between $750 million and $1 billion worth of imports from the Community. They would be directed against shipments of wine, beer, cheese, meat, fruit, cookies and whiskey. The list thus consists entirely of food and drink products.

Needless to say, the E.C. has no intention of quietly accepting retaliatory moves which it considers totally unjustified. Consequently, the Commission has in turn prepared a list of—likewise—agricultural products which would lend themselves to counter-retaliatory action against the United States, should the latter actually implement its threats. This list, submitted to the Council of Ministers on April 21, includes such important U.S. export commodities as soybean cake and meal, corn gluten feed and dried fruits. As De Clercq said, "If the United States does take the steps it has spoken of, it must be clear that the E.C. will firmly defend its lawful interests. As judged by the Commission, what counts most is that the list be "symmetrical," that is to say, constitute a "tit-for-tat" reply to whatever the U.S. ultimately decides.

Concern about commodities to be included in, or excluded from, the counter-retaliations list very likely reflects differing national interests. Yet, presumably, it also stems from the fear that, if the E.C. attitude is too tough, the conflict might escalate. The Germans, and they are not alone, are known to fear the altercation might swiftly broaden out from agricultural products, to which it is still limited, to industrial ones. It is hardly a coincidence that two members of the Bonn Government, Finance Minister Gerhard Stoltenberg and Economics Minister Martin Bangemann, have tried in the past few weeks to defuse the issue.

It is a reasonable assumption that nobody wants a "bushfire" effect, where each measure would trigger a countermeasure until in the end the entire trade scene was drawn in. This would make less sense because:

- The amounts involved now, though not unsubstantial, are still only a small part of the overall U.S.-E.C. trade flow of more than $100 billion annually.
- A prolonged conflict would kill the prospects for a new round of GATT negotiations, due to start a few months from now.
- As the world's two leading trading powers, the United States and the E.C. also carry a joint responsibility for keeping the peace.

Pious avowals that the impossible must not happen are not, of course, enough when the *public* attitude on either side can be summed up as "we are firmly determined to defend our legitimate interests," and "we are willing to negotiate (implying that the other side is not), but our being reasonable should not be taken for weakness." It is to be hoped devoutly that when they meet privately, the representatives of both sides take a less confrontational line with one another.

Maybe they do. We can draw, after all, on the experience and the results of a quarter century of U.S.-E.C. trade feuds which, if they were not all solved satisfactorily, were never permitted to get out of control. Admittedly, that is no sure-fire guarantee against catastrophe. But it does create a certain presumption in favor of an ultimate understanding this time also. €

H. Peter Dreyer reports from Brussels for *The Journal of Commerce.*

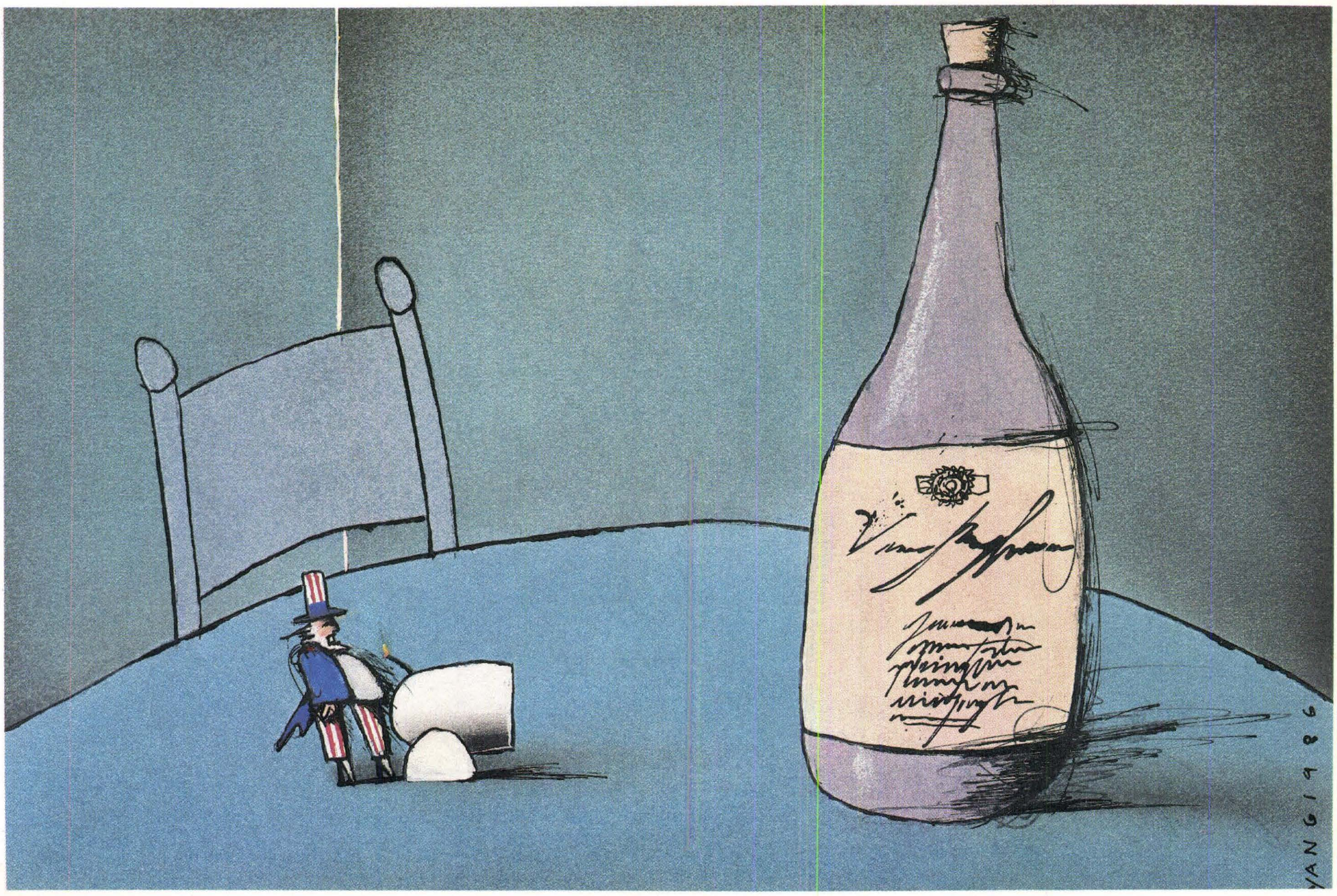
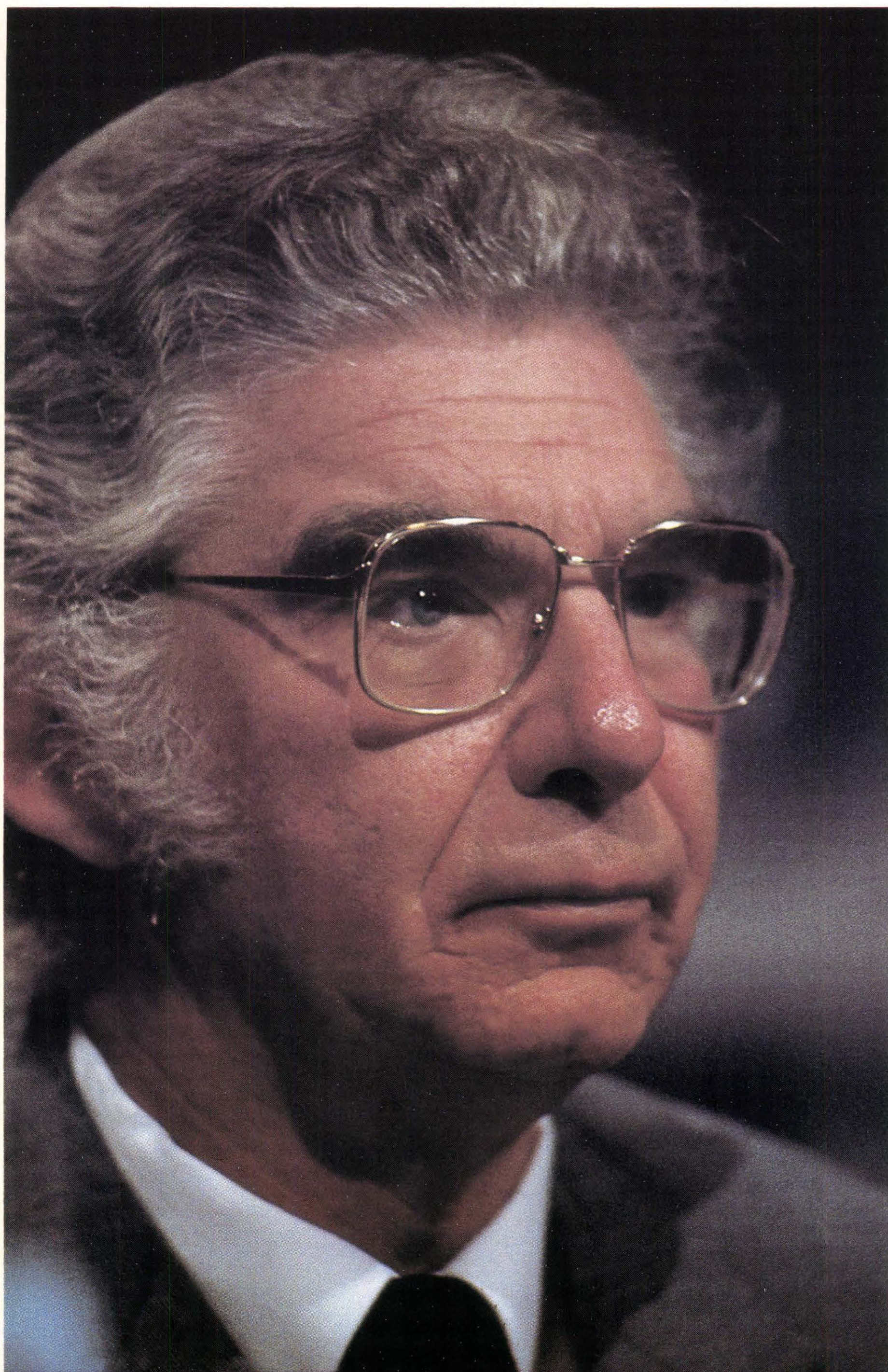


ILLUSTRATION BY JAMES YANG

WILLY DE CLERCQ: THE E.C.'S TOP TRADE NEGOTIATOR

COMMISSIONER FACES INTENSE PRESSURES DURING CURRENT DISPUTE.



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PAUL CHEESERIGHT

Willy De Clercq, the E.C. Commissioner responsible for external relations and trade policy, is the man at the sharp end of the running exchanges between the European Community, the United States and Japan over trade policy. It is an uncomfortable job. Relations between the world's three trading superpowers are punctuated by tensions over specific issues which must never be allowed to run out of hand. What are freely called trade wars start when specific issues start to merge with each other to become a whole raft of interlinked problems.

True, the three powers have more to unite than to divide them. They all have an interest in keeping open the liberal trading system embodied in the code of discipline called the General Agreement on Tariffs and Trade (GATT), but their actions suggest that they have differing interpretations of how the system should work. The E.C. is troubled—and De Clercq makes this quite clear in conversation—about American definitions of free and fair trade. It has a longstanding concern about what it sees as the Japanese propensity to export without balancing this off by imports of manufactured goods.

All of this would be complicated enough for a single nation to deal with. The Community, though, is 12 member states. Every trade policy issue is the subject of conflicting pressures in a national capital. Multiply that by 12, and the simple creation of a common position itself becomes a matter of complex diplomacy.

If the outside and inside pressures are mixed together, it is not surprising that De Clercq has a difficult year on his hands. In fact, he learned his politics in a tough school, and, when he took up his current post at the beginning of last year, he brought to the job the heavy weight of ministerial experience in Belgium. At face value, that might not appear to qualify him for the world stage. Practically, however, anybody who can surface to the top in Belgian politics and stay there for over 20 years needs subtle skills. Belgian internal politics are among the most complicated and vigorous in Europe.

Certainly he takes the challenges calmly. Although the 59-year-old veteran would have liked the E.C.'s decision-making procedures speeded up at last December's European Council summit meeting, the status quo leaves him untroubled. That summit, he says "didn't give us what was hoped," but then, "in politics the soup is never eaten as hot as it's served." The fact is, however, that in this area of trade policy where the center of power and decision-making has shifted from national capitals to the Community itself, De Clercq cannot act very quickly.

"We have to consult so many times about every issue that we lack the flexibility to react as quickly as is needed," he says. This gives the E.C.'s trade diplomacy a rather cumbersome quality. It also makes it generally defensive, responding to events rather than initiating them. It makes it appear too that the Community is weaker than either the United States or Japan. The trade figures, in fact, do not bear that out and De Clercq himself denies that any fragmentation in the E.C. made Europe inferior to the other two powers. "It is not the weakest if you look at the potentialities," he comments.

That strength—potential or otherwise—is even now being put to the test. Last December, George Shultz, the U.S. Secretary of State, led a delegation of Cabinet officials to Brussels for talks with the E.C. Commission. Weighty disputes like the definition of the level of E.C. steel exports to the United States had already been laid to rest. Niggling questions like canned fruit processing subsidies in the E.C. and their effect on American sales in Europe had been settled. So, "the meeting took place in a euphoric climate," De Clercq recalls. "A bit too optimistic," as it happened.

Three weeks later, the United States placed unilateral controls on the import of semi-finished steel products. The fact that such a step had been predicted did not diminish the annoyance in Brussels and the machinery clanked into gear to exact compensation. The "euphoric climate" had changed in less than a month. Since then, of course, the situation has escalated tremendously (see page 12). In short, the E.C. feels that the Reagan Administration makes up trade law to suit its own convenience, that the Americans generally consider they have a monopoly on virtue.

Talking straight to the United States, De Clercq has said: "We are very much concerned with your attitude to free trade. We don't understand the same thing. We want a clear definition of it. Your interpretation is that the others are unfair by definition and that you are the only people who are fair." At the E.C., everyone knows that the Reagan Administration has faced a major task in fending off protectionist pressures of a Congress increasingly worried by the size of the U.S. trade deficit. And there is praise for the Administration in handling it.

De Clercq himself has spoken of the "courage of the Reagan Administration against the protectionist lobbies in Congress—we appreciate that very much." But what concerns him is the fact that the Administration can face the pressures, sit them out and then take protectionist action itself, as recently evidenced. The effect on the E.C. is the same, pressure or not.

And on agriculture, both sides have heavy programs of subsidies, both of internal support for farmers and of external support for exports. The pot is always calling the kettle black. "If we are not careful, this could cause not only tension, but a commercial war," De Clercq has warned. His recipe is to get around a table and to continue talking on the problems both sides have in common. For his part, he is sure the E.C. is going to change, that there will be continued reform of the farm sector, even if it might be slow.

To set against these issues that divide the United States and the E.C., there is one that unites them, at least on the fundamentals. That is Japan.

To set against these issues that divide the United States and the E.C., there is at least one that unites them—at least on the fundamentals, if not the approach. That is Japan itself. Japan has major and growing trade surpluses with both powers. Both Washington and Brussels complain that Japan targets its exports in a relatively few sectors—consumer electronics, for example—harming the employment prospects in the indigenous industries. Both spend a great deal of diplomatic time putting pressure on Tokyo to open up its markets.

De Clercq has acknowledged that there are very real social and cultural problems for Japan in opening up to the rest of the world. But on this question, there are few links with Washington. "There is no alliance with the United States on Japan. It is not interesting from the tactical viewpoint. Anyway, the E.C. member states are opposed to ganging up on Japan," he notes.

Certainly, the E.C. tends to move slowly on Japan. There are divisions among the Twelve. There are the free-traders, who are content to leave things much as they are in the interests of the liberal trading system—changing a tariff here and there; video cassette recorders are an example—but not doing much else. On the other side, there are some countries which would like to see a higher level of protection.

This spring, De Clercq will have another chance at defining a Japan policy for the E.C. and he will be placing definite proposals before the Council of Ministers. They will be designed to stress the positive aspects of cooperation. What he would like to see is, in fact, what the Japanese have spasmodically suggested themselves: more joint research and development and more joint investment where it can have an impact on economic growth and on cutting back unemployment.

De Clercq is much less concerned about Japanese sales to the E.C. than about E.C. sales in Japan. "If the Japanese hold back exports, well and good"—this is a reference to Japan's voluntary restraints—"but I'm more interested in the penetration of Western industries in Japan." To reach that end, he will continue to apply pressure on Tokyo. There is little choice. The reasoning works like this: There are two extreme actions, commercial war or business-as usual. De Clercq rejects commercial war. "Are all the states ready? No. So what do you do? You continue to keep up the pressure."

None of this would look odd if it came out of Washington. Where Tokyo joins with Washington and Brussels, however, is in working for a new round of international trade liberalization talks through the (GATT). Progress so far has been tortuous—and is further jeopardized by the current row—but the pieces of the jigsaw are being pushed into place for a lengthy negotiation involving not only the three superpowers, but also the developing countries.

It is here that De Clercq thinks there is an exception to the general rule that the E.C.'s diplomacy is slow. If progress has been made in the GATT, he argues, "I think it is due the Community—because we have been between the extreme positions between the United States, which likes to overrule everybody and everything, and the other extreme of blocking everything. We have defended the median position." €

Paul Cheeseright reports from Brussels for the *Financial Times.*

U.S., E.C. DISAGREE ON HOW TO DEAL WITH TERRORISM

REACTION TO U.S. RAID ON LIBYA UNDERSCORES DIFFERENCES OVER THE USE OF MILITARY FORCE.

IAN DAVIDSON

The U.S. bombing of Libya on April 14 was actively supported and endorsed by Margaret Thatcher, Britain's Prime Minister. But elsewhere in Europe, reactions generally ranged from dismay to outright condemnation. A matter of hours before the attack, Foreign Ministers of the 12 European Community countries had been holding an urgent meeting in the Netherlands to hammer out a package of more stringent non-military measures to combat terrorism, and had concluded with an urgent appeal against "the further escalation of military tension in the region with all the inherent dangers," and calling for "restraint on all sides."

As the work of one short night, the American bombing raid was too short-lived to cause, by itself, any fundamental damage to trans-Atlantic relations. An attack on Libya does not seriously jeopardize the widely held sense that on the really big issues, like the security of the West against a potential Soviet threat, Europe and the United States see broadly eye to eye. More serious harm is likely to have been done to America's standing with moderate Middle Eastern countries which prefer to adopt a relatively pro-Western stand, if at all possible.

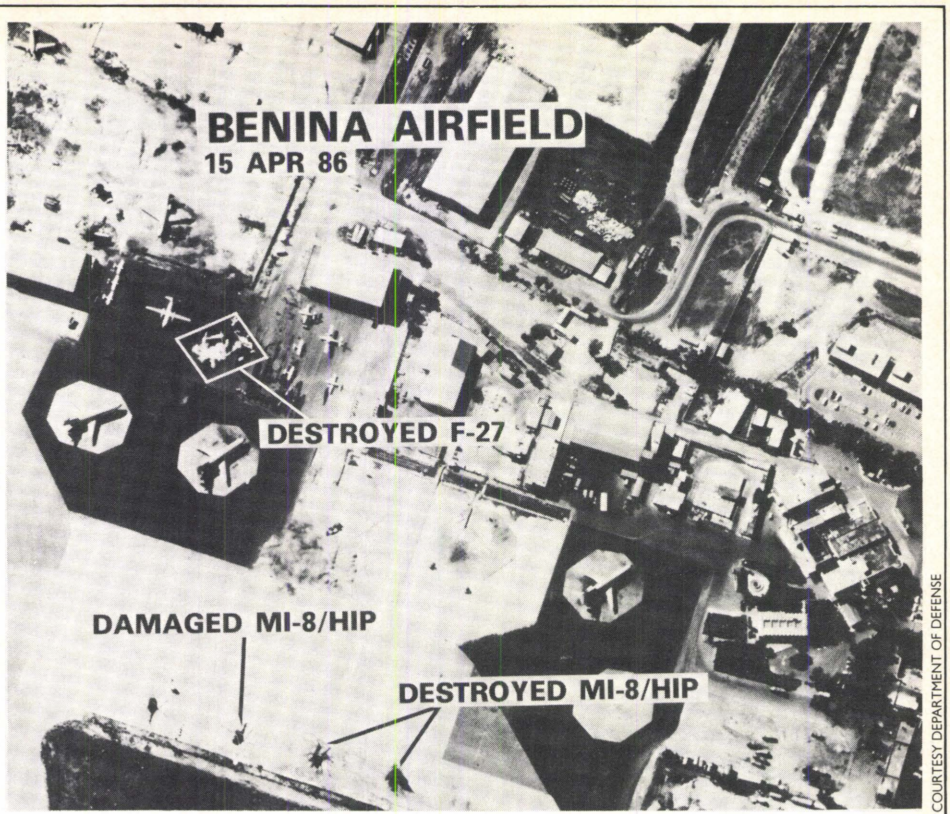
On the other hand, the incident is yet another reminder that on at least two significant, if secondary, issues—the utility of military force in general, and the best way to tackle terrorism in particular—Europeans and Americans have markedly different perceptions, and the differences seem to have become more marked under the Reagan Administration. The European critics deplore what they regard as President Ronald Reagan's tendency to resort to firepower for purposes which often seem ill-thought-out and whose results too often seem ineffective or counterproductive: Reagan's Lebanese experience, for example; his insistence on a military solution to the Nicaraguan civil war; or the two previous clashes in Libya's Gulf of Sirte.

In this particular case, Europeans have no difficulty in sympathizing with Reagan's desire to hit back at Libyan leader Muammar el-Qaddafi's murderous regime, especially when he believes he has hard evidence linking Libya with the Berlin bombing that killed one American and wounded many more. But they do not agree with U.S. claims that the attack was legally justifiable as "self defense" under Article 51 of the U.N. charter. It may have been deterrence, it may have been retaliation, it may even have been an attempt to take out key elements of Qaddafi's terrorist regime, including perhaps Qaddafi himself; but it was not self defense in any ordinary acceptance of the term.

Europeans find it very difficult to understand why Reagan believes that one quick bombing attack could possibly be effective in deterring Libyan-sponsored terrorism, or why he does not see that it may even provoke further attacks by terrorist groups sponsored either by Libya or by other anti-American governments

COURTESY DEPARTMENT OF DEFENSE

F-111 bombers were used in the U.S. attack on Libya April 14.



COURTESY DEPARTMENT OF DEFENSE

Damage inflicted in the April 14 raid by U.S. bombers on the Benina airfield.

in the Middle East. Moreover, they can foresee that, while future terrorist attacks may be aimed particularly at Americans, the chances are that the attacks will take place in or near Europe, because it is nearer and easier of access than the United States, and that European victims will therefore outnumber American. On April 21, the Twelve imposed restrictions on the size and activities of Libyan diplomatic missions, or "People's Bureaus," in the E.C.

European perplexity and dismay over the U.S. bombing of Libya is all the greater because it hardly squares with the Reagan Administration's own doctrine on the strategy for combatting terrorism, which had been made public just the previous month. The report of the committee headed by Vice President George Bush had, of course, explicitly allowed for the possibility of the use of force in appropriate circumstances. But the caveats, conditions and qualifications attached in the report to the use of military force strongly suggested that there were not many circumstances in which it was likely to be appropriate or effective.

The report asserted that the United States "is prepared to act....unilaterally when necessary to prevent or respond to terrorist acts," but it went on to say: "Our principles of justice will not permit random retaliation against groups or countries." The attack on Libya may not have been meant to be random—the rationale for using the F-111 bombers based in Britain was their targeting accuracy—but no bombing raid has ever failed to be random, in the killing and wounding of the innocent along with the guilty. And so it turned out.

Similarly, the report claims that "a successful strategy may require judicious employment of military force to resolve an incident." The trouble with this sentence is that the first four words appear to be incompatible both with the last four and with the middle seven. A deterrent strategy is one which depends on the *threat* of the use of force to prevent or deter a hostile act in future. The "judicious employment of military force" implies that the deterrent has failed to deter. And any meanings which can be detracted from the phrase "to resolve an incident" obviously have nothing to do either with deterrence or with a midnight bombing raid. Such an analysis may appear to be little more than the kind of semantic nit-picking which Americans find so irritatingly European, but the point is that Europeans find it very hard to understand exactly what the Reagan Administration expects to achieve by the use of force, and their perplexities are not resolved by careful reading of what is, presumably, a carefully considered and drafted U.S. Government policy statement.

By contrast, Europeans find it easy both to understand and to approve the other, non-military policy recipes in the Bush report: stronger and more widely shared intelligence, tighter security at ports and airports, stronger international cooperation, improved extradition treaties, sanctions against governments that violate the Vienna Convention on diplomatic immunities and privileges and so on.

The difference in emphasis and in perception between Europe and the United States is partly due to differences of experience. Many of the terrorist attacks aimed at Americans have emanated from the Middle East. The fact that the Libyans, the Palestinians or the Shi'ites are foreign, otherwise inaccessible in their foreign bases, may lend superficial plausibility to the use of military force. But, in Europe, the main terrorist threats over a long period were domestic and homegrown: the Red Brigades, the Red Army Faction, Action Directe and, of course, the Provisional IRA. Against such groups armed force is quite useless, except as an adjunct to non-military methods such as police work, immigration controls and physical security.

In principle, these are the kinds of measures that Europeans believe are likely to be most effective in frustrating the efforts of terrorist groups, because they know, as does the U.S. Administration, that these methods have in the past succeeded in pre-empting or preventing terrorist attacks, both from the Middle East and from domestic extremist groups. They have not succeeded often enough, of course, but sometimes.

The trouble is that, until recently, too many European Governments have refused to face the fact that their application of non-military methods has been pretty limp, Nor have they acknowledged that the weakness of their police and intelligence efforts, the glaring discrepancy in standards between them, the ease of travel across European frontiers, and above all, their political disagreements, not merely make life too easy for terrorists, but visibly act as a provocation to an impatient superpower. It was not until the E.C. saw the prospect of an American attack on Libya staring them in the face that the Greek Government was prepared even to mention the Libyans as a possible threat to security, or that the French, Germans and others were prepared to impose tighter curbs on Libyan diplomats. A more vigorous, a more systematic and a more united European approach to the combating of terrorism has become imperative if, as seems probable, the U.S. air raid provokes a stepped-up terrorist onslaught. €

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MONETARY REFORM AND THE ECU

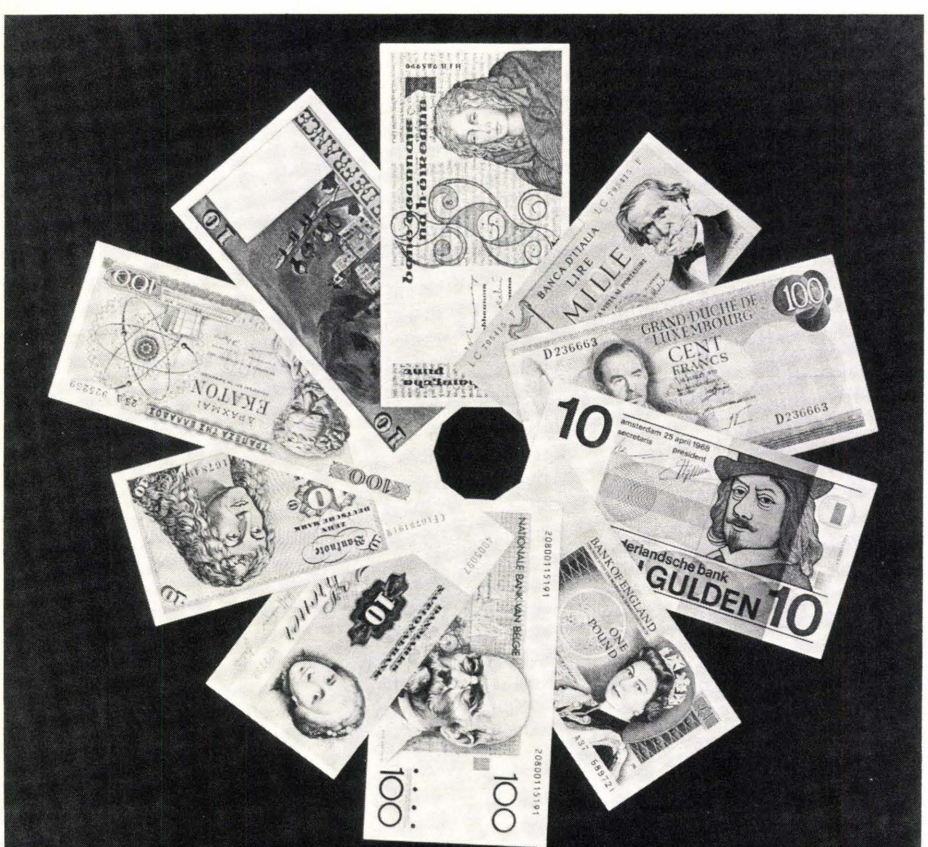
THE EUROPEAN CURRENCY UNIT IN A REFORMED GLOBAL SYSTEM.

JOLY DIXON

Reform of the international monetary system is moving to the center of the stage of economic debate. It was one of the major topics at the recent meetings in Washington of the International Monetary Fund (IMF) and the World Bank, and it will be high on the agenda of the economic summit to be held in Tokyo in early May. To fully play its role in an improved system, Europe will have to continue with the progress that has been made in consolidating its monetary identity through the European Monetary System (EMS) and its currency, the European Currency Unit (ECU).

The EMS is partly an exchange rate system, but it is mainly about economic cooperation and coordination between a group of sovereign states. As such, it has direct relevance for the international monetary system. As the Secretary of the Treasury, James Baker III, said at the recent meeting of the International Monetary Fund's Interim Committee : "There must be a basic foundation of improved international cooperation and policy commitments by all countries for any strengthening of the international system to work. Recent developments suggest that such a foundation is emerging, but we must all see to it that this cooperation is a lasting feature of the system."

The period of floating exchange rates has been characterized by severe difficulties. While unemployment and inflation rose and growth slowed or stopped, the world economy has lurched through a series of oil and debt crises. It is often argued that only the existing floating-rate system could have withstood the resulting tensions. That may be true, but it does not follow that the system is ideal, or that it is not possible to find a better one which would help to ensure that fewer imbalances and tensions develop in the future. There must be at least a suspicion that there is a two-way causal link between the instabilities in the world economy and the international monetary system or non-system, whose lack of constraints has allowed policies and performances to get more and more out of line and hence created a vicious circle of instability.



Recently, however, there has been an improvement in the world economic outlook. In the industrial countries, growth has picked up and is now more balanced and even. Their inflation rates have also come down dramatically. Exchange rates are at more appropriate levels. Since peaking in early 1985, the dollar has depreciated by nearly 30 percent against an average of the currencies of its major trading partners. The international debt situation, although still a concern, has improved. In most cases, external imbalances have been sharply reduced, and a number of major debtors like Brazil and Argentina have taken bold new policy initiatives.

These improvements largely follow from improved domestic policies, but are also partly the result of policy initiatives based on international coordination. At the Annual Meetings of the IMF in Seoul, Baker made his proposals for strengthening the debt strategy. At the G-5 meeting in New York in September 1985, the largest industrial countries decided that the exchange-rate relationships between their currencies did not fully reflect the economic and policy fundamentals. This, together with some intervention, encouraged exchange rates to move further into the line, which has helped to diffuse protectionist pressures. These are important beginnings, which are already bearing fruit. These successes and the improved economic situation should be used to make further progress, especially on building a sounder international monetary system—one which will ensure, as Baker said, that "cooperation is a lasting feature of the system".

The EMS

It is appropriate to examine the regional example of the EMS not because it is perfect in its nature or workings, but because: 1) It is a model upon which to improve and to adapt to the needs of a global system; and 2) A strengthened EMS will be an essential ingredient in an improved international system. A cooperative global system will have to rest on the solid foundation of strengthened cooperation at regional levels.

The various mechanisms of the EMS: the exchange rate and the credit systems, the divergence indicator, and the creation and use of official ECU between the central banks have evolved out of pre-existing arrangements and are suitable to the particular situation of the European Community. They are not necessarily suitable in their existing form for the global system, but there are a number of general lessons that are applicable. The most important among these are the following:

• The system is highly **pragmatic**. It combines some degree of automaticity with a great deal of discretionary decision-making. Those characteristics are seen in all the elements of the system. Some of the very short-term credit, for example, is available automatically, but the granting of longer term credit requires a joint decision and is generally not available unless domestic policy steps are being taken to correct the imbalances which make the credit necessary. In the exchange-rate mechanism, intervention is compulsory if currencies reach the prescribed bilateral limits, but frequently prior discretionary decisions are made to prevent this from happening. The divergence indicator illustrates a different form of the compromise between automaticity and discretion. Its bell automatically rings when exchange rates go out of line, but the list of actions that this can trigger is broad. The main requirement is that it should provoke discussion between the participants on what, if anything, should be done.

• The system is **cooperative**. It exercises considerable constraints over the independent policy actions of its members, but they all take part in the joint decision-making which determines how these constraints will bite. The purpose of the system is to establish a zone of monetary stability in Europe, with monetary stability implying stability of prices as well as of exchange rates. For this reason, the system has moved the price performance of its other members closer to that of the Federal Republic of Germany. Five years ago, inflation among EMS members ranged from five percent to over 20 percent. Now the spread has narrowed to between close to zero and about seven percent. It is likely that rates will come down further during 1986 and that the spread will again narrow, converging toward the lower end. It would be wrong to portray this as the other members abandoning their monetary sovereignty to the German central bank. The decisions are being made in common. Similar decisions could be made individually but the advantage of making them in common is that the visible commitment to the system, whose declared aim is stability, allows all to profit to some extent from the credibility of the member with the best record of stability, in this case Germany.

• The system is **evolutionary**. It is sometimes argued that it is putting the cart before the horse to create an international monetary system before establishing a sufficient degree of convergence between the participating economies. The EMS shows that another approach is to keep making a little bit of progress on each front, allowing the one to reinforce the other. A rigid system cannot be imposed on a group of uncommitted sovereign nations, but the EMS has shown that increasing convergence and strengthening monetary organization can progress hand in hand.

The formal incorporation of the EMS and the ECU in the Treaty of Rome is another important step on the evolutionary path that has been followed since the system was established in 1979. The leaders of the E.C. decided last December to include the following in a new article in the Treaty of Rome : "In order to ensure the convergence of economic and monetary policies which is necessary for the further development of the Community, member states shall cooperate in accordance with the objectives of Article 104. In so doing, they shall take account of the experience acquired in cooperation within the framework of the European Monetary System and in developing the ECU, shall respect existing powers in this field." It was also then decided that the objective of progressive achievement of Economic and Monetary Union should be added to the Preamble.

Other important evolutionary steps will include the full participation of all the E.C. member states. There has been more talk recently that the time is now ripe for the United Kingdom to join the exchange-rate mechanism. The fall in the price of oil has diminished the pound's petro-currency status, and many judge that the current exchange rate is about "right." These arguments are not as persuasive, however, as the growing conviction that the United Kingdom could accomplish its legitimate economic goals

Principal Public Issues
International Markets
3/16–4/15, 1986

Date	Issues	Amount (Million ECU)	Term in Years	Fixed Rate
Straight Issues				
3/19/86	Outokumpu Oy	60	10	8.0
3/25/86	Denmark	250	10	7.625
4/ 2/86	Banque Paribas	250	8	7.25
4/ 3/86	Rabobank Nederland	75	10	7.5
4/ 8/86	Banque Nationale de Paris	100	7	7.125
4/ 9/86	Primary Ind. Bk of Australia	40	5	7.0
4/10/86	Ireland	100	10	7.125
4/10/86	Baccob Finance	57	7	7.25
4/11/86	Girozentrale	75	7	7.0
4/15/86	Finance for Danish Industry	50	5	6.75
4/15/86	Sweden	150	10	6.5
Total Straight Issues		1,207		
Issues With Bond Warrants				Floating Rate
3/19/86	Credit Foncier de France	200	10	3mlibor+0.05
Total Issues With Bond Warrants		200		
Zero-Coupon Issues				Issue Price
4/11/86	Italy	208	10	52.00
Total Zero-Coupon Issues		208		

Total Issues 1,615

Total 1986:
International Market 2,819.25 million ECUS
National Market 800 million ECUS

more easily from within the system than by remaining outside. Compared with members of the system, Britain has been relatively unsuccessful in bringing down its inflation rate; and British interest rates have to include an extra uncertainty premium because of the lack of a credible "peg" for the exchange rate.

Ninth Realignment

The ninth realignment of central rates within the EMS, which took place on April 6, 1986, provided a demonstration of the cooperative and pragmatic workings of the system. There are no pre-specified rules about when or by how much the central rates of the participating currencies may change. Between realignments a currency's fluctuations must be kept to within 2.25 percent of its central rate, but the central rates may be changed from time to time, provided that all the participants agree on the new set of rates. Setting a central rate for each of the seven participating currencies implies reaching agreement on 21 bilateral cross-rates. The occasion also provides a convenient forum for an in-depth discussion of the performance of the system and of the economic policies of its members. There is of course plenty of room for honest disagreement, but eventually a workable consensus is found.

In the latest realignment it was decided by the Finance Ministers and central bank governors to adjust the parities as follows:

- German mark and Dutch guilder: + 3 percent;
- Belgian franc, Luxembourg franc and Danish crown: + 1 percent;
- Irish pound and Italian lire: 0 percent;
- French franc: − 3 percent.

The agreed changes in bilateral rates with a maximum spread of six percent for the DM/FF parity were significantly lower than in the past five realignments, when they were in the order of eight percent to 10 percent. This is remarkable in two respects:

- It illustrates the convergence to a low level of inflation in the E.C. over the past three years, during which EMS parities remained unchanged (with the exception of the Italian lire that was devalued in July 1985);
- It demonstrates the continued stability commitment of the EMS. In fact, the parity adjustments agreed in April do not fully accommodate the changes of competitiveness between EMS countries that have built up since 1983. It therefore appears that again the authorities of those countries whose inflationary performance can still be improved upon have deliberately accepted a rise in the real exchange rate as part of their attempts to further reduce the internal rate of inflation.

Table 1: ECU Bond Issues
(Million ECU)

Origin of Issuer

	1981	1982	1983	1984	1985	Total
E.C.	150	572	1,325	2,004	5,299	9,350
Other Europe	—	85	285	634	826	1,830
Rest of World	40	65	320	806	3,285	4,516
Total	190	722	1,930	3,444	9,410	15,696

Source: Commission of the European Community.

Table 2: ECU-Dominated Contracts

Starting Date	Exchange	Type of Contract	Contract Size (ECU)
7 Jan. '86	Financial Instruments Exchange (FINEX)	Futures	100,000
15 Jan. '86	Chicago Mercantile Exchange	Futures	125,000
12 Feb. '86	Philadelphia Stock Exchange	Options	62,500

In France, the efforts to bring down inflation will be supplemented by monetary, fiscal and incomes policy measures such as:

- a target rise of a maximum five percent in M3 money supply in 1986 which is to be achieved in particular through a reduction in the monetary funding of the budget deficit;
- a gradual reduction of the budget deficit to zero over the next three years;
- restraint of salary expansion in the public sector in 1986.

In parallel with its anti-inflationary policies, the French Government will take measures to increase the competitiveness and profitability of French industry by liberalizing industrial prices, lowering interest rates and lifting foreign-exchange controls. The devaluation of the French franc was a necessary condition in order to achieve rapid progress on the last of these points.

The ECU

Parallel to the development of the EMS, the ECU has extended its role and has been embraced by the private market. The growth of the use of the ECU in financial markets continues to be spectacular, as shown in Table 1.

It is also noteworthy that the geographic distribution of issues has widened. Use of the ECU is no longer confined to the Community. Activity in syndicated bank loans denominated in ECU also shows this tendency. In the third quarter of 1985, there were two Asian borrowers in the market, and other non-E.C. countries included: Cameroon, where the national airline refinanced a previous dollar-denominated loan; the Soviet Union, where Vneshtorgbank, following other similar operations, confirmed its interest toward the European currency; finally, multiple option loans have been granted to borrowers from Rumania, Sweden and New Zealand, with the ECU included mainly in the form of issues of short term notes.

The ECU market is being broadened and deepened by an ever increasing range of financial instruments. An example of this is the growth of the availability of ECU-denominated futures and options contracts. The European Options Exchange in Amsterdam began trading in ECU options at the end of last year, and, in early 1986, three U.S. exchanges introduced ECU denominated contracts as shown in Table 2.

Other exchanges are also considering introducing ECU-denominated futures or options contracts shortly. The London International Financial Futures Exchange for example, has said that it intends to introduce a futures contract, and the Pacific Stock Exchange in San Francisco is considering introducing an options contract.

Creating a more stable international monetary system will be facilitated by these developments within the EMS. The improved global system will rest on the three main currency blocks associated with the dollar, the yen and the ECU, and each of those blocks will have to be solid for a cooperative global system to develop smoothly. €

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E.C. PLANS POLICIES ON SMALL BUSINESS

NEW INFORMATION NETWORKS AND BETTER ACCESS TO FINANCING SOUGHT.

STANLEY A. CROSSICK

The creation earlier this year of the brand new portfolio of policy on small and medium-sized enterprises (SMEs) for the second Spanish member of the E.C. Commission, Abel Matutes, provoked a mixed reaction. Some thought it was of no significance other than to help find responsibilities for all 17 E.C. Commissioners. Others believed that the separate portfolio reflected the significance of this sector in Europe.

It takes only a few minutes in the company of the new 44-year-old Commissioner to realize that speculation about the reasons for creating the portfolio are irrelevant. Matutes is a man in a hurry, recognizing that he has only three years (one year of the Commission's four-year mandate having expired) to prove himself. He is no prototype of an E.C. Commissioner, having combined political activity (as deputy national chairman of the Alianza Popular Party) with business acumen, employing over 3,000 people in his banking, company and hotel activities. Matutes is, in short, a successful businessman with experience in politics who brings a breath of realism to his portfolio.

The Commission is by no means starting from scratch in the SME field. The successful 1983 European Community Year of Small and Medium-Sized Enterprises underlined the vital contribution made by SMEs to economic, social and cultural activity, and particularly to employment, as well as the need to create both E.C. and national policies conducive to the setting-up, development and integration of SMEs. Above all, of course, the need to stimulate job-creating investment and to encourage innovation was recognized.

Although E.C. action has led to the development of a specific SME policy, it has tended to concentrate on the provision of financial assistance. However, some attention has also been paid to the promotion of innovation and new technologies and the training of managers and employees. In any case, activity varies considerably within the different E.C. member states and the Commission needs to encourage and help national action.

It has long been recognized in the United States that SMEs have a catalytic role in the economy, creating employment and innovation. The Small Business Administration was set up as early as 1953 and currently runs at least 28 programs at an annual cost of between $1.5 billion and $2 billion. U.S. SME policy is clearly successful, but U.S. experience, says Matutes, must be transposed into the different environment, scale and sense of values prevailing in Europe if it is to be useful.

European firms still lack the great advantage of being able to trade within a large home market and are therefore much more dependent on exports than their American counterparts. The E.C.'s single most important aim at present is to complete the internal market by 1992 and effectively to remove the need for European firms, big and small, to "export" to a market of 320 million people.

Substantial and sophisticated venture capital funds have long been available in the United States and this probably accounts for the greater innovative successes of the American SMEs. In the past, European governments have not sufficiently led, or even encouraged, the private sector and, in general, they have been unwilling to share some of the risks, although new formulas have been developed recently, such as the Business Expansion Scheme in the United Kingdom.

The E.C. Commission is financing SME organizations, but has met considerable difficulties in its efforts to create a single European center representing all SMEs in the Community. At the end of 1985, the Commission decided on the creation of a Business Cooperation Network, or BC-NET. This computerized network will pool information from a variety of business advisors in the financial, commercial, technical and subcontracting fields (e.g. chambers of commerce, banks, trade organizations, subcontracting and regional development agencies, consultants and lawyers). It will allow small businesses, acting through any member of the network, to locate possible cooperation partners.

Despite these developments, insufficient research has so far been carried out and insufficient financing has been made available for promoting action plans beyond mere discussions. A reliable economic overview of the sector is long overdue. Greater emphasis needs to be placed on improving the legal, fiscal, economic and social environment in which SMEs operate and above all to ease their administrative burdens.

In addition to creating a special portfolio, the Commission in its first session of 1986 set up a "closed group" of seven Commissioners to look into problems affecting SMEs, thus involving the Commissioners responsible for industry, the internal market, economic affairs, antitrust, social affairs and employment and consumer protection. Matutes moved quickly. He made clear from the outset that he wanted to see the setting up of specific structures within the Commission responsible directly to him and independent of any directorate-general. Thus a Commission task force is being formed and will act as a think tank covering relations among internal services and with outside organizations. Matutes intends the task force to have U.S. and Japanese representatives, and each Commission directorate-general will have an SME "correspondent." Matutes already has a report containing details of actions "already completed," "in progress" and "planned."

Another Matutes proposal (approved in principle by the Commission) is that each new draft E.C. regulation or directive in future should have a note explaining the direct and indirect impact of the planned measures on SMEs—for example, higher or lower administrative and other costs, higher or lower taxes, impact on employment and working conditions. The idea behind this is to make officials think about SMEs and to ensure that such thinking influences their decisions. This concern reflects one of the main underlying problems: There is an urgent need for politicians and legislators to develop an SME reflex.

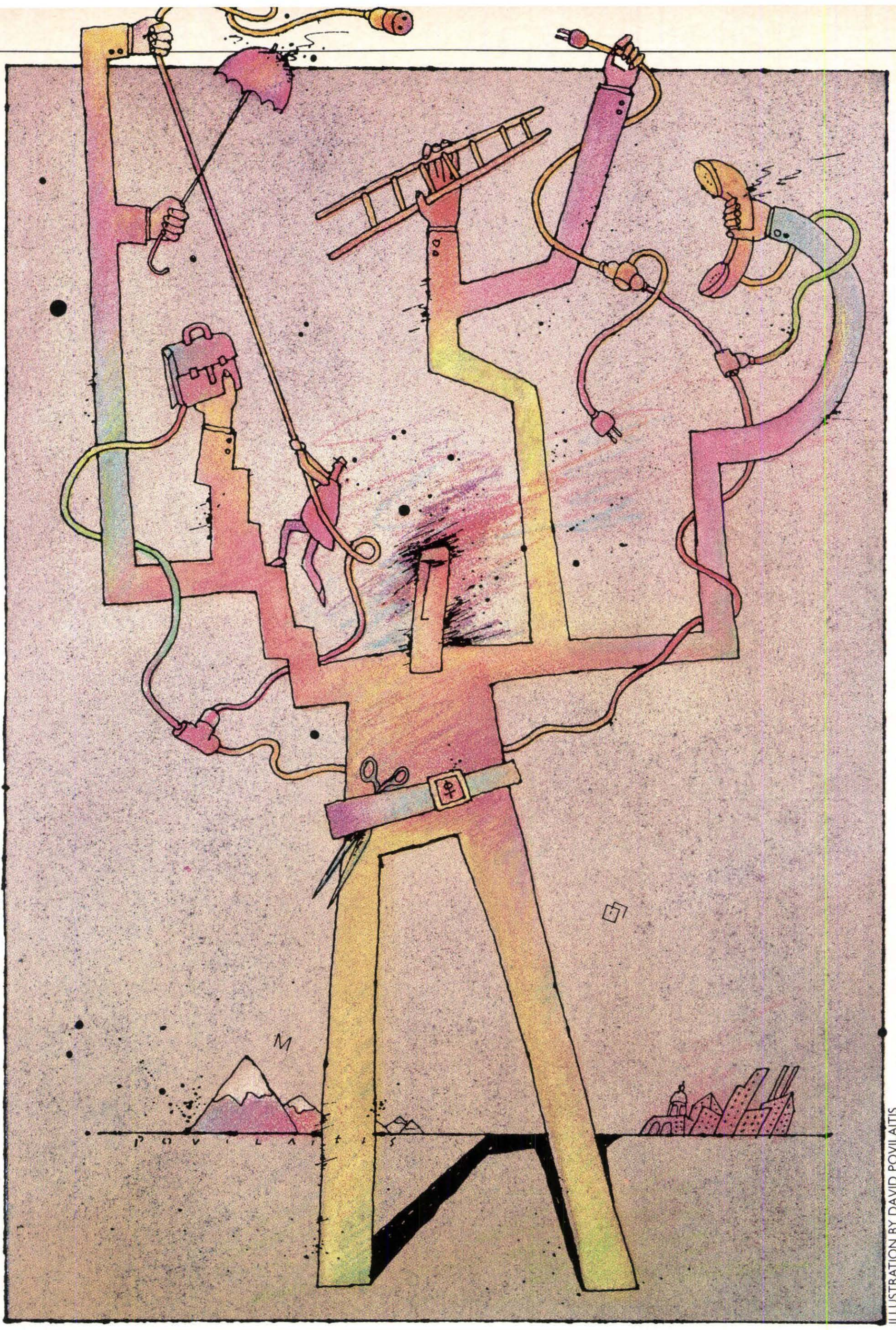

ILLUSTRATION BY DAVID POVILAITIS

One of the new Commission's main objectives is to create a more favorable "environment" for SMEs. This involves improved conditions of access to financial markets, adequate tax treatment, supportable social charges and assisting SMES to cope with administrative procedures and social legislation so as to allow them to compete in fair conditions with bigger companies.

Matutes also intends specific action in favor of those SMEs which are innovative, geared toward exports or located in less favored regions of the Community. Credits are being considered as a major factor in supporting SMEs, and new, attractive financial instruments, in particular those providing risk capital, will be studied. Lastly, Matutes has declared a priority on assistance in the field of information and training. To stimulate the whole exercise, Matutes is seeking the adoption of broadly acceptable measures that would take effect immediately. He is anxious to put in place the BC-NET giving SMEs access to a wide range of useful information at regional and local levels which they otherwise could not afford.

But all this is by no means enough. As is so often the case, Europe trails years behind the United States. The need to ease the administrative burden—indeed change the regulatory framework—is now recognized. European mentalities also must be changed to encourage individuals to set up their own businesses and to accept the consequent risks and failures. Some short-term employment security may have to be sacrificed in the interests of job creation, and European society should no longer stigmatize bankruptcy per se. Matutes is right to try to make up for lost time by concentrating on practical actions, both because of what they might achieve in the short term and the effect they will have on changing the overall environment. However, this is a long-term exercise and studies are required, particularly on the extent to which U.S. experience can be adapted to European conditions. The structure of the SBA and its programs should be examined.

A healthy SME environment is of direct benefit to big businesses which depend on SMEs as customers and suppliers. Social tension will be reduced in Europe only if jobs are created. SMEs can do this more effectively than big businesses and big business must therefore encourage them as they will also benefit from reduced social tensions. As the Commissioner puts it, their interests are "convergent" and he wishes to encourage the "externalization of large enterprises."

There are many ways in which help can be given by large firms, for example:

- by making more systematic use of SMEs as subcontractors;
- by entering into cooperation arrangements in research and development;
- by transferring some activities and unused technologies to small innovative business;
- by selling off discarded equipment to small firms at attractive prices;
- by providing support for setting up businesses, such as direct financing (particularly venture capital), financial guarantees, staff training, a return to job guarantees, leaves of absence; and
- by encouraging networking.

Franchising is a particularly good method of promoting SMEs and enabling new businesses to be undertaken by individuals who may not have substantial financing or experience. Properly run franchising chains also have much lower failure rates than similar independent businesses.

Matutes believes Europe is particularly well placed at the moment for an economic revival. The drastic fall in oil prices gives a great opportunity for the life of its citizens to be improved and unemployment to be attacked. His emphasis on concrete measures is refreshing and the mere creation of a separate portfolio will stimulate activity. However, the Community's role is limited and above all it must be a catalyst to member states' activity. The most difficult problem is to obtain the cooperation of all E.C. member states, the political parties and all the social partners, without which the new policy cannot be fully realized. €

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CORPORATE TAXES IN U.S., EUROPE
ARE EFFECTIVE COMPARISONS POSSIBLE?

JEFFREY OWENS

It is frequently contended that differences in tax burdens will influence international competitiveness and in most countries the business sector thinks that it is in some way overtaxed. It is for those kinds of reasons that international comparisons of corporate tax burdens are made. This article tries to show that while simple comparisons of this kind can be constructed, far-reaching conclusions on international competitiveness cannot be drawn from them. The data used are drawn from publications of the Organization for Economic Cooperation and Development (OECD) in Paris.

While any international comparison of tax burdens requires qualification, there are features and complexities about the corporate income tax which make the interpretation of such comparisons particularly complicated. For example, the varying degree of integration between the corporate and individual income tax systems—as well as the complexities of corporation tax systems which generate vastly different tax burdens as between different industrial sectors and as between different firms within any one sector—make it especially difficult to attribute much significance to an overall effective corporate tax rate.

I. THE CORPORATE TAX BURDEN

There are a variety of direct taxes that are paid by the companies, but in most OECD countries the debate over the corporate tax burden has focused on the corporate income tax and social security contributions paid by employers. These two levies account for the major part of the corporate tax burden, though property taxes can be important in some of the English-speaking countries (in the United Kingdom and the United States, for example). Unearmarked payroll taxes are significant in Austria and Sweden, and local taxes based upon the level of business activity are large in France, the Federal Republic of Germany and Spain.

One way of comparing corporate tax burdens is to look at the proportion of gross domestic product (GDP) accounted for by corporate income taxes. Table 1 presents these tax-to-GDP ratios and shows that in 1984 corporate income taxes accounted for, on the average, 2.8 percent of GDP in the European Community, and 1.6 percent in the United States. The highest tax burdens are found in Japan, Luxembourg, Norway and the United Kingdom (figures for the latter two countries being very much influenced by petroleum taxes), and the lowest in Austria, Greece, Ireland and Spain.

During the last five years, the trend has been for these ratios to increase in Europe and Japan, whereas in the United States this ratio has more than halved (largely due to the 1981 Economic Recovery Tax Act which introduced favorable depreciation and investment rules). The United States now has one of the lowest corporate tax ratios in the OECD area, though as noted below there are many limitations on such comparisons.

Corporate income taxes, however, are in most countries far smaller than payroll taxes earmarked for social security funds. In 1984, these social security contributions accounted, on average, for 6.4 percent of GDP in the E.C., as compared to 4.9 percent in the United States and 4.2 percent in Japan.

Once again, the trend has been for these ratios to increase—by one percent in the E.C.—but there is considerably more diversity in the direction and the size of changes than with the corporate income tax. The burden of these contributions on American enterprises has increased, but at a slower pace than in Japan or the Community.

Tax-to-GDP ratios have their limitations: The proportion of profits or payroll in GDP will vary between countries; changes in other taxes paid by companies may reinforce or offset movements in corporate income taxes (mainly taxes on income and capital, but excluding social security contributions) as a percentage of the operating surplus (a proxy for real gross profit) of enterprises. This is a more appropriate measure of how profits are taxed in different countries. Only 10 OECD countries are able to provide the data required to make these calculations and the results are presented in Table 2. The percentages vary from nine percent in the Netherlands to 55 percent in Italy. The United States, at 20 percent, is below the average ratio for these 10 countries. Between 1979 and 1983, direct tax burdens on enterprises, as measured in Table 2, fell in three countries (including the United States), increased in six and remained unchanged in the Netherlands.

II. INTERPRETING THE FIGURES

Should we conclude from these figures that the rapid fall in corporate tax burdens in the United States has increased the international competitiveness of American enterprises and that U.S. companies have little to complain about when compared with their European or Japanese counterparts? Unfortunately, no such clear-cut conclusions can be drawn from these types of comparisons, as is explained by the remainder of this article.

A) Difficulties with a single, country-wide measure of average corporate tax burdens

All of the figures in Tables 1 and 2 are an average of corporate tax burdens experienced by firms within a country. Since different firms will be in very different tax positions, it is not easy to interpret the meaning of such an aggregate ratio. At one level, it shows the net flow of profits toward the government, which may indicate the impact of corporate taxes on the corporate sector taken as a whole, but there can be substantial differences in the effective rate of tax in different sectors of the economy. In the United States, for example, the effective corporate tax on the automobile service industry is less than half of that on the service sector. This is not surprising since corporate tax systems usually accord different treatment to different sectors and the profitability of sectors also differs.

Even if rates were measured for each sector, it would be difficult to interpret the results since there are likely to be important differences in tax levels as between the firms in each sector. Large firms may fare differently from small firms; the loss-making firms will be aggregated with profitable firms; balance-sheet situations and growth rates are likely to differ significantly. Thus the effective rate of taxation on investments will vary between sectors, regions, forms of ownership, source of finance, the operational lifetime of the investment and the type of asset, as well as between new investments and replacement investments and as between investments of existing and newly-established firms.

In view of these differences in the tax position of firms it is doubtful if far-reaching conclusions can be drawn from aggregate comparisons about international competitiveness, since it is predominantly individual firms, and not economies or sectors, which are competing for particular markets.

B) Some technical problems in measuring corporate tax burdens

Even if the conceptual problems referred to above are ignored, there are a number of technical difficulties that have to be overcome. In principle, it appears easy to compute overall corporate tax burdens. All that is needed is the corporate income tax paid and corporate profits. However, difficulties exist in obtaining figures for these two concepts on an internationally comparable basis.

If comparisons were to be made between two or three countries with similar tax, legal and accounting systems, it would be possible to work from company book accounts and make the necessary adjustments for particular incomparabilities. If, however, the intention is to cover several countries, such a method would be too great. Book profits of corporations, as reported in financial statements, are traditionally used as a proxy for true economic income, but international comparability would be achieved only if the accounting concepts used in determining book income are similar in the countries under comparison which, in practice, is unlikely to be the case (eg. FIFO and LIFO, difference in depreciation systems, straight line or declining balance, current cost accounting versus replacement accounting). Other technical problems include:

- Time Period Chosen. When corporate tax income is expressed as a proportion of corporate profit, the question arises whether the profits and taxes should refer to the same calendar year for which the profits give rise to tax liability. The answer to this question in part depends upon the issue being examined.
- Aggregating Loss- and Profit-Making Companies. There is also the problem that information about aggregate profits is a net figure in which the losses of some companies are set off against the profits of others. Because the importance of loss-

Table 1

INCOME TAXES AND SOCIAL SECURITY CONTRIBUTIONS PAID BY CORPORATIONS AND EMPLOYERS

PERCENTAGE OF GDP	Corporate income taxes		Employers social security contributions[1]	
	1979	1984	1979	1984
Australia	3.0	2.6	—	—
Austria	1.4	1.2	6.2	6.7
Belgium	2.8	2.7	8.4	7.9
Canada	3.6	3.2	2.1	3.0
Denmark	1.4	2.5	0.2	0.9
Finland	1.4	1.6	2.9	2.8
France	1.9	1.8	12.0	12.8
Germany	2.3	2.0	6.8	7.1
Greece	1.0	0.8	n.a.	5.0
Ireland	1.8	1.3	2.9	3.7
Italy	2.5	3.8	7.1	10.4
Japan	5.2	5.4	3.7	4.2
Luxembourg	6.6	6.3	5.6	5.0
Netherlands	2.6	2.5	7.8	7.9
New Zealand	3.1	2.0	—	—
Norway	3.1	7.7	7.8	6.9
Portugal	n.a.	n.a.	4.6	4.7
Spain	1.2	1.3	9.4	9.1
Sweden	1.5	1.9	12.9	12.7
Switzerland	1.8	1.9	3.3	3.2
Turkey	0.9	1.6	0.9	0.6
United Kingdom	2.5	4.3	3.4	3.6
United States	3.4	1.6	4.5	4.9
Unweighted average:				
OECD Total	2.4	2.6	4.9	5.4
EEC	2.5	2.8	5.4	6.4

Source: Revenue Statistics of OECD Member Countries 1965-1984, Paris 1985.
[1] Includes also all employers
n.a. = not available.

Table 2

DIRECT TAXES ON NON-FINANCIAL CORPORATE AND QUASI-CORPORATE ENTERPRISES

PERCENTAGE OF OPERATING SURPLUS (1)	1979	1983
Australia	23	18
Finland	16	18
France	27	31
Italy	34	55
Japan	28	31
Netherlands	9	9
Norway	42	49
Sweden	21	20
United Kingdom	30	34
United States	31	20

Source: OECD National Accounts, Paris 1985, country tables on income and outlay transactions of non-financial corporate and quasi-corporate enterprises.

1. Operating surplus is defined as the excess of the value added by enterprise over their total costs including indirect taxes minus subsidies.

CHART ILLUSTRATIONS BY DALE GLASGOW

making firms would differ as between countries, this tends to limit the validity of comparisons based upon aggregate data.

• Spreading of Profits and Losses. Tax rules usually permit losses and profits to be carried backward or forward over a number of years, and this will influence, to some extent, the tax liability in a particular year.

• Integration of Corporate and Individual Income Taxes. The question arises whether a tax paid by a company should be considered as a tax of the company if the shareholder gets a tax credit for part of it, as is the case under the imputation systems in European countries.

C) Other Taxes Affecting Enterprises

Corporate income taxes are but one kind of tax paid by companies and their relative importance differs as between countries reflecting both different tax laws and the relative size and profitability of the corporate sector (see Table 1). In all countries, however, companies have to pay a number of taxes other than the corporate income tax. Payroll taxes, taxes on immovable property, taxes on financial transactions, various types of consumption taxes and special business activity taxes are frequently levied on corporations. In many countries, the overall tax burden of these other taxes will far outweigh the corporate income tax. Reference has already been made to employers' social security contributions, which are by themselves more important than corporate income taxes in at least 14 countries (see Table 1). Accordingly, a comparison only of corporate income tax burdens, which neglects other taxes paid by companies, is unlikely to give much useful information about relative incentives to invest or relative international competitiveness.

Apart from the relative size of corporate tax burdens and those of other business taxes there is also the question of entrepreneurs' perceptions of the final incidence of these taxes, i.e. how they are shifted, either through lower profits available for distribution or retention, lower wages or higher prices. These perceptions may be influenced by, among other things, the way in which the tax is collected—in the United States, about 50 percent of the tax due on, say, 1985 income is collected in 1985; whereas in France this percentage is 70 and in the United Kingdom 30.

D) Non-Tax Factors

Taxation is clearly only one and probably not the most important factor in determining competitiveness and the willingness and ability to invest. Other relevant factors are the exchange rate, the degrees of inflation, the cost of capital in relation to that of other productive inputs, the profitability of investments and the availability of finance. Some of these determinants are affected by the tax system, but they depend on other factors as well and their relative importance probably varies over the business cycle and between countries.

Should we conclude that international comparisons of corporate tax burdens involve more pitfalls than insights? The answer is probably no, provided we are prepared to be more modest in the questions that we ask and to accept that corporate taxes are only one factor that affects the international competitiveness of firms. €

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EUROPEAN COURT RULES ON SEX DISCRIMINATION CASE

MANY THINK THE COURT IS THE E.C.'S MOST DYNAMIC INSTITUTION.

RAYMOND HUGHES

A 68-year-old woman has forced the British government to change the system under which women have been compelled to retire from work at an earlier age than their male colleagues. Helen Marshall, a former senior dietician from Hampshire, achieved her notable goal in the battle for equal rights for women by defeating her government in the European Court of Justice in Luxembourg.

Marshall, who worked for a local health authority, objected when told she must retire at the age of 60—the customary retirement age for women in Britain. She was allowed to stay on for a further two years, but then forced to go. She resorted to the law and fought the case up through the British legal system to the Court of Appeals, which referred the case to the Luxembourg court for a ruling on the applicability of a European Community sex equality rule to Britain's retirement practice. The court decided that British public authorities that forced women employees to retire at 60, while allowing their male colleagues to work on until 65, were breaking the E.C. rule.

Marshall modestly disclaimed any right to be regarded as a giantkiller, though she acknowledged that there were many thousands of women in Britain who would benefit from her stand. Many had returned to work with a new vigor after bringing up a family and, at the age of 60, had years of work left in them, she said.

Within weeks of the European Court's ruling, the British Parliament was told that changes would be made in Britain's sex discrimination laws to conform with the judgment. The case was but the latest example of an E.C. member state having to subordinate a part of its sovereignty to the dictates of the Luxembourg court. The Court of Justice is the judicial arm of the E.C., its task being to ensure that the Treaty of Rome, which governs the E.C., is correctly interpreted and applied by the E.C. institutions and the governments of the 12 member states.

Its home is a glass and steel edifice on the stark Kirchberg Plateau, overlooking one of the deep ravines encircling the ancient fortified capital of the Grand Duchy of Luxembourg. It is part of the architecturally undistinguished clutch of buildings forming the "European Center," which also includes the seats of the secretariat of the European Parliament and offices for the E.C. Commission and the Council of Ministers—and the ubiquitous Holiday Inn.

Despite its 33-year existence, the court is still, to the chagrin of its staff, frequently confused with Europe's other court—the Human Rights Court at Strasbourg, which is, in fact, a totally different legal animal operating under the aegis of the 21-nation Council of Europe and has no connection with the Community. The Luxembourg court is a multilingual international court whose activities divide broadly into four categories:

It is a constitutional court ruling on disputes between E.C. member states and between those states and E.C. institutions such as the Commission. A large number of the cases concern alleged breaches by states of the treaty obligations; others are concerned with ensuring that secondary legislation of the E.C.—directives and regulations—conform with the Treaty of Rome. It is also an appeals court, dealing with complaints by private parties, corporate and individual, that their interests have been adversely affected by decisions of the Commission, mainly in the antitrust field.

The court also hands down authoritative interpretations of E.C. laws in matters referred to it by national courts seeking guidance on the applicability of European law to cases that they are trying. Finally, it is the Community's domestic administrative tribunal, resolving disputes over employment contracts between E.C. institutions and the European civil servants who staff them.

The European Court of Justice in Luxembourg acts as a constitutional court,

Given that it operates as part of an economic community, it is not surprising that the greater part of the court's activities are concerned with business law: with competition and abuses of dominant trading positions, with restrictive practices and the free circulation of goods and with patent and trademark matters. However, it is also active in the field of social law: It has upheld the free movement of

an appeals court and an administrative tribunal for the Community.

workers throughout the Community, the freedom to provide services, the rights of migrant workers and, as in Helen Marshall's case, the right of women to equal treatment.

The court has a bench of 13 judges: one from each of the member states, plus a thirteenth nominated in rotation by the Big Four—the United Kingdom, France, Italy and the Federal Republic of Germany—to keep the number uneven and avoid the risk of a "hung bench." Judges are appointed for six-year terms. They are eligible for reappointment and as a rule serve two or three terms, a practice that has given a degree of continuity and stability to both the court and the case law it has built up over the years.

While some of the judges have held judicial office in their own countries before coming to the European bench, that is not a prerequisite. They include also professors of law, lawyers in private practice and government legal advisors. All that is required of them is that they shall be "persons whose independence can be fully relied upon and who fulfill the conditions required for the exercise of the highest judicial office in their respective countries or are legal experts of universally recognized ability."

The dean of the current bench is the 81-year-old Giacinto Bosco of Italy. At the other end of the age spectrum is Gil Carlos Rodriguez Iglesias, the recently appointed Spanish judge, who, at 39, is the youngest man to sit on the court. The court's President is Lord Mackenzie Stuart, the British nominee, who was formerly a judge in the Scottish Court of Session.

A legal animal peculiar to the Luxembourg court is the Advocate General. His nearest equivalent in national legal systems is the Commissaire du Gouvernement at the French Council of State, who has been described as "the embodied conscience of the court," or, in his Luxembourg incarnation, "the spokesman of the law and justice." There are six Advocates General in Luxembourg, whose qualifications and terms of appointment are similar to those of the judges, with whom they have equal status. Their role is to provide the court with impartial and authoritative "opinions" on cases: weighing the arguments, putting a case in the context of previous rulings of the court, considering the relevant E.C. law and recommending a ruling.

The working language of the court—that in which the judges conduct their private deliberations—is French, but the official languages are those of all the member states (except Ireland). The language of a particular case is that of the state which is a party, but all documents have to be translated into all official languages. That, and the requirement that a record of all decisions must be kept in all languages, imposes a considerable burden on the court's translation staff—one of which they are currently particularly conscious as they translate all the decisions since 1953 into Spanish and Portuguese for the benefit of the Community's two new members.

Although not bound by these opinions, in the overwhelming majority of cases the judges reach the same conclusions as their Advocates General, though not necessarily by the same route. This, coupled with the fact that opinions tend to contain a fuller consideration of cases than do the ultimate judgments, means that the Advocates General can be very influential in the way in which E.C. law is developed.

Because of the treaty obligations imposed by membership in the Community, states are bound by the court's decisions, which must be applied by the national courts and, where applicable, as in Marshall's case, result in alterations to national laws. The court has no power to impose sanctions if governments do not conform, but it is safe in the knowledge that pressure could be brought on any recalcitrant state in the form of political or economic nudgings by its E.C. partners.

Last year, more than 430 cases went to the court, an increase of nearly 40 percent over 1984. Part of the reason for the upsurge can be laid at the door of the Commission, the most active European litigant. It has, over the years, initiated about 400 cases and been respondent in over 1,000 more. Another factor was almost certainly a growing willingness on the part of national courts to refer cases to Luxembourg. In the past, there has been a tendency in some of the member states and their courts to regard Luxembourg and all its works as an alien and unwelcome intrusion into national law and judicial authority.

That such an attitude is steadily changing is, perhaps, an indication of an erosion of insular prejudices and their replacement by a recognition that there might be something to be said, after all, for a supranational judicial authority. Or maybe it is just a matter of bowing to the inevitable. On his appointment as President in 1984, Lord Mackenzie Stuart said of the court: "We are a judicial institution seeking to do our judicial best, no doubt imperfectly, in a judicial way. For the most part, I believe, the system works well."

A less restrained, and characteristically idiosyncratic, view has been expressed by my colleague Dr. A.H. Hermann, the legal correspondent of the *Financial Times*: "The European Court is the most dynamic—some people think the only dynamic—institution of the European Community. . . . Luxembourg judges could give the Community the same lead which, in the early days of the United States, was provided by the Supreme Court." €

Raymond Hughes is the law courts correspondent of the *Financial Times*.

U.S., E.C. VIE FOR PACIFIC RIM MARKETS

BOTH, MEANWHILE, FACE CHALLENGES FROM AREA'S NEWLY INDUSTRIALIZED COUNTRIES.

JAMES DAVID SPELLMAN

The phenomenal growth of the Pacific Rim has suddenly paused, triggering the question whether its markets will continue offering trade and investment opportunities for the United States and the European Community. Will, as Arnold Toynbee forecast 30 years ago, the Pacific nations rise to great power in the 21st century, superseding the West as part of the inevitable ebb and flow of nations? Sluggish growth in the region could also multiply trade tensions as the Pacific export-led economies, to sustain expansion, more aggressively increase automobile, microelectronic and other exports to Western industrialized countries.

Sweeping through more than 60 million square miles across the Pacific Ocean, the Rim extends from Japan and South Korea through the South China Sea—surrounded by Taiwan, China, Hong Kong, the Philippines, Malaysia, Singapore, Thailand and Indonesia—and on to Australia and New Zealand. It covers an area twice as vast as Europe and America combined. More than half of the world's population resides there. By the year 2000, two-thirds will, while only six percent will be living in Europe. The region's share of global production has more than doubled over the past 15 years, from eight percent in 1960 to 17 percent today.

Industrial growth has outstripped the average achieved by Western industrialized countries during the past 25 years. From 1980 to 1985 alone, while the United States expanded roughly 3.5 percent annually, and while the E.C.'s performance was anemic, posting an average 2.5 percent gain each year, East Asia set a robust pace of 5.7 percent annually. But this is slower than in the 1960s and 1970s, when the Pacific Rim achieved an average growth of 7.5 percent per year. That still exceeded the experience then of members of the Organization of Economic Cooperation and Development (OECD), who averaged five percent.

Exports from the region are expected to reach $310 billion this year—a third more than their merchandise shipments abroad five years ago. Rim countries have shifted from primary commodity and traditional labor intensive exports to more sophisticated technology- and capital-intensive products. Imports have also risen, but more slowly, yet a trade deficit persists—about $167 billion in 1984, according to the International Monetary Fund (IMF). Except for Japan and Taiwan, the others outspend their export earnings on imports and servicing their debts.

The region's picture has other flaws. Some countries are locked into capital investments that are suddenly wasteful boondoggles because of rapid price shifts in commodities markets. Singapore's development of oil refineries is one example. Political problems exist. The Philippines, under a new President, is trying to strengthen public support while coping with the legacies of Ferdinand Marcos. Hostilities in Vietnam, Laos and what used to be Cambodia threaten to spill over and engulf neighboring countries. The eventual transfers of power wielded by Indonesian President Suharto since 1965 and by Singapore Prime Minister Lee Kwan Yew are two examples.

Japan dominates the region, accounting for about half of all Asian trade, with Taiwan, South Korea, Singapore and Hong Kong—called the East Asian Newly Industrialized Countries (NICs)—representing another third. For more than half the Rim countries, Japan is the key trading partner, buying at least 15 percent of their exports and supplying more than 17 percent of their imports. Japan's stature is best illustrated by showing that its gross national product (GNP) is 2.5 times greater than the region's second largest economy, Hong Kong, and constitutes one-tenth of the bloc's total GNP. Subtract Japan from the region and a less imposing Pacific Rim remains. The combined industrial production of China, South Korea, Taiwan, Singapore and Hong Kong is less than that of Spain and a quarter of that of France.

Japan's influence extends beyond its trade ties and economic scale. It has served as a model for industrial policies pursued by the East Asian NICs. Key industries are nurtured through import regulations, through restraints on domestic resource consumption and through capital subsidies, while being guided through development by government bureaucracies (gyōsei shidō, or administrative guidance in Japanese), not solely by the market's "invisible hand," to use Adam Smith's phrase. These strategies helped replace their dependence on exports of foodstuffs and raw materials with sales abroad of high-value manufactured exports.

Economic terms alone do not define the region's importance. Its proximity to the Soviet Union makes it a critical strategic location for Western allies. More than 200,000 U.S. military personnel are deployed in defense of the Pacific. Pacts with Tokyo ensure joint U.S.-Japanese protection of 1,000 miles of sea lanes, provide for Japan's protection under the U.S. nuclear umbrella and guarantee U.S. access to Japanese bases. Other defense pacts include: ANZUS, signed by Australia, New Zealand and the United States; the Manila Pact, linking the United States, Thailand and the Philippines; and lease agreements between Washington and Manila for U.S. base installations, including Subic Bay and Clark Air Field. Britain joined Singapore, Malaysia, New Zealand and Australia in signing the Five-Power Defense Agreement.

The sense of political, economic or social cohesion and community suggested by the convenient rubric "Pacific Rim," though, is false. Differences in government, heritage, culture, ambition and economic scale are many, as the contrasts between China, a socialist economy, and Japan, a hybrid economy of state intervention and free enterprise that ranks second in the world, vividly illustrate. Aside from a network of defense pacts and the Association of Southeast Asian Nations (ASEAN), a loose-knit organization formed in 1976 to promote economic, social and political cooperation, there are neither any institutions nor any initiatives

Continued on page 47.

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

U.S. AND E.C. TRADE WITH THE PACIFIC RIM

(millions of dollars)

EXPORTS	1980	1981	1982	1983	1984
U.S.					
To Rim	45,783	48,412	47,035	46,908	50,752
To E.C.	60,805	54,763	50,909	46,983	48,541
To World	220,786	233,739	212,276	200,538	217,890
% of Rim exports to total	20.7%	20.6%	22.2%	23.4%	23.3%
E.C.					
To Rim	25,748	25,674	26,287	26,271	27,751
To U.S.	37,000	40,882	41,371	44,359	54,881
To World	665,896	612,434	589,966	575,142	584,152
% of Rim	3.9%	4.2%	4.5%	4.6%	4.8%
IMPORTS					
U.S.					
From Rim	60,165	70,773	69,415	77,794	103,310
From E.C.	37,000	40,882	41,371	44,359	54,881
From World	256,984	273,352	254,884	269,878	341,179
% of Rim imports to total	23.4%	25.9%	27.2%	28.8%	30.3%
E.C.					
From Rim	43,304	39,944	38,438	39,225	41,416
From U.S.	60,805	54,763	50,909	46,983	48,541
From World	729,116	645,115	615,267	591,532	599,209
% of Rim imports to total	5.9%	6.2%	6.3%	6.6%	6.9%
One U.S.$ = European Currency Units (ECUs)	**.718221**	**.895696**	**1.020710**	**1.12318**	**1.26737**

The Pacific Rim is defined as Japan, S. Korea, China, Taiwan, Phillippines, Malaysia, Singapore, Hong Kong, Thailand, Indonesia, Australia, and New Zealand.

SOURCES: EUROSTAT, U.S. Department of Commerce and International Monetary Fund

ECONOMIC GROWTH IN THE PACIFIC RIM

(Percentage growth of Gross Domestic Product per year)

	1960-70	1970-82	1983	1984
China	5.2	5.6	9.0	12.0
Hong Kong	10.0	9.9	5.1	9.6
Indonesia	3.9	7.7	5.0	4.4
Japan	10.4	4.6	3.4	5.8
Malaysia	6.5	7.7	3.2	7.3
Philippines	5.1	6.0	1.4	-5.5
Singapore	8.8	8.5	7.9	8.2
S. Korea	8.6	8.6	9.5	7.6
Taiwan	9.2	8.0	7.3	10.6
Thailand	8.4	7.1	5.8	6.0
Australia	5.6	3.1	−1.2	5.7
New Zealand	3.6	1.8	−0.2	2.5
U.S.	4.3	2.7	3.7	6.9
OECD	5.1	3.8	2.6	4.5

Source: *The Banker*, July 1985

CHART ILLUSTRATIONS BY DALE GLASGOW

E.C.-COMECON: A MOVE AT LAST?

RECENT DEVELOPMENTS INDICATE AN EASING OF TENSIONS

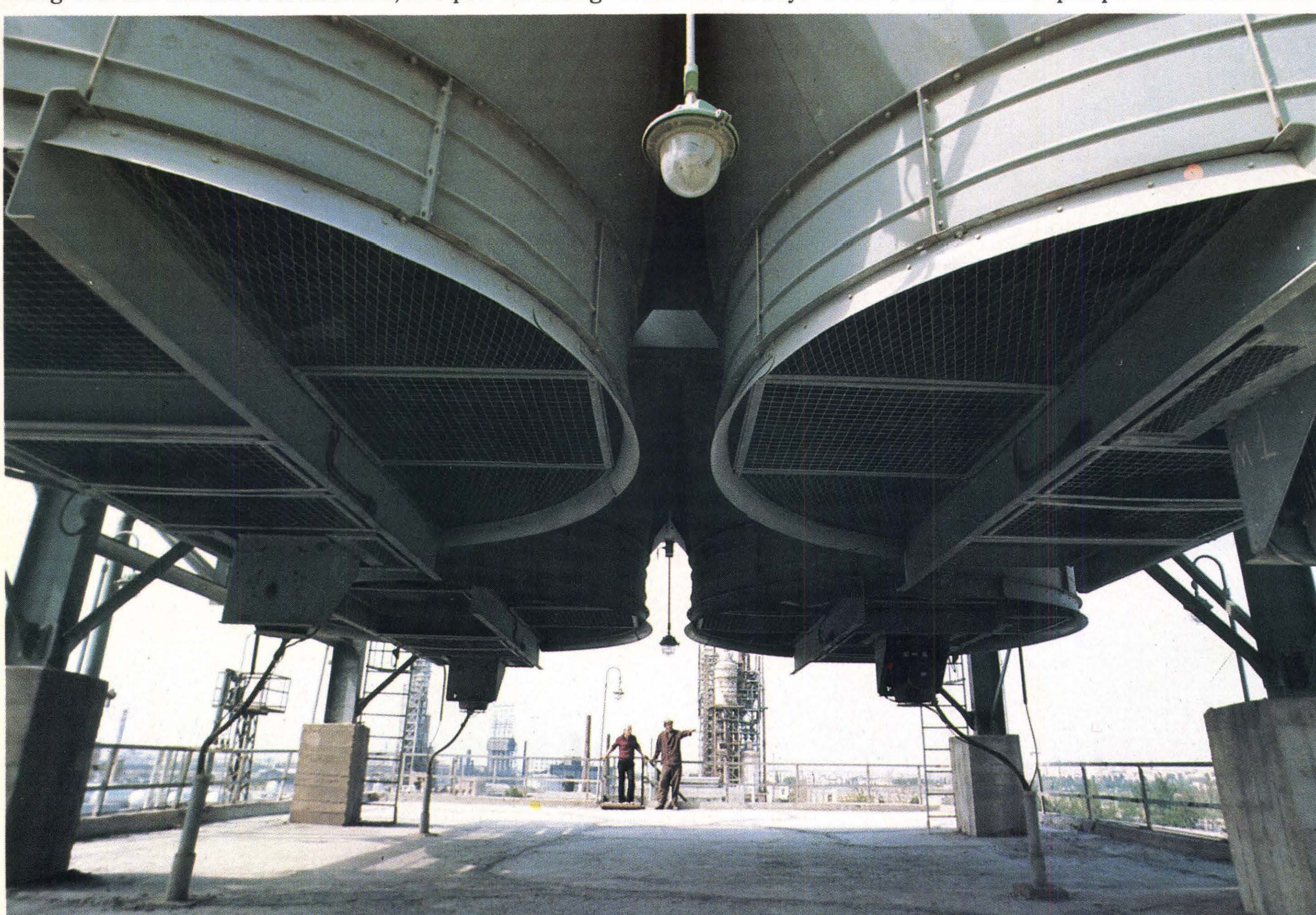
H. PETER DREYER

A thaw appears to be under way in the hitherto frigid relationship between the European Community and Comecon, which groups together the Soviet Union, six East European Communist countries and Cuba, Vietnam and Mongolia. Undoubtedly, recent developments reflect a certain easing of the tensions between West and East. After a pause of five years, the two trading blocs have once again started communicating with one another. Furthermore, it looks as though there may have been a policy shift in Moscow bringing the Comecon's negotiating position closer to the one which the E.C. defended for several years of intense negotiations between 1976 and 1980.

It was in the autumn of 1974 that the first contacts between the two organizations took place. Subject to frequent and lengthy interruptions as it has been, the delicate minuet the two sides have performed since then has remained without conclusive results until now. The principal stumbling block has always been Comecon's objective of a framework agreement to provide for the joint supervision of bilateral trade relations between the E.C. and individual Comecon states. The E.C. has consistently rejected this, pointing out that Comecon possesses neither a common commercial policy nor common commercial instruments. The E.C., on the other hand, has both.

Since 1973, it is the E.C. itself and not individual member states which negotiates trade agreements with third countries. The E.C. has actually offered to conclude such agreements with the individual Comecon states, but they refused to enter into negotiations since they do not recognize the E.C. juridically.

It has always been the E.C. Commission's attitude that it would like to deal directly with Comecon member countries, rather than using the Comecon itself as an intermediary. One reason was that this would mean establishing Comecon (and hence Soviet) control over E.C. relations with the individual countries—some of which made it pretty clear, informally, that they did not welcome such a prospect. Another reason



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The bulk of E.C. imports from Comecon consists of fuels, including nearly $17 billion worth of oil and oil products from the Soviet Union in 1984. Above, a petrochemical complex at Azerbaidzhan.

was the difference in structure and in function between the two organizations.

As things have developed, Romania, anxious as it frequently is to parade its "independence" within the Soviet sphere, has in fact concluded a trade accord with the Community. On top of that, there have been ad hoc E.C. steel and textile agreements with Romania, Bulgaria, Czechoslovakia, Hungary and Poland. Essentially, though, this has not affected the overall diplomatic nonrecognition status between those countries and the Community.

Should a change now be in the making—and, more likely than not, this would be a slow rather than a rapid process—it would hardly lead to a quick and substantial expansion of trade currently moving in either direction. Are we really on the threshold of such a change? Without indulging in unwarranted optimism, it can be said that the portents at this point are more promising than they have been until now. Leaving aside some earlier "signals," important recent events are:

• In discussions with Italian Prime Minister Bettino Craxi, the then E.C. Council President, on May 30, 1985, Soviet Communist Party Secretary General Mikhail Gorbachev noted that the time had come to organize economic relations between the E.C. and Comecon.

• Two weeks later, the E.C. Commission received a letter from Comecon Secretary General Viatcheslav Sytchov in which he proposed the establishment of relations between Comecon and the E.C. and the signing of a joint E.C.-Comecon declaration.

• Replying to this letter in late July, the Commission declared its readiness to resume the dialogue, but stressed its opinion that any framework agreement set up for E.C.-Comecon relations should not interfere with existing or future bilateral relations between the E.C. and Comecon member countries.

• In his response at the end of September, Sytchov conceded that the signing of such a declaration and developing cooperation between the two organizations might create more favorable premises for bringing about direct relations between the E.C. and individual Comecon members, including the signing of suitable agreements between the E.C. and interested Comecon countries.

• After pondering its answer for four months, the Commission notified the Comecon in late January that it was prepared to work toward the establishment of official relations, and to examine the idea of a joint declaration. At the same time, it took the view that it would not be logical to establish official relations between the two organizations when no such relations existed between the E.C. and Comecon member countries. Therefore, the Commission said, it was contacting Comecon member governments to get their views on the normalization of their relations with the Community. In letters to the Foreign Ministers of Comecon countries, sent simultaneously with the reply to Comecon itself, the Commission stressed the E.C.'s interest in an overall improvement of East-West relations in Europe, and it asked each government about normalizing bilateral relations with the Community. In the E.C.'s eyes, normalizing starts with accrediting a mission to the E.C., as most countries in the world have done. So far no Comecon country, not even Romania, has a mission accredited to the E.C.

Taken together, these events indicate that the years-old stalemate might be opening up, although this is not to say that the actual negotiations, if and when they get going, will not be drawn out and very difficult. There are many reasons for this. The most important is presumably that Moscow may well have a political and economic stake in "coming to terms" with the E.C. and may be willing to pay a certain price for this. Yet if the Soviet Union now seems ready to let the E.C. deal directly and bilaterally with the other Comecon members, it will certainly remain deeply suspicious of all such dealings and may indeed try to limit them as far as possible.

It should not be imagined in any event that efforts to normalize the E.C.-Comecon relationship represent an entirely one-sided affair. The E.C. also has a distinct interest in normalizing its relations with the East European countries. For one thing, this should put an end to the difficulties which these countries have made over the E.C. as such taking part in international agreements and conventions. At the same time it should provide a framework within which the E.C.'s trade and economic problems with these countries can be discussed and, one hopes, settled.

Whether this would also do much to expand trade is very doubtful, as already noted in passing. True, the overall "climate" might improve somewhat, but East-West trade is determined primarily by other factors, and these show no sign of being modified. On the contrary, it is quite possible right now to outline a scenario where the situation might become more difficult instead of relaxed.

Until now, the actual trade volume has remained relatively modest year after year. Neither E.C. exports to, nor imports from, East European Comecon members (all figures exclusive of trading between the Federal Republic of Germany and the German Democratic Republic) have ever risen to as high as 10 percent of E.C. commerce with the outside world. In 1984, for instance, E.C. imports from Comecon were 9.2 percent of total purchases outside, and exports to Comecon accounted for 6.1 percent of overall shipments to third countries. It could be argued, of course, that the latter figure was rather more than the E.C. managed to sell in Japan, but it is hardly a valid comparison. Eastern Europe after all constitutes a "neighboring" market and far more people live there than in Japan.

The salient and constant feature of E.C. trade with Eastern Europe for many years has been that the Comecon countries sold far more to the E.C. than they bought there. In 1984, when E.C. purchases amounted 34.9 billion European Currency Units (ECU) and sales were 21.3 billion ECU, this trade deficit set a new record of 13.6 billion ECU. Last year, it was somewhat smaller (it worked out at 8.5 billion ECU in the first 10 months of 1985), but still massive and indeed bigger than in any year other than 1984. These perennial trade shortfalls are easy to explain. While East Europeans have a healthy appetite for goods from the West, they are always confronted with severe hard currency shortages and they have had to impose strict limitations on their imports from the West.

Not only is there no sign of this state of affairs getting any better. At this point, it looks as if it might turn materially worse. This is because the bulk of what the E.C. buys in Eastern Europe consists of fuels. In 1984, such purchases added up to roughly 20 billion ECU (including oil and oil products worth 17.2 billion ECU from the Soviet Union), or 57 percent of the total import bill. If sustained, the recent decline of oil prices on the one hand, and that of the dollar exchange rate on the other, will mean that the net proceeds of those Comecon fuel sales will be sharply lower. There might also be a secondary impact on what Poland would obtain for its coal shipments to the E.C. (800 million ECU in 1984).

Such a turn of events could force the Comecon nations to curb their imports from the E.C. even more. Hence, whatever the political and—conceivably—long-range commercial benefits of normal E.C.-Comecon relations may be, it would clearly be a mistake now to look for short-run commercial gains. €

H. Peter Dreyer reports from Brussels for *The Journal of Commerce.*

GREECE

THERE IS REASON FOR OPTIMISM ON THE GREEK ECONOMY.

VICTOR WALKER

Suddenly, there is a first faint whisper of optimism in Athens over the course of the Greek economy. But only in the sense that, just possibly, the bottom may have been reached and the corner turned. The Government itself talks only of stabilization, not of recovery, and, for the moment, all that can be hoped is that the gap between Greece and its partners in the European Community will cease to widen.

Last summer, immediately after winning a second four-year term in general elections, the Socialist Government of Premier Andreas Papandreou was forced by the figures to concede that the economy had to be brought back under control. It had become clear that the current-account deficit would be at least $1 billion higher than had been forecast at the beginning of the year. This was largely because of the effect on production costs of the wage indexation introduced three years earlier, which was pricing Greek products out of the export markets and encouraging their substitution on the domestic market by mainly E.C. exports.

The most urgent need—faced with a package of austerity measures adopted in October, and subsequent tax increases in the 1986 budget—was to deter luxury consumption in general and the purchase of imported goods in particular. The package, agreed with the E.C., comprised a 15-percent devaluation, an effective dismantling of indexation and a compulsory deposits scheme as an import deterrent. Compression of domestic deficits, along with indexation—the other principal source of an inflation rate that the Government had proved unable to bring below 18 percent—was left to the budget. As a corollary to the package, the Government secured a loan of 17.54 billion European Currency Units (ECU) through the E.C., half to be paid this year and the rest in 1987, subject to ascertainment in September that stabilization is in sight.

For the Government, the route chosen involved a political choice and a political cost. The forced admission that public sector investments alone could not bring recovery, let alone the "self-sustained economic development" that had been the cornerstone of the Government's five-year plan, required a move in the direction of more market-oriented policies at home, closer cooperation with the E.C. and improved relations with the United States.

The political cost so far has taken the form of an open breach between the ruling Panhellenic Socialist Movement (PASOK) and the Greek Communist Party (KKE), with suggestions of a drift of grassroots support toward the latter. A split in the trade-union movement, which until October had been largely under PASOK control, has led to strikes in the public and private sectors. A more tangible bill is likely to be presented in the municipal and community elections scheduled for October.

The sense of optimism arises out of the latest Bank of Greece trade and payments figures; the highly beneficial results for Greece of declines in oil prices, the dollar and international interest rates; and the implicit message of the official visit to Greece in March of U.S. Secretary of State George Shultz.

The statistics show January exports up marginally, despite a 60-percent drop in the petroleum product component; non-oil exports rose a solid 27 percent. Even though non-oil imports rose six percent over the previous January, the total imports bill fell 7.3 percent because of a 30-percent slash in oil prices. The National Economy Ministry says the import deterrents are beginning to bear fruit and will do so more substantially over the coming months. On the basis of prices at the end of March, the ministry is forecasting a cut of at least $500 million in this year's oil deficit (imports less petroleum product exports) from the 1985 figures of $2.34 billion. Ministry officials observe also that each one-percent fall in international interest rates represents a saving of $80 million in debt servicing costs, while the falling dollar helps ease inflationary pressures.

A tentative prediction, with which the private sector by and large is prepared to go along, is of a 1986 current-account deficit somewhere between $2 billion and $2.4 billion, against last year's $3.28 billion. A deficit in this area should be more or less covered by autonomous foreign exchange inflows around the same $800-million level as in 1985, another $800 million as this year's installment of the E.C. loan, $450 million expected in European Investment Bank loans and a $60-million loan already raised by the Bank of Greece in London.

In these circumstances, no difficulties are anticipated in raising the $1 billion or so that will be needed for debt service. On the contrary, it is believed the Bank of Greece may take the opportunity to build up reserves through additional borrowing in preparation for the debt servicing "bulge" next year and in 1988. However, while the immediate government nightmare of a rescheduling request may have faded, the balance of payments remains a basic restraint on growth, especially in view of the degree of dependence on three sources of invisibles for which prospects are anything but encouraging—tourism, shipping and emigrant remittances.

Domestically, gross domestic product (GDP) is expected at best to remain stagnant and could decline. Inflation, which jumped from 18 percent to 25 percent between October and December in the aftermath of the austerity measures, is thought unlikely to be running much below 20 percent by the end of the year. And all predictions concur that unemployment will worsen. Additionally, the Government is still in deep trouble over public sector deficits, which the worst of the forecasts on offer, that of the conservative New Democracy opposition party, puts at 1,150 billion drachmas this year ($7.5 billion at early April parities).

The budget sets two targets: to increase revenues by 31.8 percent over 1985, through rises of 53.4 percent in the yield of direct taxes and 23.7 percent in that of indirect taxes, and to reduce the total public-sector deficit from 18 percent to 14 percent of GDP. The revenue in-

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crease is to derive from some tax increases, non-adjustment of coefficients to take account of fiscal drag and an assault on tax evasion.

Even if the revenue targets prove attainable at a time of stagnant production and declining real incomes, cutting the public sector deficit by four percentage points of GDP will still depend on curbs in government spending that so far are not apparent. One nettle that the Government has proved reluctant to grasp, for the obvious reason of unemployment, is the closing of possibly as many as a dozen hopelessly non-viable major industries among the 40 or so that were nationalized over the past three years to avert their collapse in bankruptcy and are now kept going with state funds.

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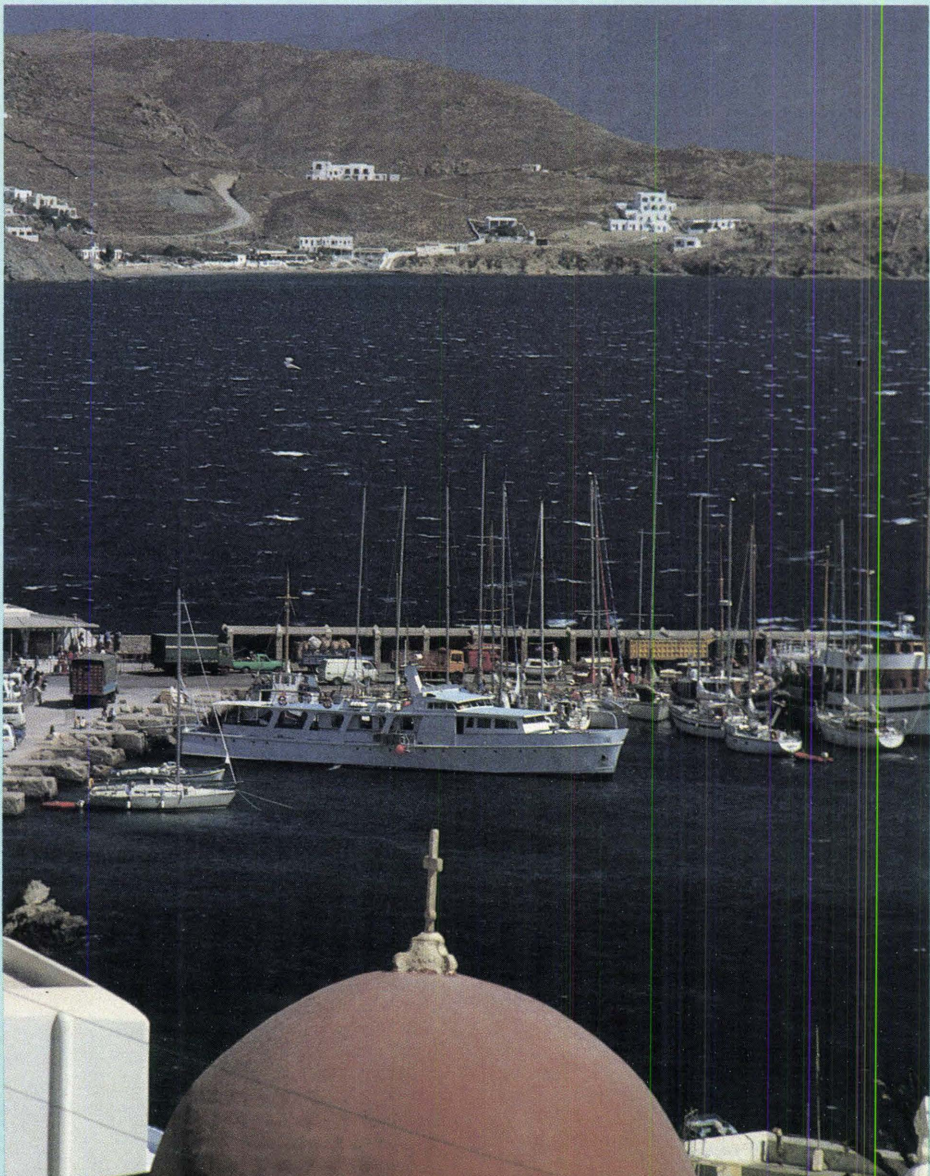

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A sense of optimism arises out of the latest Bank of Greece figures on trade and the balance of payments and out of the highly beneficial results for Greece of declines in oil prices, the dollar and interest rates. Top, Delphi; above, Mykonos; right, honor guard in Athens.

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Owners of viable, but nevertheless struggling, industries—observing that the money ploughed into the "ailing" enterprises could be better used to finance new investment—will not be convinced that the Government has really changed its policies toward the private sector until it opts for more orthodox and less costly forms of unemployment relief. Unless closings are decided upon, the loss-makers could cost the state about $1 billion this year.

At the same time, another predictable effect of austerity is now beginning to emerge: indications of a decline in the savings rate. This creates a question over the extent to which it will be possible to cover deficits this year in a normal way, through the banking system. The alternative lies between issuing government bonds, for which demand was insignificant even when the economy was overheated, and resorting to the printing presses.

The whiff of optimism, defined by the president of the Federation of Greek Industries, Theodore Papalexopoulos, as replacement of "the feeling of helplessness by some degree of hope," stems rather from a change in the direction of the wind than from specific government actions, though there has been some relaxation of price controls and a start on the liberalization of the banking system.

In a major speech at the end of March, Papalexopoulos said that, under the pressure of the crisis, a new pattern of views and attitudes had started to emerge. This was an encouraging sign, "for it reveals that individuals and groups, both social and political, now realize that they must give up their illusions and face the reality that Greece has lost ground to world competition and that wealth cannot be distributed before it is earned." Pointing to "a dawning convergence" on the need to curb the role of the state, integrate the economy into the E.C. and give priority to productivity, competitiveness and an outward-looking economy, the Federation president said this amounted to "a rapprochement that has contributed to a certain improvement in the business climate."

Subsequently, additional encouragement was provided by the obvious success of the Shultz visit. Shultz may not have obtained a Government commitment to renew the Defense and Economic Cooperation Agreement (DECA) between Greece and the United States when it expires in 1988, so permitting the four U.S. military bases to stay in Greece, but he certainly went away with the impression that the Government's avowed intention to close them is anything but irrevocable.

Since Washington had earlier made it clear that the future of the bases lay at the heart of the relationship, if anticipated investment packages do materialize over the next few months—his Greek hosts will be highly surprised if U.S. Assistant Secretary of Commerce Harold P. Goldfield does not bring some with him on his scheduled visit to Athens in May—it can fairly be concluded that at least an understanding has been reached on the bases. Already, an embittered Communist Party has no doubt the bases will stay.

The Greeks have learned over the past few years that significant investment from Western Europe does not depend on E.C. membership or on grant and aid incentives—which have been provided with a generous hand—but on the busi-

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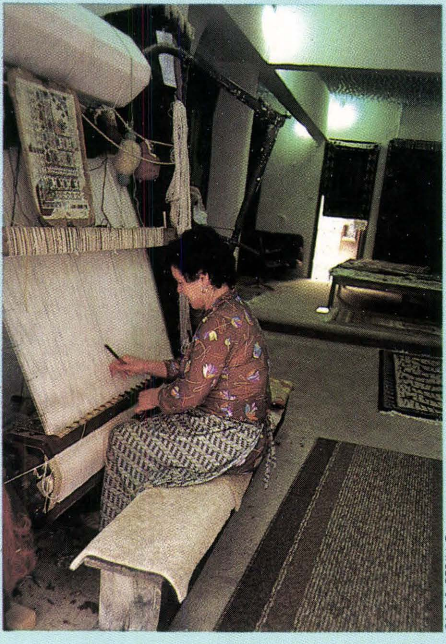
The realization that public-sector investment alone could not bring recovery forced a move toward more market oriented policies at home, closer cooperation with the E.C. and improved relations with the United States.



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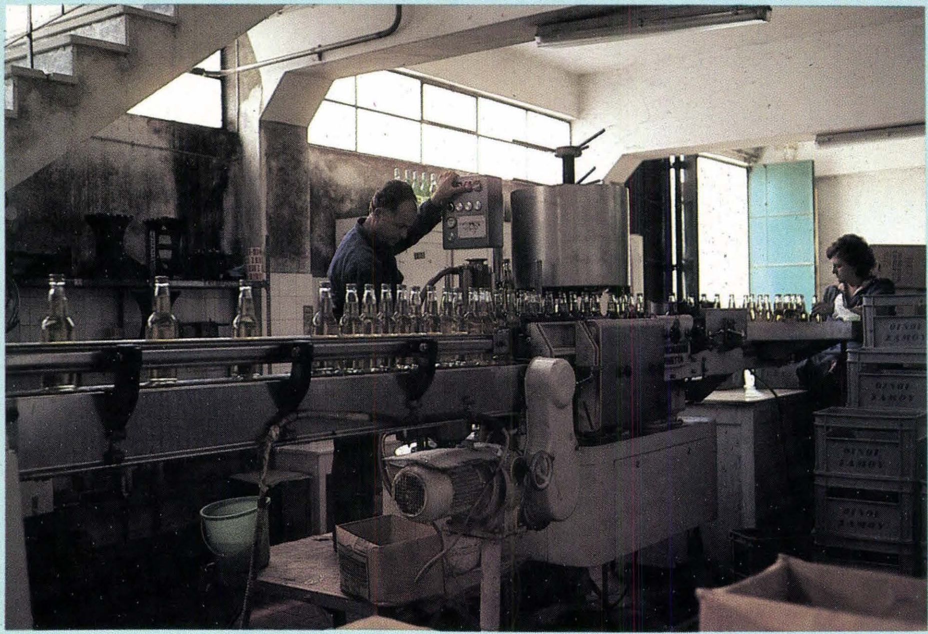

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Greece has learned over the past few years that significant investment from Western Europe does not depend on E.C. membership, or on grant and aid incentives, but on the business climate. Top, sailing through the Corinth Canal; bottom, a winery on the island of Samos.

ness climate, and that this depends in turn both on domestic policies and the U.S. relationship. Businessmen will be looking next for a bolder dismantling of the price-control mechanism and greater stability and realism in the taxation system. Only then, they say, will the forward planning that is an essential condition for investment become possible.

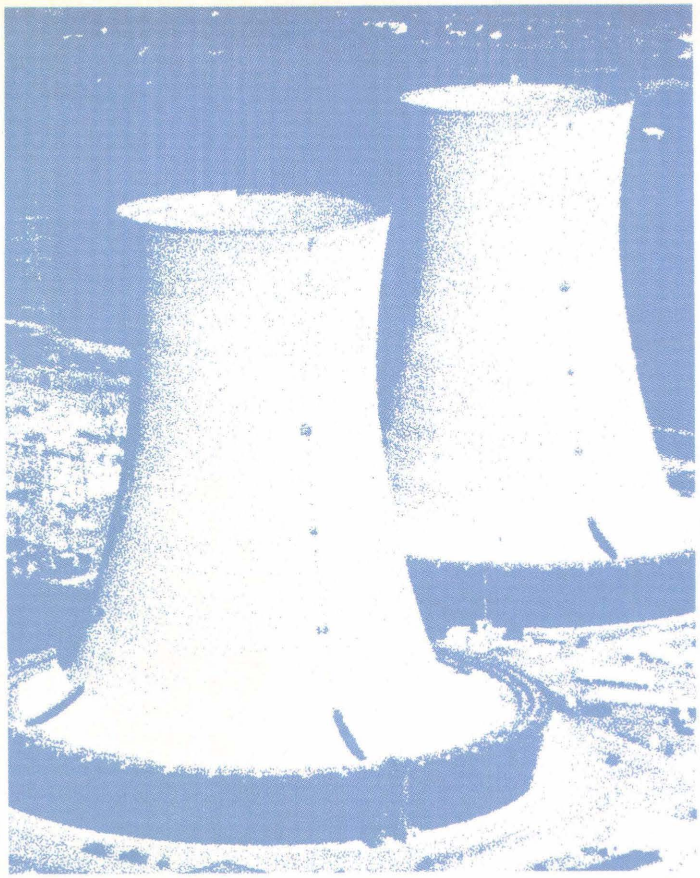
If U.S. and Greek-American investment is to be attracted to Greece, particularly in the high-technology sector that the Government is most eager to promote, there will eventually have to be an equalization of conditions with those applying to E.C. firms in such areas as export of profits and dividends and repatriation of capital. The National Economic Ministry is said to be aware of this, and it presumably will take appropriate action when its back reaches the wall.

Until last summer, the architect of the Socialist Government's economic policy during the first four years in power had been Gherassimos Arsenis, a U.S.-trained economist with pronounced left-wing views. He was expelled from the ruling party this year for publicly assailing the Government's new directions.

He charged the Government with having adopted previously rejected "conservative economic models" at the behest of the E.C., the Organization for Economic Cooperation and Development (OECD), the International Monetary Fund and "certain banking circles." In doing so, he said, it had turned its back on development and embarked on a course that would lead to dependence on tourism and agricultural industries, two sectors that could never provide the 700,000 new jobs needed simply to avoid an increase in unemployment. If Arsenis believes that the Government has turned to the right, then it probably has. But in the view of industry and commerce, the course it has adopted—no matter how tentatively as yet—is the only one that can eventually convert stabilization into a resumption of growth.

After the October municipal elections, assuming Papandreou can hold his party together, he will have almost three years before he is constitutionally required to call a new general election. If, by the summer of 1989, investment has flowed in, jobs have been created, the economy is back on the upward course and austerity is only a painful memory, he can reasonably expect that not very many voters will remember earlier promises of a "Socialist transformation" of Greek society, a closing of the "bases of death" and, even earlier, a pull-out from NATO and a referendum on whether to remain in the Community. €

NEWS OF THE E.C.



Under the 1957 treaty establishing Euratom, the E.C. Commission is responsible for the protection of both workers and the general public from nuclear radiation.

EUROPEAN PARLIAMENT CALLS FOR REACTOR SHUTDOWN

The European Parliament has added its voice to a growing protest against the dumping of radioactive wastes at sea, calling recently for the closure of the nuclear reprocessing plant at Sellafield, in northwest England.

The Sellafield plant has been the scene of four incidents this year alone, including the discharge of about half a ton of uranium nitrate into the Irish Sea on January 24, and the release of a radioactive mist containing plutonium into the atmosphere on February 5. These incidents, together with the revelation that the amount of radiation released into the atmosphere during the 1950s was 50 times greater than that previously admitted, have triggered a wide public protest and heated debate within the European Parliament.

Concern over the incidents has been heightened by the lack of information from British Nuclear Fuels Ltd (BNFL), which owns the Sellafield plant; Sellafield reprocesses spent fuel rods from nuclear power stations, and provides the resulting plutonium for Britain's nuclear armament program. Much of what goes on at the plant is thus protected under Britain's Official Secrets Act.

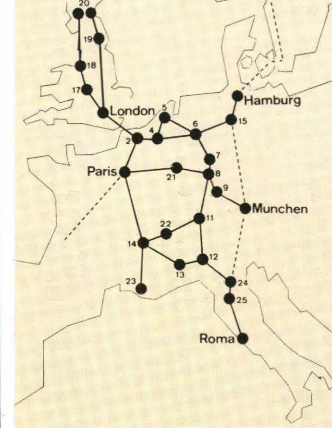
The Parliament adopted four resolutions, which expressed "outrage" at BNFL's attempts to play down the February 5 incident, called for a halt in the plans for a reprocessing center at Dounreay, and called on the British Government to ensure that the "fullest possible information" is provided on radioactive emissions from Sellafield and other British nuclear plants.

Under the 1957 treaty that established the European Atomic Energy Community (Euratom), the Commission is responsible for the protection of both workers and the general public from nuclear radiation. After an incident in 1983, when a large quantity of radioactive liquids and solids were accidentally released into the Irish Sea, forcing a six-month closure of beaches along a 20-mile stretch of coastline, the Commission set up a scientific committee to investigate. It has since reported its findings, and the Commission is now preparing a communication to the E.C.'s Council of Ministers.

Members of the European Parliament stressed their concern in a highly charged debate before adopting the resolutions. "The continuing mismanagement and incompetence and the nature of the accidents show that none of the lessons of the past have been learned," said one Member of the Parliament. "BNFL has refused to provide information on essential technical features. Staff members have been gagged by the Official Secrets Act, leading to a massive cover-up. There have been fires and numerous accidents involving oxide fuel, corroded containers, radioactive leaks and dumping into the Irish Sea. Numerous inexplicable incidents of leukemia, cancer and Down's syndrome have been linked to the fall-out and leaks."

The E.C. Commissioner responsible for the environment, Stanley Clinton Davis, told the European Parliament debate that his aim was "a Community policy for radiation protection which seeks to eliminate all discharges as soon as technically possible—a policy which, if it errs, errs on the side of safety. I want to restore confidence in people and this can only be done by giving them the facts. Openness is the best shield against suspicion and criticism."

Below, a high-speed European railway network proposed in a recent Round Table of European Industrialists report, "Missing Links."



COMMISSION, ROUND TABLE DISCUSS EUROPEAN ECONOMY

Members of the E.C. Commission and of the Round Table of European Industrialists gathered in early April for their second annual meeting to discuss the implementation of major European infrastructure projects and the problem of unemployment, which is still at high levels throughout the Community.

The ongoing dialogue on economic issues between industrialists and the Commission is extremely important, said Commission President Jacques Delors after the conference. "We won't miss any opportunity to meet with heads of European industry, especially those in the Round Table who are calling for a more dynamic, prosperous, and in some ways less complicated Europe," he added.

The Commission has been trying to develop ways to promote important European infrastructure projects, such as the link across the English Channel recently agreed to by France and the United Kingdom, which it believes can help unify the internal market, enhance technological progress, improve industrial competitivity and integrate Europe's peripheral regions. The Round Table has has shared a similar interest and last year launched a study of the issue entitled "Missing Links."

The report affirms the importance of major infrastructure projects in tying Europe more closely together, and addresses some of the difficulties of realizing such projects—primarily hesitancy on the part of public authorities to commit themselves to the financing required. The report recommends that new financial instruments be developed. Bonds issued by the promoters of the projects should be allowed to move more freely (and in some cases given specific fiscal advantages on the model of American "tax-exempt bonds"), and new funds should be made available to the Commission to attract starting finance, according to the report.

The president of the Round Table, Pehr Gustaf Gyllenhammar, pointed to three conditions that appeared to be essential to building more transnational infrastructure: a recognition by the Commission of the importance to Europe of the projects, in the form of a "declaration of European interest"; the establishment of a "task force" to promote the projects; and specific methods for financing projects with funds available on the market. Delors noted that the E.C. had already made a number of efforts toward financing large projects through the European Investment Bank and the European Regional Development Fund.

On the problems of unemployment and the creation of new jobs, Gyllenhammar noted that the number of unemployed in the Community and the European Free Trade Association had reached 18 million—the population of a moderately large country. While industry has a central role to play in fighting the problem, Gyllenhammar noted that only about 40 percent of job-seekers had proper qualifications for the many jobs available in Europe. Delors noted that a number of new E.C. educational programs, such as COMETT, ERASMUS and YES, were designed to address this and similar problems.

Both the Commission and the Round Table expressed satisfaction with the conference. "During the whole of this meeting with the Round Table—which is to say with European decision-makers who expect the Commission to take initiatives for heightening the competitiveness of the European economy—I never perceived the slightest bit of Euro-pessimism," Delors told a press conference after the meeting.

COMPETITION: COMMISSION POSITION ON FRANCHISING AGREEMENTS

Franchise agreements, still something of a novelty in the European Community, have quickly assumed a major importance in the distribution systems of the member states to the point where they now account for up to 10 percent of retail sales, the E.C. Comissioner for Competition, Peter Sutherland, said recently.

Explaining that, over the past year, the Commission has been developing its policy regarding franchises in the context of group exemptions to E.C. competition rules under Article 85 of the E.C. Treaty, Commissioner Sutherland said that the Commission "takes a positive attitude toward franchising agreements. These agreements can stimulate economic activity throughout the Community, particularly by small and medium-sized enterprises."

"Franchising," Sutherland said, "allows small retail outlets to compete with large distribution firms. They give the franchiser the possibility of establishing a uniform distribution network without the need to invest in setting up its own retail outlets. This may assist the entry of new competitors onto the market and thus increase inter-brand competition."

As an indicator to the shape of a future block exemption, Sutherland pointed out that franchising agreements can hinder competition if they include restrictions which are normally prohibited, such as retail price maintainence or export prohibitions. "One of my objectives," he said, "is to increase and clarify the transparency of competition policy and to provide more legal certainty. Many franchising agreements clearly do not fall under Article 85 owing to the lack of an appreciable effect either on competition or on inter-state trade. The policy therefore to be developed by the Commission is designed to avoid a flood of unnecessary notifications. However, may well-known international franchise networks could be in conflict with Article 85 at least to some extent."

E.C. FACES BUDGET SHORTFALL

Faced with a serious budgetary crunch this year, the E.C. Commission has recently drawn up both a supplementary 1986 budget and a longer term outlook for spending through 1990. About 3 billion extra ECU are required to meet the Community's 1986 expenses, and as much as 12 billion ECU may be needed over the next few years to meet spending commitments made in earlier years. The current budgetary squeeze has resulted from three main elements: the problems of the structural funds, the problems of rebate payments, and the problems of agriculture.

The most important of these is the increased cost of farm spending, which takes up about two-thirds of the Community budget. Costs continue to rise, due in part to the effect the falling dollar is having on export subsidies for farm products, and in part because of the need to reduce accumulating surpluses of butter, beef, wine and other goods. The Commission has proposed a number of reforms to bring farm policy more in line with free market conditions (including a freeze on farm prices, a milk production quota scheme and a co-responsibility levy on cereals production), but E.C. Agriculture Ministers appear unlikely to accept the Commission's proposals as they now stand. The problem of the falling dollar, of course, is outside of the Community's control.

The second problem is the 700 million ECU needed to pay for what has become known as "the burden of the past"—the backlog of unpaid commitments on Social and Regional Fund projects initiated in previous budgets. The backlog arose due to a procedure whereby a long-term project can be written into the budget, with only 50 percent of its funding required as a "down-payment" and subsequent payments to be made in years ahead. Spending commitments have accumulated, and the problem has been compounded by slower than expected implementation of the projects contracted and by the lack of payment appropriations granted by the budgetary authority. The Commission is now behind in meeting payments for past projects, and also needs funds for new programs.

The third element is the 400 million ECU needed to pay Britain its budget rebate, part of which is owed because Britain's receipts from the E.C. in 1985 were less than expected. Another 200 million ECU are needed to compensate Spain and Portugal.

The Commission is proposing a supplementary budget, to be covered under current E.C. resources, that will cover the necessary expenses and allow a 1987 budget to be established within the current resource limit. (The Community derives its own resources from its 1.4 percent share of member states' value-added tax.) The Commission will also be proposing an increase in own resources from 1988, so there could be a reasonable growth in the budget until 1990 that would allow the E.C. to face its priority needs, notably in structural funds and research.

The Commissioner in charge of the budget, Henning Christophersen, also has drawn up a four-year budget program that is designed to give a medium-term perspective to budget planning. The period from 1987 to 1990 will see a six percent rate of increase in resources, as well as the gradually increasing participation of Spain and Portugal in Community policies and the reshaping of the budget. The main spending features over the period will include:

- Gradual realization of the Commission's plans for the future of agriculture;
- A substantial increase in research funds;
- A "cautious" increase in terms of commitments subject to the gradual stabilization of the "weight of the past";
- A reduction in automatic repayments to Spain and Portugal;
- A provision for new policies and actions.

EUROPEAN LANGUAGES: A MODERN BABEL?

Communication among Europeans can often be complicated, owing to the nine official languages now used in the E.C. But a recent study conducted for the E.C. Commission has revealed that there are some 17 additional languages in use in the E.C. (not including Spain, Portugal or Greece), and that the mother tongue of about 17 million Europeans is different from their country's mother tongue.

The study shows that over 1.5 million of the Community's citizens speak old Provençal, in areas from southern France to the Italian Piedmont. Catalan, another Latin language, is spoken outside Spain by some 200,000 people living in the extreme south of France and by another 20,000 in Sardinia.

Over 600,000 people speak Friulian and another 30,000 its close relation, Ladin, two languages of northeast Italy which are close to the language spoken in the Swiss canton of Grisons. Some 160,000 people speak Corsican and nearly as many Sardinian, two other minority languages.

Nearly two million Europeans speak the language of the Celts, the first inhabitants of the Continent. Among them are 800,000 Irish, 550,000 Bretons, half a million Welsh and nearly 80,000 Scots. Several dialects of Frisian, the Germanic tongue most closely related to English, are spoken by 400,000 people in the Dutch province of Friesland and by 9,000 in northern Germany.

In the extreme north of France, Flemish is the mother tongue of 100,000 Frenchmen, while in the southwest part of the country another 80,000 speak Basque. Almost as many Italians speak Albanian.

In addition to the nine official languages now in use in the E.C., a Commission study shows that there are an additional 17 languages spoken in the Community and that the mother tongue of some 17 million Europeans is different from their country's mother tongue.

The most widely used "minority" language, the study reported, is German, which is spoken by 1.2 million Frenchmen, 280,000 Italians, nearly 100,000 Belgians and some 20,000 Danes.

ECONOMY: PROSPECTS IMPROVING?

Prospects for economic growth in the E.C. have become brighter in recent months, according to the E.C. Commission, due to the fall in the strength of the dollar and the drop in oil prices. In its economic forecast for 1986, the Commission expects inflation to drop this year to four percent (from 1985's six percent), and growth to pick up to 2.8 percent from last year's 2.2 percent. Unemployment is expected to fall slightly this year.

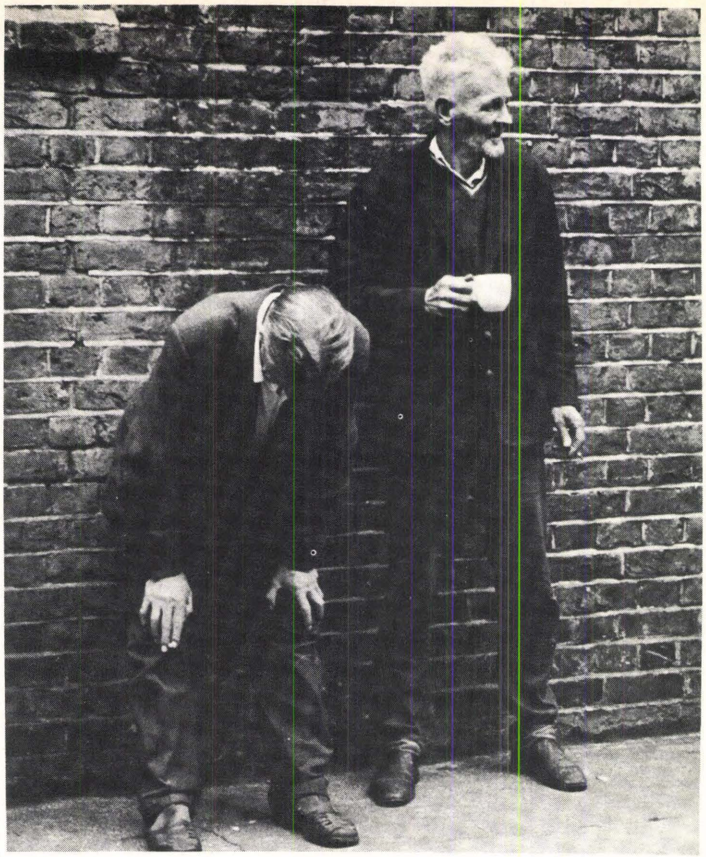
The European economies still face major uncertainties, however, resulting from movements in oil prices and the dollar. The Commission expects oil prices to be about 26 percent lower, on average, than last year. If so, the Community could see savings of about one percent on its gross domestic product this year. Should prices fall sharply, however, the E.C. would have to reexamine its economic guidelines for the year.

The dollar/ECU parity is expected to be some 18 percent, on average, below the average parity for 1985. Given that most commodities, including oil, are traded in dollars, the Commission has forecast a fall of some eight percent in the Community's import prices. That fall in prices should result in lower interest rates, and private consumption should rise by about three percent (a level not seen since the 1970s), and investments by 4.5 percent, a 15-year record.

The job outlook, on the other hand, is not improving as rapidly. The 0.3-percent fall in unemployment which the Commission has forecast would still keep the unemployment rate for the Community (excluding Spain, Portugal and Greece) at 11 percent this year.

In recent remarks before the European Parliament's Committee on Economic and Monetary Affairs, the President of the E.C. Commission, Jacques Delors, stressed the benefits for all member states of increasing their degree of joint action in line with the Commission's cooperative growth strategy. Cooperative action, the Commission believes, can create faster growth and more jobs, especially if social security contributions are reduced in order to promote job creation.

On monetary matters, Delors said the Commission would be presenting a full timetable for the liberalization of capital movements by the end of 1986. He also emphasised the new importance of monetary relations between the Community and Japan, and noted that there were still deep-seated differences of opinion between the Bretton Woods institutions on how the international monetary system could be improved. The environment for international trade, he said, "will remain precarious until Japan and the Community are able to take up the running from the United States in underpinning the world economy."



The Commission is creating an E.C.-wide, transnational program aimed at studying the mechanisms of poverty throughout the Community and at developing solutions.

SOCIAL POLICY: E.C. FIGHTS POVERTY

The plight of the homeless, the elderly, the long-term unemployed and second-generation migrants should improve noticeably over the next few years, as a result of a concerted fight against poverty now well underway within the Community. The E.C. Commission has recently selected the last of 65 Community projects which make up the E.C.'s second action program against poverty for 1985-88.

The four projects selected—which will be implemented in France, Italy, Ireland and the United Kingdom—will share funding of 700,000 ECU; total spending on all 65 projects of the action program will amount to 18 million ECU.

The Community's first action program was carried out between 1975 and 1980. It concentrated on local projects (such as single-parent families in London) and on Community studies dealing with aspects of poverty and its extent in the different Member States.

Evaluation of the results of the first program allowed the Commission to target the social groups and regions hardest hit by poverty, and the emphasis of the current program is on unemployment. Projects which deal with long-term and youth unemployment will receive about 30 percent of the available funds.

Other important beneficiaries include the elderly, single-parent families and people living in the inner cities and impoverished rural areas. The action program also covers second-generation migrants, refugees, the homeless, returning migrants and marginal groups. Over half the projects (which together account for more than 70 percent of the funds) are in urban areas.

The Commission believes that the fight against poverty in the Community should be coherent and coordinated, and has therefore taken steps to ensure that information and innovative approaches will be exchanged. Projects funded by the Community will also be continually monitored and evaluated, and the results disseminated.

"This program is not simply about the financing of individual projects," said Stanley Clinton Davis, the Commissioner responsible for social policy in the Community. "What we are creating is a Community-wide transnational program, aimed at studying the mechanism of poverty throughout the E.C. and at trying to develop a strategy on how we should respond to these problems."

EUROPEAN INDUSTRY MUST IMPROVE ABILITY TO COMPETE

European industry is not only finding it difficult to meet American competition; it has also let itself be outdistanced by the Japanese in several sectors. It is largely absent from certain high-tech areas and lacks key elements necessary for greater competitiveness, such as innovation and team spirit. This, briefly, is the E.C. Commission's diagnosis, and it is set out in a recent report aimed at the Community's political leaders when they meet for their regular summit this June.

Between 1973 and 1983, European industry did not invest enough, had very high production costs on the whole and lost not only jobs but also market shares both at home and abroad. It has done better since 1983, in the Commission's view, but its Japanese competitors are still in the lead when it comes to productivity, investments and costs.

In sectors with the fastest growth, such as electronics and information technology, recourse to imports was especially heavy between 1973 and 1982. In 1982, some 17 percent of the E.C.'s requirements were met by imports, as against only 10 percent of American and five percent of Japanese requirements. In 1984, European firms made fewer than eight percent of the microchips sold worldwide, which was less than in 1981 (nine percent). U.S. firms, meanwhile, had 62 percent of the market and the Japanese 28 percent.

The Commission believes the capacity to innovate is in short supply among European firms. They are being overtaken by the Japanese when it comes to new inventions; in 1980, the Japanese took out 40 percent of all patents. The Americans are also more enterprising, as is shown by the ratio of new firms to those which have gone out of business.

European firms have done better since 1983, but the Copmmission believes a more European approach is needed. Last year, over 80 percent of the venture capital raised in the Community was of national origin and less than 10 percent originated in other E.C. countries. The Commission therefore wants the Twelve to complete the internal market, get European firms to work together and set up European research and technology centers.

THE COMMUNITY BOOKSHELF

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☐ **Developing Support Structure for Workers' Cooperatives.** *Programme of Research and Action on the Development of the Labour Market, Commission, Brussels, 1986, 108 pages.* Examines the roles and responsibilities for trade union organizations in developing worker cooperatives. **$8.00**

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☐ **Support for Worker Cooperatives in the United Kingdom, Ireland, and the Netherlands.** *Programme of Research and Actions on the Development of the Labour Market. Commission, Brussels, 1985, 132 pages.* **$9.00**

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☐ **Analytical Tables of Foreign Trade: NIMEXE 1984.** *Statistical Office, Luxembourg, 1985.* Imports and exports by origin and destination, weight, value and units, by tariff schedule classification.

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BOOKS IN REVIEW

Collective Clientelism—The Lomé Conventions and North-South Relations, by John Ravenhill, Columbia University Press, New York, 389 pp., $37.50.
Europe, Africa and Lomé III, edited by Robert Boardman, et al., University Press of America/Dalhousie: Dalhousie University, 168 pp., $22.75 (paper, $11.00).

GAYLE EDMUNDS

Over 10 years ago, with the signature of the first Lomé Convention, many expressed the hope that the relationship between the European Community and the African, Caribbean and Pacific states (ACP) would become a model for a new international economic order. Now a year after the signature of the third Lomé Convention, while the effects of famine are still being felt and poverty is a way of life for the great majority of the people in the ACP states, it is evident that the results have fallen short of these high expectations. **Collective Clientelism** and **Europe, Africa and Lome III** are both attempts to sift through the rhetoric surrounding this issue and critically analyze the successes and failures of the past 10 years.

Dismissing traditional theories describing North-South relations, John Ravenhill uses the term "collective clientelism" to describe the strategy employed by the ACP states vis-à-vis the Community. The term refers to the reciprocal relationships between actors of unequal resources and involving mutually beneficial transactions. The clients of course are the ACP states which engage in a strategy of using their collective power and historical ties to Europe to extract the most favorable terms possible. Ravenhill argues that such a strategy has its origins in the weakness of the nations involved and the scarcity of resources available to them, leading them to rely on traditional ties to developed countries in order to survive in an uncertain world.

Throughout the text, the case is argued not only for the existence of such a strategy, but also that it failed to achieve the intended result—namely structural economic change and development. Examples of dashed hopes range from the perception of limited trade advantages to the decline in the real value of aid administered through the European Development Fund. He also cites the longstanding disagreements over the rules of origin and the generalized system of preferences (GSP) which some contend undermined the position of the ACP countries by granting duty-free entry to products from many other less developed nations.

If indeed such a plan of action was implemented, it stood little chance of success. Not only did the nature of the ACP group not lend itself to effective "collective" action, the differences in culture, geographic location and language were so diverse that more often than not bilateral links between the E.C. member states and their former colonies were stronger than the horizontal links between the various ACP states. In addition, the idea of an equal partnership expressed in the Convention stood at odds with the reality of the wide gap in power and resources between the two groups of nations. Ravenhill goes on to argue that the nonreciprocal trade advantages granted by the Community, while vital to the interests of the ACP countries, further undermined the notion of equality which both parties deemed so important. Instead of being equal partners, the ACP states exercised little influence or initiative and were resigned to invoking the "spirit of Lomé" when their perceived interests were not upheld.

While one could argue that equality in this instance does not refer to equal resources but rather to the equality of sovereign nations, Ravenhill's points are skillfully argued and defended. While his analysis of the relationship from the perspective of the ACP states may gloss over some worthy arguments in defense of Community policy, it does shed some light on the different expectations of the Lomé Conventions and the state of the North-South relationship in general.

Although some of the results have not measured up to expectations, few are willing to renounce the idea of the special relationship entirely. Indeed, Ravenhill acknowledges that the agreement has produced many concrete benefits and also provides a forum to voice demands in the international arena.

The collection of essays by noted professors in the field of development entitled **Europe, Africa and Lomé III** complements the Ravenhill analysis by suggesting that in spite of its problems and contradictions, the relationship is evolving and showing signs of reaching a consensus on a development program.

Isebill Gruhn suggests that the Lomé Convention sets the mood for current thought on development policy by focusing the discussion on a particular set of institutions and by providing a rare opportunity for nations to coordinate their development aid policies. While Gruhn echoes Ravenhill's criticism of various programs, she stresses the importance of the E.C.-ACP relationship as a foundation for a larger North-South dialogue.

In another essay, Christopher Stevens outlines shifts in Community policy and argues against the frequently mentioned "policy dialogue" insisting that such a measure amounts to the tying of aid to Community approval of particular policy guidelines. Interestingly, he bases his argument not on the fact that such a "policy dialogue" would amount to an interference in the internal affairs of other states, but rather that the E.C. Commission would be unable to efficiently evaluate programs and policies. Whether the Community proposal for such a dialogue would have resulted in making aid conditional on specific policies is itself doubtful. In any case, the issue raises important questions concerning the role of the Community as an aid donor and how it can more effectively transfer resources to benefit the peoples of less developed nations.

Lomé III, of course, provided the occasion to reflect on these questions. David Fashole Luke compares the Lagos Plan of Action developed by the African states to the Lomé III Convention, remarking on the similarity of themes and strategies for development. Both emphasize self-reliance and the fulfillment of basic needs as central themes. A whole range of areas are cited as priorities, including environmental conservation and regional integration.

The discussions in both books provide useful insights into the working of this close, yet conflictual, relationship. The studies in themselves attest to the success of the Lomé partnership in fostering continued debate on the subject of international development and North-South relations. Both texts provide an excellent source of information in addition to thoughtful analysis of the mechanics and dynamics of this special partnership.

Gayle Edmunds is book review editor of *Europe.*

New Limits on European Agriculture, Politics and the Common Agricultural Policy. François Duchêne, Edward Szczepanik and Wilfred Legg; Rowman and Allanheld; London and Sydney, 1985; 286pp.

STEPHEN SCHMIDT

This book is a timely, well written and documented study of the forces that contributed to the crisis faced by the Common Agricultural Policy (CAP) and also by national agricultural policies in the European Community.

In five substantive chapters and a brief conclusion, the authors present an analysis which "is less economic and more political and historical than most other studies" of the CAP. The authors attempt to prove "that the CAP was not merely set up to complement the Common Market, to promote an economic union . . . (but) it was also designed to finesse a number of problems arising out of national agricultural policies at the time of its inception."

Chapter 1 provides an incisive historical analysis of the setting in which West European agricultural policy was carried out up until 1984. A critical analysis is made of factors contributing to market imbalances with a focus on the use of price policy as the major instrument for farm income support. Chapter 2 reviews the E.C.'s emergence as an exporter of a wide spectrum of food and agricultural commodities and its impact on the world commodity markets. Future E.C. trade potentials are examined in light of a series of econometric projections of balances for major commodities extending to the year 2000. The inference is that the benefits of a potentially favorable world market can only be fully reaped if the E.C. shifts from an expansionary agriculture to one which is forced to observe limits.

The most interesting part of the book is Chapter 3, which provides a brief survey of the agricultural situations and national agricultural policies of each of the 10 E.C. member states as of 1983. Each survey is based on essays prepared by well known national experts focusing on: 1) the major issues, 2) the policy approaches and 3) the critical factora likely to affect the national attitude in the future. The intriguing feature of the surveys is the highlighting of ways in which divergent national aspirations tend to hinder the adoption of coherent goals for the CAP. There is evidence of unwillingness to accept major changes in the present balance between national and E.C. responsibilities. Central national policy orientations are increase self-sufficiency in the deficit sectors and to expand export-oriented agricultural sectors in already exporting countries.

The authors trace the nature of convergence and divergence in the economic and agricultural interests and priorities of member countries and the resulting compromises and contrasts embedded in the CAP. The authors show that most of the controversies over the CAP since its very inception are traceable to different outlooks and interests of importing and exporting countries. In this context, the most important issues revolve around trade and the budget, since the two are intimately linked.

The authors also explore some of the major crosscurrents which may shape future national policy attitudes toward the CAP. Further expansion, if left unchecked, with its attendant budgetary burden is seen to lead to probable disintegration of the CAP. Continued survival of the CAP is expected to hinge on importers and exporters cooperating to control farm production.

The strongest and most important section of the book is Chapter 5, where the authors provide a review of policy options in a longer term perspective considering the scope of potential expansion and of limits which must be envisaged for the future. In light of prospective limits on markets and budget constraints, the authors attempt to assess the viability of various production-limiting strategies and open-market policies. They conclude that "the differences of interest of the member states in the CAP do not seem inherently irremediable," and that . . . "henceforth, the Community cannot avoid giving thought to the international dimensions of its farm policies."

The book renders a valuable service in providing a single reference for a very complex and wide-ranging set of issues. It will strengthen the arguments of those who favor greater cohesion of policy in the E.C. and greater concern for world food markets. The extensive bibliography in the book will be useful to other analysts concerned with CAP developments. €

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.*

World Traded Services: The Challenge for the Eighties. Raymond J. Krommenacker. Artech House, Dedham, MA, 1984. 221 pp.

Begins by outlining several approaches to this new and expanding field, namely the classical, economic, functional and commercial approach to the study of trade in services. The author argues that the present accounting systems and statistical descriptions are inadequate in dealing with world traded services. Also examines the motivations behind government intervention and protectionism and classifies restrictive measures into five separate categoaries. Provides detailed analysis of the activities, problems, and new developments in the field. Very useful for students and practitioners alike. Includes a complete bibliography and lists documents and publications of international organizations.

The Yearbook of Social Policy in Britain 1984-85. Maria Brenton, Catherine Jones. Routledge & Kegan Paul, Boston, 1985. 246 pp. $42.50.

Collection of essays examining issues and developments in the social policy filed. Aimed at teachers and students in higher education, it provides up-dated accounts and analysis of many social policy issues. Covers a broad range of topics from police powers and discrimination to the housing benefit scheme and a comparative essay concerning early retirement policies in Britain, France and Sweden.

Latin America: Dependency or Interdependence. Michael Novak, Michael P. Jackson, eds. American Enterprise Institute, Washington, D.C., 1985. 186 pp.

Texts of presentations made at the American Enterprise Institute's Sixth Summer Institute. Topics include economic and political statism in Latin America, multinational corporations and Third World investment, the debt crisis, private investment, ideology, and the role of the Catholic Church. Each presentation is follwed by a discussion and commentary. Contributors include people from business, government, academics and the Church. Interesting discussion of current challenges facing Latin America.

Peace and Disputed Sovereignty—Reflections on Conflict Over Territory. Friedrich Kratochwil, Project Director. University Press of America, New York, 1985. 159 pp.

In the aftermath of the conflict over the Falklands, this study reviews other unresolved cases of disputed sovereignty, their chances for escalating into violent conflict and the role of third parties in reaching a peaceful settlement. Case studies include analysis of the Ethiopia-Somalia dispute, the Beagle Channel Dispute, the Soviet-Japanese territorial dispute and others. Includes an appendix of contemporary disputes around the world.

The Future for European Energy Security. Curt Gasteyger, ed., The Graduate Institute of International Studies, Geneva, 1985, 177 pp.

Product of a 1983 workshop attended by oil and gas specialists from the U.S. and Europe addressing the prospects and challenges of energy security. Contributors have attempted to analyze lessons from the past, draw up a balance sheet of the energy situation today, and define its expected evolution to the end of the eighties. While Europe's dependence on external oil supplies has somewhat declined due to lower consumption and alternate sources, energy security is far from assured. The authors argue that dependence on Middle Eastern oil may grow again in the 1990's, and the Soviet Union will remain an important supplier of gas to Western Europe with all the strategic and political consequences this may have for European security.

Western Europe. Richard Mayne, ed. Facts on File Publications, New York, 1986. 699 pp. $40.00.

A comprehensive rewriting the the 1967 edition with the same title in the Handbooks of the World series. The book is divided into three parts and explores the areas of common interest among the 27 non-communist states of Europe. Part one provides basic information on each country, with maps and statistical tables; part two consists of essays detailing major political, economic and social issues affecting the region as a whole; part three serves as a guide to Western European organizations. Bibliographies abound.

Direct Elections to the European Parliament 1984. Juliet Lodge, ed. St. Martin's Press, New York, 1986. 287 pp. $27.50.

Series of case studies analyzes the various campaigns throughout Europe in the context of the European Parliament's development and record since the first direct elections in 1979. Discusses the debate over increasing the Parliament's powers and the significance of the electoral turnout. Essays cover the campaigns, issues, strategies and results in all ten countries.

Regions in the European Community. Michael Keating, Barry Jones, eds. Clarendon Press, Oxford, 1985. 250 pp. $39.95.

Editors Keating and Jones are interested in the general thrust of Community policy and its uneven regional impact. In a series of case studies, they have asked their contributors to focus their analysis on three issues: How the EC accomodates conflicting regional and national polices, whether attempting economic integration has in fact enhanced the power of national governments, and how Community policy is implemented in cases where responsiblity lies with local government. Studies examine four regions of the United Kingdom, as well as Italy, the Federal Republic of Germany, France and Ireland.

A Widening Atlantic? Domestic Change and Foreign Policy. Andrew J. Pierre, ed. Council on Foreign Relations, N.Y., 1986. 107 pp., $5.95.

A product of the Council's project on European-American relations. Presents two essays assessing the domestic and cultural changes in Europe and the United States and their effects on trans-Atlantic relations. West German Ralf Dohrendorf provides an excellent analysis of Europe in broad sociological and historical terms. American Ted Sorensen addresses European misconceptions of the United States and discusses the major changes in American policy over the past decade.

Law of the Common Agricultural Policy. Francis G. Snyder. Sweet & Maxwell, London, 1985. 181 pp.

Presents key legal issues of the Common Agricultural Policy. Challenges the misconception of the CAP as a matter of administrative regulation and discusses its historical background, objectives, its relation to general treaty rules and Community law-making. Explains how the CAP is implemented and its legal basis under the Treaty of Rome. General legal issues are discussed as is the price system, monetary compensatory amounts and the prospects for a common structural policy.

Interdependence in the Post-Multilateral Era - Trends in U.S.-European Trade Relations. Stephen Woolcock, et al. University Press of America, Lanham, MD, 1985. 164 pp. $19.50.

Co-published with the Center for International Affairs at Harvard University, this timely study explores the conflict between interdependence and national sovereignty. By examining three separate industries, the authors outline the decline in multilateralism and the pressing domestic issues which threaten to erode the political partnership between Europe and the U.S. Shows that fundamental differences in American and European policies toward industrial development pose an increasing strain on Atlantic trade.

Current Issues in International Trade - Theory and Policy. David Greenaway, ed. St. Martin's Press, New York, 1985.

Collection of essays on various topics of international trade policy and theory. Reviews the most recent developments in international trade and provides insight into the political economy of protection, the theory and policy of adjustment, multinational economic integration and so on. The contributors are of international repute from the United Kingdom, Eire, Sweden, Switzerland, Belgium and Austria.

Britain's Economic Renaissance - Margaret Thatcher's Reforms 1979-1984. Alan Walters. Oxford University Press, New York, 1986. 200 pp. $29.95.

Alan Walters served as economic advisor to Prime Minister Thatcher from 1981 to 1983 and now writes a readable critique of the orthodox policy prescriptions of micro and macroeconomics as well as a rational alternative policy approach. Divided into sections on fiscal and monetary policy, Walters sticks to an academic analysis of various policy instruments and draws some conclusions on the consequences of Thatcher's economic policy for productivity, employment and finances.

Leading Cases and Materials on the External Relations Law of the European Community. E.L.M. Volker, J. Steenbergen. Kluwer Law and Taxation Publishers, Boston, 1985. 661 pp.

Case book series of the Europa Institute examines the formal conduct of external relations through the treaty-making procedures as well as issues of substantive law, in particular the case law of the Common Commercial Policy. Significant emphasis is placed on the latter, examining the common customs tariff, autonomous measures of the Common Commercial Policy, bilateral agreements with third countries, and Community policy in relation to particular economic sectors. Includes full texts of negotiatied agreements, a complete bibliography and list of relevant legislation.

Serial Bibliographies and Abstracts in History - An Annotated Guide. Compiled by David Henige. Greenwood Press, Westport, CT, 1985. 220 pp. $35.00.

This guide provides coverage of the approximately 800 serial bibliographies, published at recurring intervals, of interest to historians. All areas of the world and all time periods are included. Listed in alphabetical order and supplemented by cross-referencing, each entry includes data on the size, scope, organization and currency of each bibliography. ISSN and OCLC database numbers are included.

National and Supranational Powers in the Shaping of Community Policies. F. Francioni and G. Grottanelli de' Santi. Guiffre Editore, Milan, 1984. 125 pp. L.10,000.

Collection of papers presented at a joint seminar between the University of Siena and the University of Bonn in the Spring of 1983. This study of Community policies from an interdisciplinary angle of law political science and economics examines E.C. policy coordination, the decision-making process in the Federal Republic of Germany and the role of national and the European parliaments in decision-making at the Community level. Also discusses power sharing in the field of foreign policy and agricultural and regional development. Well written, thought provoking arguments.

The EEC - A Guide to the Maze. Stanley A. Budd. INRO Press, Ltd., Edinburgh, 1985. 150 pp. 5.00 pounds.

Excellent introduction to the policies, politics and purpose of the European Communities. Although written with British readers in mind, this small book outlines and clarifies many aspects of Community policy that may normally confuse any reader. Reviews the institutional structure, decision-making, and several individual policies such as industrial policy, company law and transport. Also discusses E.C. grants and loans, lists addresses of information offices throughout the world as well as references on the availablity of additional information.

A Change of Course—The West German Social Democrats and NATO 1957-1961. Stephen J. Artner. Greenwood Press, Westport CT, 1985.

242 pp. $35.00.

The author examines the evolution of the SPD position on NATO, rejecting the traditional argument that the party's acceptance of the alliance was a result of the victory of a reformist faction in the party leadership. Instead, he argues that domestic and international dilemmas forced the leaders of the SPD to reconsider NATO membership and the Western strategy for nuclear deterrance and conventional defence. Its endorsement of German membership in NATO reflected the recognition that Germany's division could last indefinitely.

Europe, America and the World Economy. Loukas Tsoukalis, ed. Basil Blackwell, N.Y., 1986. 279 pp. 25.00 pounds.

At a time of significant tension between the United States and Europe on trade issues, this book sheds some light on the nature and causes of conflict in different areas of economic activity. Commentary includes analysis of the crisis in agricultural trade, steel and in world trade in general. Also discusses the GATT as an instrument in Atlantic trade and monetary policies and makes the case for internationalizing American monetary policy. Contributors include European and American scholars and experts in international afffairs.

The Italian Party System. Paolo Farneti. St. Martin's Press, N.Y., 1985. 199 pp. $27.50.

The Italian multi-party system has been challenged recently by many factors of social change not to mention the anti-system parties and terrorist movements. This study examines the role of political parties in Italian society and political life. Discusses the social and political cleavages, the electoral system, ideologies, party structure, leadership and organization as well as characteristics of the electorate and militants.

The Statesman's Yearbook 1985/86. John Paxton, ed. St. Martin's Press, 1985. 1686 pp. $45.00, cloth.

The revised edition of this annual publication contains a thorough listing of international organizations, their history, goals, and membership as well as a list of the countries of the world, their history, area, population, climate, economic structure and diplomatic representatives. A very useful way to obtain quick yet reasonably thorough background information on a particular country or region.

PUBLISHED FOR THE COMMISSION

Coal Preparation. *EUR 9681.* J.K. Wilkinson, ed. A.A. Balkema, Boston, 1985. 148 pp. $30.00.

Proceedings of an information symposium organized by the Commission of the E.C., held in Luxembourg on 15 November 1984.

Brucella Melitensis. *EUR 9746.* J.M. Verger and M. Plommet, ed. Martinus Nijhoff, Boston, 1985. 270 pp. $47.50.

A seminar in the CEC Programme of Coordination of Research Animal Pathology sponsored by the E.C. Commission.

Improved Venture Capital Opportunities in Europe. *EUR 9756.* E.C., Brussels, 1985. 187 pp.

Proceedings of a symposium held in Luxembourg. Examines the role of private capital investment in Europe and how it can be encouraged by the use of various incentives.

In Vitro Techniques: Propagation and Long Term Storage. *EUR 9359.* A. Schafer-Manuhr, ed. Martinus Nijhoff, Boston, 1985. 194 pp. $38.50.

Proceedings of a seminar in the CEC Programme of Coordination of Research on Plant Productivity sponsored by the E.C. Commission.

Sixth E.C. Photovoltaic Solar Energy Conference. *EUR 10025.* W. Palz & R.C. Treble, ed. D. Reidel Publishing Co., Boston, 1985. 1104 pp. $115.00.

Proceedings of the international conference held in London, 15-19 April, 1985.

Fires in Buildings. *EUR 9891.* M. Thomas, ed. Elsevier Applied Science Publishers, N.Y., 1985. 661 pp. $75.00.

Proceedings of a symposium held in order to assess the social, technological, and economic aspects of fire prevention and the protection of buildings against fire.

Sorting of Household Waste and Thermal Treatment of Waste. *EUR 9682.* G.L. Ferreor, M.P. Ferrant, eds. Elsevier Applied Sciences Publishers, London, 1985. 521 pp. $60.00.

Proceedings of a symposium discussing the results of the CEC R&D programme on recycling of urban and industrial waste.

Inactivation of Microorganisms in Sewage Sludge by Stabilisation Processes. *EUR 9646.* Edited by D. Strauch, et al. Elsevier Applied Science Publishers, London, 1985. 225 pp. $37.50.

Proceedings of a round-table seminar organized by the Commission of the European Communities, Directorate-General Science, Research and Development, Environment Research Programme, held in Hohenheim, Federal Republic of Germany, 8-10 October 1984.

Current Issues in Climate Research. *EUR 10225.* Edited by A. Ghazi and R. Fantechi. D. Reidel Publishing Co., Dordrecht, 1986. 356 pp. $59.00.

Proceedings of the E.C. Climatology Programme Symposium, Sophia Antipolis, France, 2-5 October 1984.

Design and Instrumentation of In Situ Experiments in Underground Laboratories of Radioactive Waste Disposal. *EUR 9575.* Edited by B. Come and P. Johnston & A. Muller. 474 pp. $35.00

Advances in the Production and Utilization of Cruciferous Crops. *EUR 9356.* Edited by H. Sorensen. Martinus Nijhoff, Dordrecht, 1985. 317 pp. $42.00.

Proceedings of a Seminar in the CEC Programme of Research on Plant Protein Improvement, held in Copenhagen, 11-13 September 1984.

New Information Technologies and Libraries. Edited by H. Ledbaers, et al. D. Reidel Publishing Co., Dordrecht, 1985. 362 pp. $49.95.

Proceedings of the Advanced Research Workshop organized by the European Cultural Foundation in Luxembourg, November 1984 to assess the Impact of New Information Technologies on Library Management, Resources and Cooperation in Europe and North America.

Long-Term Effects of Sewage Sludge and Farm Slurries Applications. *EUR 9731.* Edited by J.H. Williams, et al. Elsevier Publishing Co., New York, 1985. 235 pp. $41.25.

Proceedings of a round-table seminar organized by the Commission of the European Communities, Directorate-General Science, Research and Development, Environment Research Program, held in Pisa, Italy, 25-27 September 1984.

World Crops: Production, Utilization, Description; Vol. 11. Advances in the Production and Utilization of Cruciferous Crops. *EUR 9356.* H. Sorensen, ed. Martinus Nijhoff Publishers, Boston, 1985. 317 pp. $42.00.

Proceedings of a seminar in the CEC Programme of Research on Plant Protein Improvement, held in Copenhagen, 11-12 September 1984.

BREAKFAST, LUNCH AND DINNER

Continued from page 48.

6:30 P.M.—the man who arrives for dinner in France at the time of the invitation will find the hostess still in the bath and the *au pair* elbow-deep in potato puree as she feeds the children in the kitchen. And by 8:15 P.M., it is possible to be safely delivered back to the hotel room, having eaten a delicious meal served as if it counted for grades in a Master of Business Administration course at one of the more aggressive universities.

It is difficult for an Englishman to quibble, however, since more than half the United Kingdom sits down for high tea over the television set around 6 o'clock and it is very much the metropolitan or "county" fringe that is "in" to dinners at 8. The correlation between social class and eating hours in the United Kingdom is a study which, mercifully, remains to be done: New York appears to eat later, but perhaps this is because the twin obsessions with jogging and psychiatry—at a delightful Sunday lunch with charming people in New York I put myself beyond the pale of civilized behavior by admitting both that I believed in smacking my children *and* I knew no one whosoever in my family circle who had ever undergone analysis!—make it difficult to find time for routine housework.

Does the spirit pant for familiar fare and the reassurance of home? No—except, perhaps, for the seductive vision of a good pint of real English ale served, as it should be served, at room temperature. America invigorates: it is the land of the "yes," where things are seen as possible, where the assumption is that a problem can be licked, where the unique combination of patriotism and prayerfulness gives a certainty (perhaps I am back to the Midwest now) and a faith that Europe no longer musters.

At times it is almost caricature—the prayer at a businessmen's convention breakfast in Texas which went: "Lord, please help us to serve our customers better and in serving them to serve You"—but its very sincerity is a strength. A strength, also, is the assumption that people are nice: It may be a culture shock to walk into a barber's shop to be asked one's Christian name and have the hairdresser chatting to you like a long-lost brother, but it is proof of the attitude of egalitarianism, and, in comparison with Europe, non-envy, which is the triumph of American society.

Despite the high-profile tensions the United States is fundamentally a country that is at peace with its history and self-sufficient in its virtues. What strikes the foreigner is the consensus on what it is to be an American. That is an immensely powerful resource. And, talking about strength, can nothing be done about the coffee? €

PACIFIC RIM
Continued from page 31.

to integrate their economies to the extent achieved by the European Community. What is pulling the region together is the expansion of trade within the Pacific basin, with Japan accounting for a larger share of business for most Rim countries than the United States or Europe.

The region's economic expansion can be attributed in part to its emergence as the United States' major trading partner, replacing the E.C. since 1981, when the value of business between the United States and the 12 Asian nations first exceeded trans-Atlantic trade. By last December, the volume of U.S. trade with the Rim was estimated to be roughly 40 percent greater than trade with the Community. Equally impressive is the speed at which Europe was overtaken—U.S. trade with the E.C. was 13 percent above that with the Pacific only 10 years ago. Some historians equate this shift with that occurring 500 years ago when the center of world trade moved gradually from the Mediterranean Sea to the Atlantic Ocean.

Other reasons, as outlined by a Japanese economist at a conference last April in Seoul on the region's future, help explain the Rim's rapid growth. National economic policies, in Saburo Okita's view, stressed exports rather than self-sufficiency and tightly restricted domestic social spending. Capital investment levels soared due to high savings rates.

The Pacific Rim is the single most important outlet for U.S. agriculture, buying a third of total U.S. farm exports. Five years ago, America's agriculture sales to the region were $9.3 billion. Such exports hit $12.6 billion in 1984, about double what the E.C. buys from the United States. Supplying about half the Rim's imports of raw or unprocessed commodities, the United States is a major source of grains and feeds (e.g. wheat, corn), oilseeds, medium-length raw cotton and flue-cured tobacco. But the area's demand for dairy, livestock and poultry is almost entirely met through intra-Pacific trade. U.S. imports of Rim commodities totaled $4.1 billion in 1984, yielding a net surplus of $8.5 billion. Most imports are low-value ones—rubber, unrefined sugar, coffee, edible nuts and citrus fruits.

Leading the onslaught of manufactures in the U.S. market is Japan. The U.S. merchandise trade deficit with Japan reached about $50 billion in 1985, a third of the U.S. trade deficit. In 1984, it was $37 billion. Automobiles topped the list, with consumer electronics, motor vehicle parts, iron, steel and computers being the other major imports. Among Rim countries, Taiwan ranked second with $16.1 billion in exports to the United States, and South Korea third with $10 billion, both exporting roughly the same product mix to the United States as Japan but fewer cars. In 1980, the United States took about half the manufactures exported from East Asian NICs to industrialized countries. Last year this share reached above 60 percent. The Rim accounts for more than 50 percent of the global U.S. trade deficit.

For the E.C., the Rim's expansion has not created the expected trade benefits. E.C. exports to the Pacific have stagnated during the past five years, while imports have flooded the Common Market, particularly Japanese electronics, cars and steel. the Ten's exports to the region were valued at about $27.8 billion in 1984, about nine percent more than in 1980. The E.C.'s share of total ASEAN exports fell from 14.7 percent in 1973 to 11.1 percent in 1982 and 9.8 percent last year, according to the IMF. In contrast, the share the United States holds of Rim imports has declined more slowly, from 16 percent to 13 percent. While the Rim declined in relative importance for Europe in all key export sectors, what export expansion Europe achieved focused on markets other than the Rim.

Rim imports by 10 E.C. member states (excluding new members Spain and Portugal) have grown about 14 percent over the past 10 years. A third of the E.C.'s imports come from the Rim. According to Hans Singer, a member of the ASEAN-E.C. Business Council, there has been a sharp increase in manufactured products imported from the Pacific. Rim imports by the E.C. in 1984 were one-quarter agricultural, two-fifths raw materials and one-third manufactured goods. During the past decade, the E.C. has shifted away from buying raw materials, farm goods and other low-value manufactures and importing more capital-intensive manufactures from the Pacific.

U.S. policymakers and multinational corporations are confronted with two central questions: To what extent should efforts be more Pacific-oriented? How high can costs to Europe go before Atlantic ties are weakened, strained or severed?

For Europe, one policy implication of the Rim's boom is how to develop E.C. initiatives that encourage future industries at home to gain technological supremacy and reap advantages in foreign markets. As former French Prime Minister Laurent Fabius has said: "The current electronics revolution is the first technological revolution not to come from Europe, but from the Pacific region. Our countries are too small singly to cope with the necessary instruments and to finance the colossal research projects that are needed."

One opportunity for Europe is to capitalize on the pervasive ambition of Rim countries to reduce their reliance on Japan and the United States. One step in that direction is a five-year trade and economic cooperation agreement signed with China last summer. Another is a two-year extension agreed last October of a cooperative agreement first signed by the E.C. and ASEAN members in 1980.

What may prevent this opportunity from being fully realized, some economists believe, is Europe's lag behind Japan and the United States in the investment tools it wields and its businesses' commitment to break into the Asian market. The implications of Europe's lag, E.C. Commissioner Claude Cheysson said at ASEAN-E.C. talks last October, "will be serious not only on trade, but also the choice of modern technology and, therefore, on the corresponding educational and scientific background." Cheysson, who is responsible for North-South relations, has stressed establishing a "multilateral agency of investment guarantee" within the World Bank.

European companies, particularly British ones, are taking bold initiatives. British Petroleum plans to spend $1.3 billion over the next five years to develop oil and gas resources in Indonesia, Thailand and Malaysia. Lloyds Bank recently bid to acquire Standard Chartered and gain an extensive financial network in the region. The acquisition would make Lloyd's Britain's largest bank. Also in April, London worked out an arrangement with Tokyo that enables two U.K. banks to apply for licences to trade securities in Japan in return for Whitehall considering an application from Japan's largest securities dealer to establish in London. The evolving New York-London-Tokyo axis in international banking should draw more European countries into Asia.

Whether joint initiatives would be more lucrative is part of the debate in Brussels and Washington. Their policy responses have been largely reactive, swept along by the high-speed momentum of events. Both are just beginning to understand the region's politics and economics. Chronic trade deficits and the Rim's aggressive challenges to high-tech advantages of Europe and the United States are generating strains. How governments and businesses in Europe and the United States react to the Pacific challenge will determine a great deal about their economies' futures. €

BREAKFAST, LUNCH AND DINNER

Europe and the United States are linked by a common inheritance of race, culture and democratic ideas. They are separated by three things. These three things are breakfast, lunch and dinner.

The British, of course, invented breakfast. But like many things the British invented, they have long ceased to put it to any profitable use. Instead of the legendary fare of eggs, bacon, sausage, to say nothing of the more Edwardian confections like kippers, kedgeree and kidneys, it has to be admitted that muesli has invaded the British breakfast like couch grass in a mixed border.

The blame lies with the school run. British breakfast times are very largely taken up by herding children, lunch boxes, assorted musical instruments and the family Labrador into the back of the station wagon in order to get them to school in time. There is a period in the career—no, existence is the better word—of the British middle-class housewife when the biggest part of her working day is taken up ferrying children to and from school. Anyhow, the result of all this is that the most that can be pushed down the throats of the children first thing in the morning is a bowl of muesli—roughage transcending into convenience.

This is not the case with the American breakfast. I like American breakfasts. At around 9 A.M., after a few cups of tea to alert the system to the new day, I am absolutely ready for the American breakfast. Hot pancakes is one of America's great contributions to world gastronomy with their almost infinite capacity to absorb maple syrup, much more robust and honest than the effete and self-esteeming *crêpe suzette* served in France. Nor do pancakes stand alone in the league of American gastronomic greats—up there with them go pumpkin pie, hash browns, grits, milk shakes and New England clam chowder. These compensate—if only just—for the great American disasters among which must be numbered all American cheese, frizzled bacon and "lite" beer—the latter product having succeeded in the virtually impossible task of making American beer even less interesting than it already was.

The trouble with the American breakfast is that it does *not* come at 9 A.M. in the morning: it comes at 7:15 A.M., accompanied by a meeting. Breakfast meetings are an affront to civilized waking up. They are particularly tricky in the company of a dozen hyper-alert staffers of the Farm Bureau all distressingly well-briefed on the competitive position of soybeans and corn in the Portuguese market place during the early years of the Iberian transition to full membership of the European Community.

> It is difficult to exaggerate the sheer stress that seizes the visitor when, at about noon, he is confronted with a bowl of fresh fruit, a dressing of cottage cheese, a couple of spoonfuls of cole slaw and a freezing glass of diet cola or iced tea.

Such meetings demand pancakes. For one thing, they provide the quick energy fix. And, second, there are no immediate problems of translation. Ordering eggs "sunny side up" eventually slips into the jargon, but for an Englishman reared on the language of Milton, Bunyon and Tennyson there is something inescapably disreputable about eggs described as "over easy."

The problem of the coffee is unavoidable. It would require persistence way beyond the call of reasonable duty to find any substance so lacking in integrity, so devoid of personality, so utterly non-committal in its convictions, so ambiguous in its identity as American coffee. I do not know how many cups of coffee bean each is required to flavor, but I cannot escape the belief that in each hotel kitchen there is a coffee bean, hanging on a string, which is given a perfunctory baptism as each cup of warm water comes within striking distance.

So the helpless alien, reaching for the faltering brew that will merely impress the bowel but leave the brain undisturbed, falls gratefully on the orange juice, casts a despairing eye on the glass of iced water and surrenders himself to Portuguese accession and the maple syrup.

At lunch, the roles are reversed, After a morning full of meetings, visits, television and radio conferences and seminars (and for a southern European, no doubt, the particular cultural stress of being addressed immediately by one's first name—I lived in France for some years and the change from the formal to the familiary mode of address followed a mysterious pattern of social transubstantiation), the visitor is beginning to think that the time is ripe for a good strong drink and a solid lunch.

It is difficult to exaggerate the sheer, psychological stress that seizes him when, at about noon, he is confronted with a bowl of fresh fruit, a dressing of cottage cheese, a couple of spoonfuls of cole slaw and a glass of diet cola, iced tea or some other beverage from which most of the taste has been removed on health grounds and the remainder refrigerated into surrender. And, of course, hauntingly familiar as it lurks in wait for the unsuspecting hand that reaches out, by instinct, as if for wine. . . . that cup of coffee served with the meal.

Only at dinner do the two cultures begin to approach one another. Midwestern dinners are early: The American specifies 6:30 P.M.—and he means at

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David M. Curry, a British Member of the European Parliament, recently completed a speaking tour of the United States.

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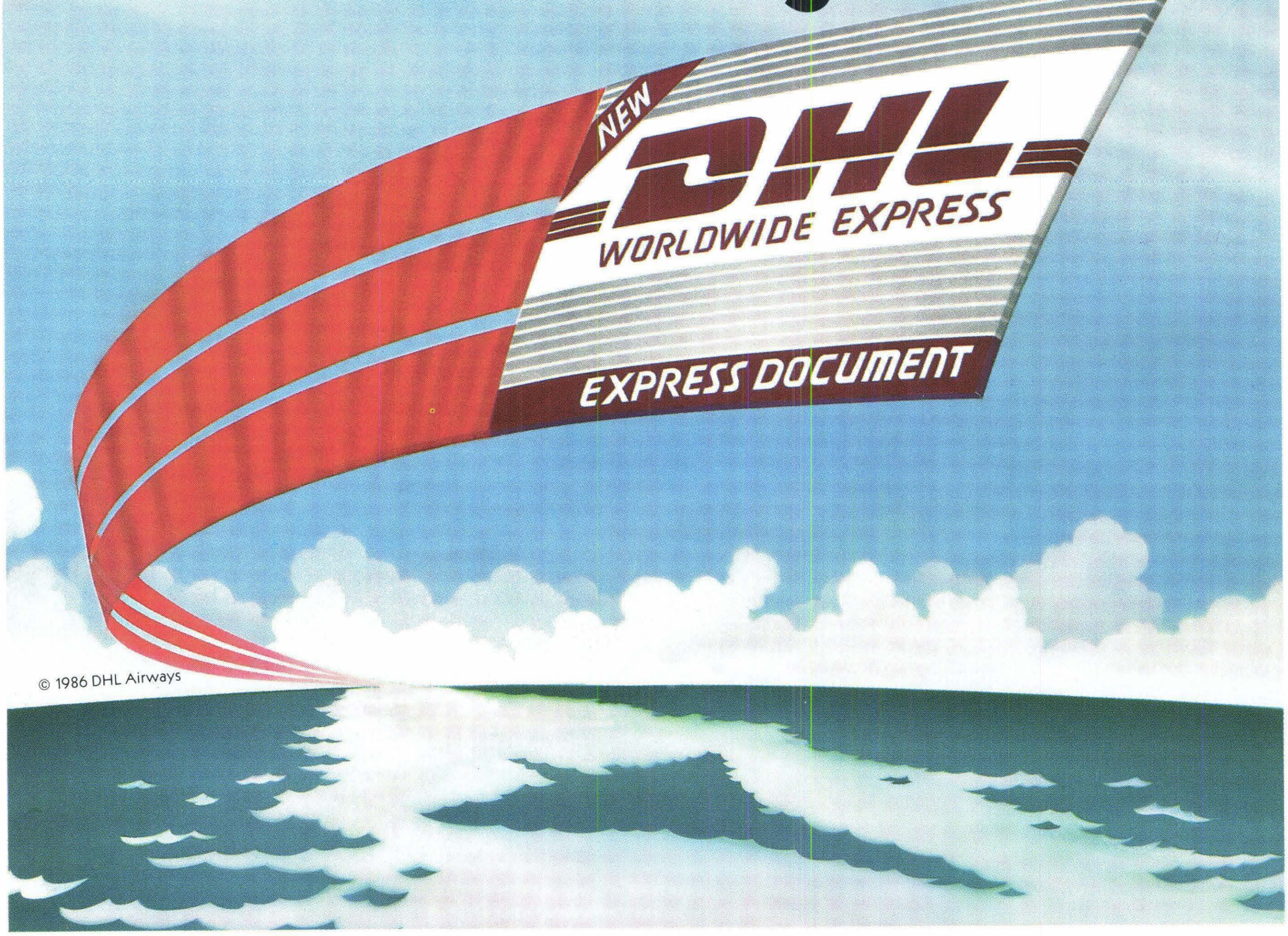

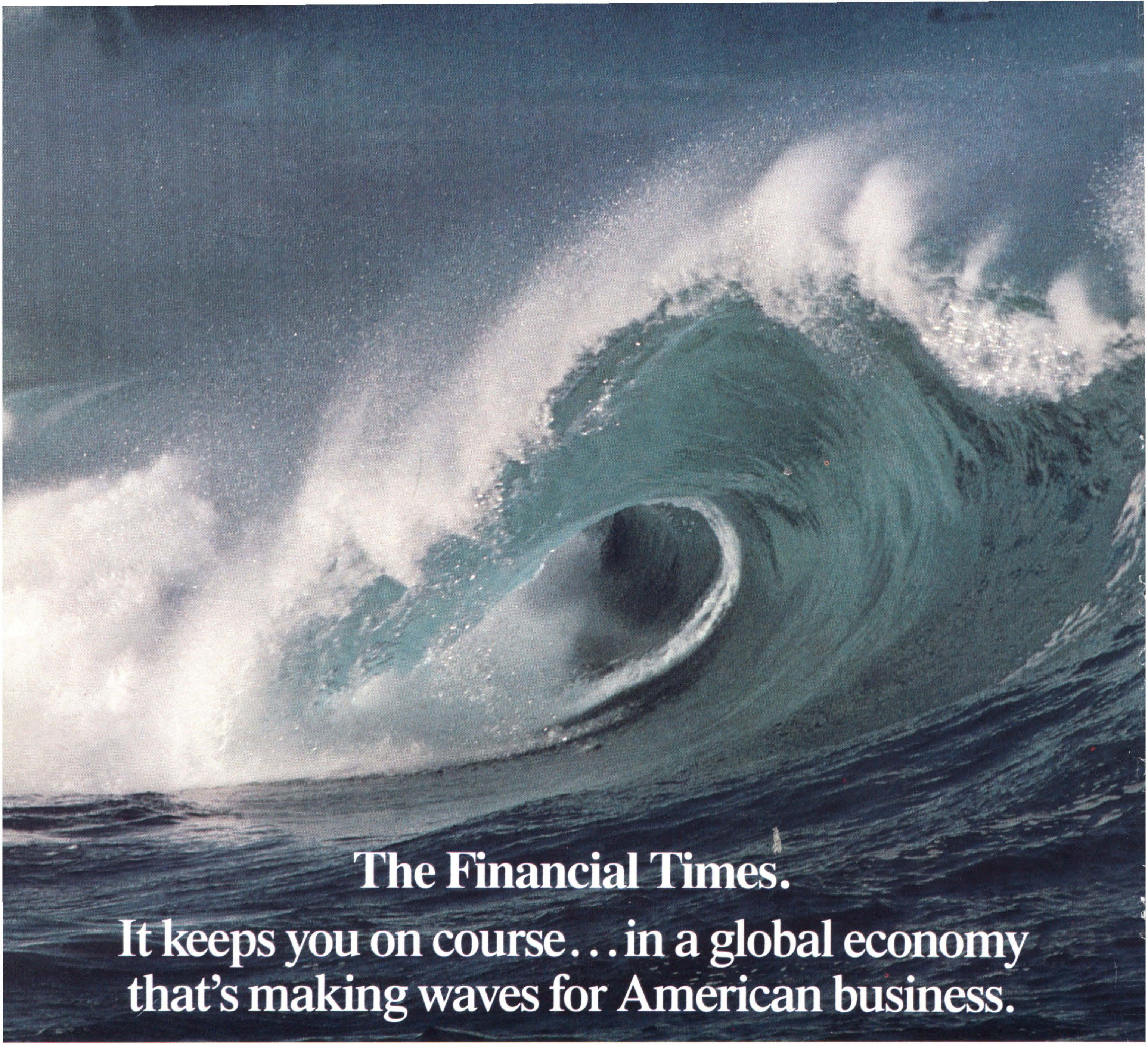

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