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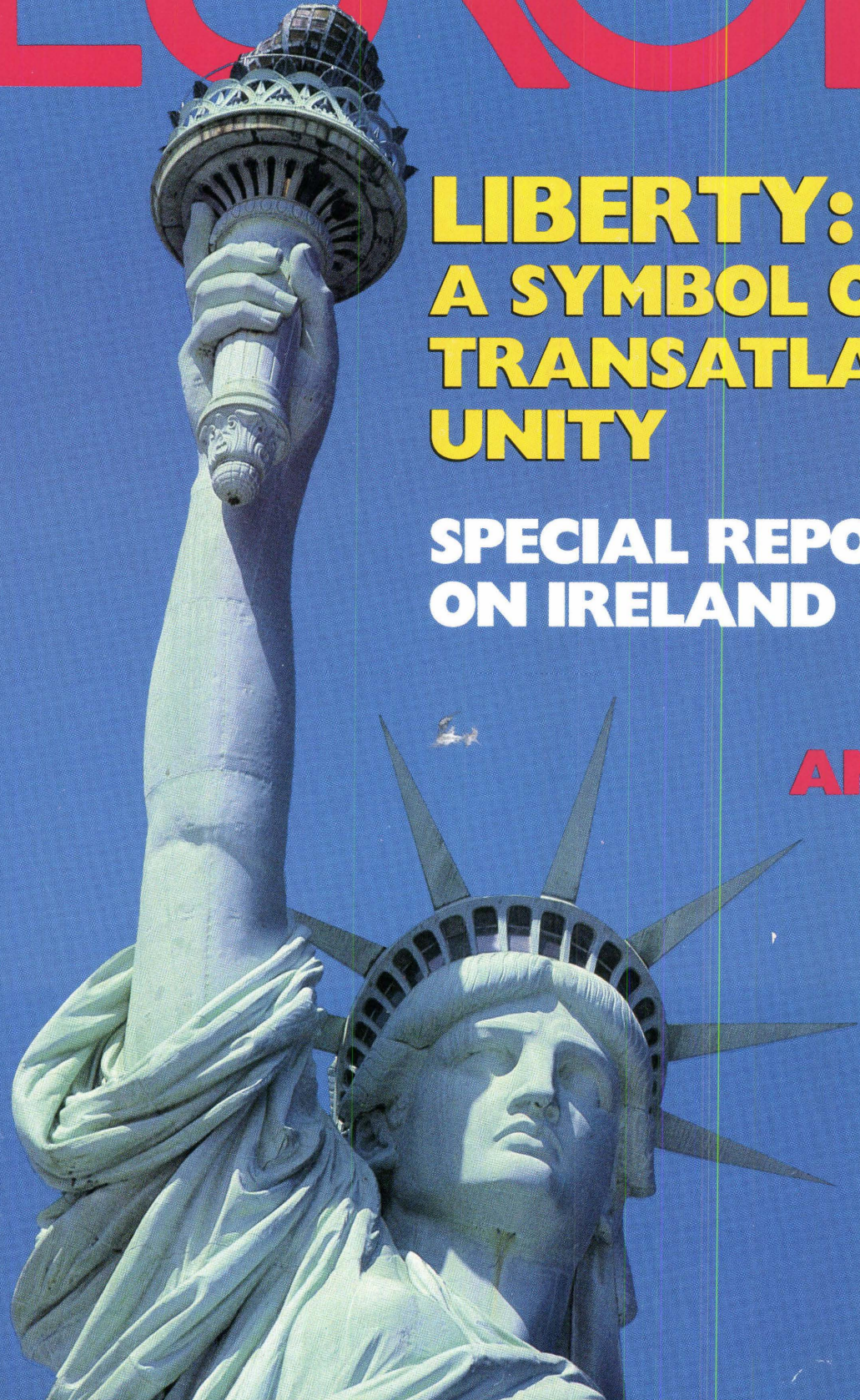
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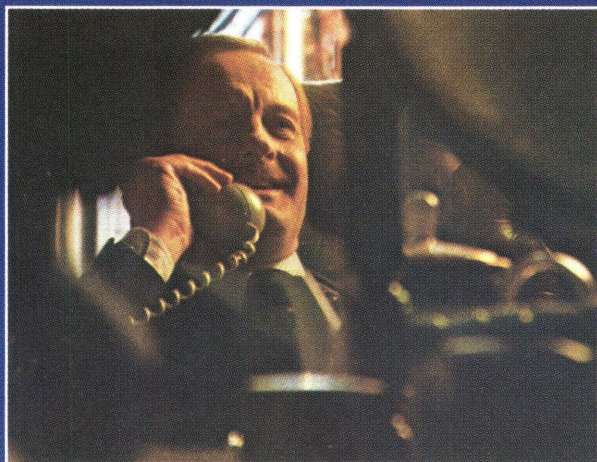
**LIBERTY:
A SYMBOL OF
TRANSATLANTIC
UNITY**

**SPECIAL REPORT
ON IRELAND**

**ARE
AMERICANS
REALLY
STAYING
AWAY
FROM
EUROPE?**



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EUROPE

MAGAZINE OF THE EUROPEAN COMMUNITY



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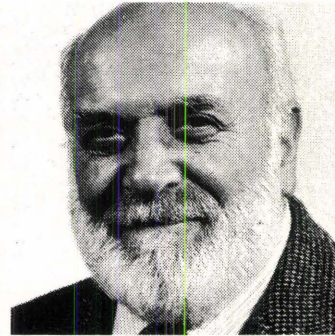
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PUBLISHER'S LETTER

One's first glimpse of the Statue of Liberty is a sight not soon forgotten. Whether looking south from Battery Park on a gray November afternoon, as I did, or from the deck of an incoming ship with the Manhattan skyline stretching out to the north, the sight of that enormous statue never fails to impress or to inspire. And it will continue to do so for future generations, thanks to the generosity of all those—Americans and foreigners alike—who have contributed to keep the world's most famous symbol of liberty alive.

Leslie Allen's account of the origins of the Statue of Liberty is our cover story this month. Allen, a senior writer at the National Geographic Society, notes that much of the fascination with the Statue "has stemmed from her ability to evolve as a symbol, representing changing conditions and alliances on either side of the Atlantic."

Last May's economic summit meeting in Tokyo resulted in, among other things, a commitment by the Western industrialized nations to pursue some form of multilateral monetary coordination. Clive Bergel, a managing director at Bear Stearns, outlines in this issue a global model for monetary reform based on the approach of the European Monetary System. The future, writes Bergel, "demands that a similar model can be structured with three major currencies interplaying—the dollar, the European Currency Unit and the yen, or the "DEY."

While the news that reaches the outside world about Ireland tends to focus on the tensions in Northern Ireland, there have been remarkable economic developments in recent years that deserve equal attention. In our member state report this month, John O'Brien, director for public relations of the Irish Industrial Development Authority, discusses the transformation of Ireland's agriculture-based economy to a modern technology-based economy over the past two decades, and Dermot McAleese, a director of the Central Bank of Ireland and professor of political economy at Trinity College, offers some observations on Ireland's current economic problems and prospects.

Maurice Tugwell, director of the Center for Conflict Studies at the University of New Brunswick, analyzes this month the different attitudes Europeans and Americans are taking toward terrorism, and observes that "searches for answers to this problem ought to be multinational." William Cross looks at the unease some Americans are feeling about travel abroad, and examines the ways airlines and travel agents are trying to generate new enthusiasm for summer vacations in Europe.

We were deeply saddened to hear of the death on May 23 of Altiero Spinelli, one of the last of the founding fathers of the European Community. Those of us who knew and admired him will miss his presence, particularly in the European Parliament, where he fought until his death for a constitution for Europe. As his long-time friend Emanuele Gazzo writes elsewhere in this issue: "He understood that the dreams of today can become the realities of tomorrow, and he knew that without a vision of the future, it is difficult to get people to act. He was unquestionably an idealist, who held fast to his principles without being doctrinaire about them."

Darin Corby

AROUND THE CAPITALS

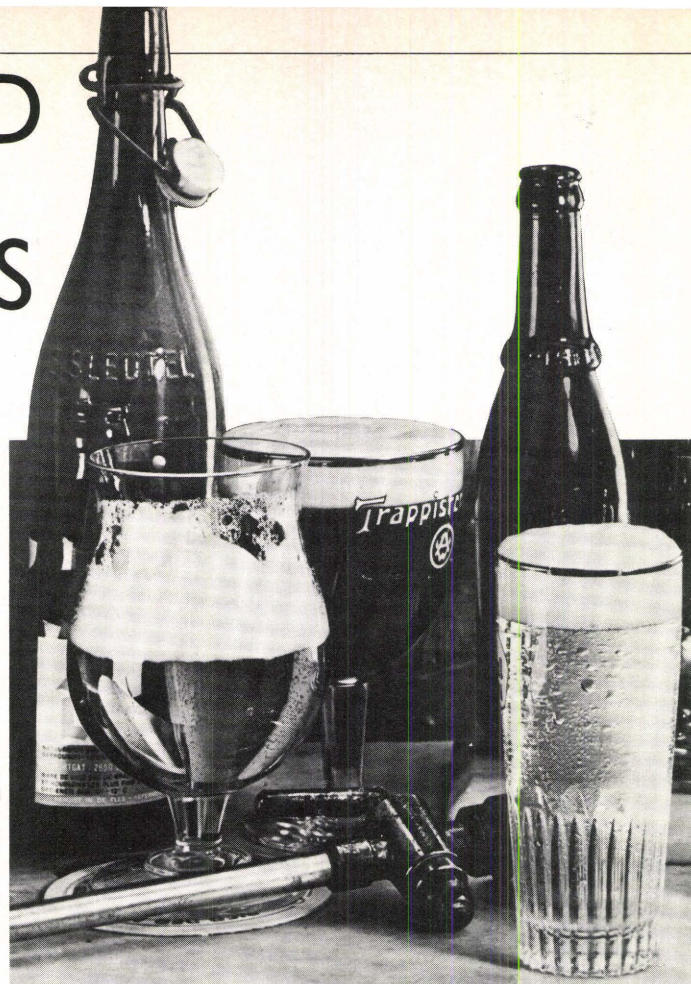
BRUSSELS

A History Of Brewing

The small Belgian town of Chimay near the French border is celebrating its 500th anniversary this year, an event that pleasingly coincides with a report in Brussels that the Belgians have overtaken the Germans as the world's number one beer drinkers. The connection between the two items will be clear to anyone with more than a passing interest in Belgian drink. Chimay has a number of charms for the tourist, including a fine medieval castle, but I do not think the town would quarrel with the assertion that its main claim to fame rests on the remarkable beer that bears its name.

Brewed by Trappist monks in a monastery in the town, "Chimay" is one of the world's rare vintage beers—that is to say, it undergoes a secondary fermentation in the bottle. Like many good wines, Chimay needs a few years maturing before reaching its peak and, according to some experts, may not achieve full perfection until 25 years old.

The almost entirely natural processes that give Chimay its characteristic dark fruity flavor and considerable potency are not unique. There are a number of Trappist breweries in Belgium that still use traditional high-temperature fermentation techniques and others that have hijacked religious



Belgians take great pride in their brewing traditions and a recent report says they have overtaken the Germans as the world's number-one beer drinkers.

COURTESY BELGIAN NATIONAL TOURIST OFFICE

names but still qualify for the overall heading of "abbey" ales. These tend to be small breweries, scorning the heavy investment needed for low-temperature brewing, but inevitably bearing a price that puts them closer to wine.

Yet even today, some 40 percent of all beer drunk in Belgium is of the "abbey" variety—a tribute to the country's discrimination. Just over half is of the familiar *pils* type beers—described by a brewing expert as "the sort of beer one gulps down at the station before catching the evening train home"—and the rest is Lambic.

Lambic is a spontaneously fermented beer that apparently can only "go" when exposed to certain rare microbic flora found in the air around parts of Brussels. Most of it is carefully aged, blended and refermented in much the same way as champagne. It commands a wide following under the generic name Geuze and is often flavored with cherries or

raspberries. But serious Lambic men insist it should be drunk when still young and bitter and containing a thick sediment that can provide a disagreeable shock for the uninitiated.

A friend here claims that you can drink a different Belgian beer every day for a full year—and I believe him. In many Brussels restaurants, the beer card is as extensive and as reverently inspected as a wine list might be in France. A few of the better known labels find their way abroad, but they might take some finding in America. The monks are not enthusiastic exporters, preferring to brew and sell just enough to keep their operations running and perhaps providing a small surplus for charity. About 50,000 pints were sold in the United States in 1985.

Belgium has lavished on its beers the kind of pride and reverence that countries further south place on their wines. The existence of Belgian wine

is not widely accepted as a fact—it is one of those annoying geographical mistakes that the Moselle River, which serves the vineyards of Luxembourg and Germany so handsomely, decided not to flow into Belgium.

Thus, since Roman times the Belgian talent has been harnessed to the production of beer using local hops, water and air. The history of brewing alone is well documented and sustains a handful of museums and a fair amount of scholarly research. It only needed Belgium to top the world's beer drinking charts for the first time—with an annual consumption of over 250 pints for every citizen—to round off the picture.—ALAN OSBORN

COPENHAGEN

The Nuclear Aftermath

Front-page headlines in a Danish tabloid, proclaiming structural faults in the Swedish nuclear plant Barseback, paralyzed the Copenhagen telephone system and—until corrected—caused general consternation in the Danish capital.

This is, of course, a natural reaction, considering the impact on public opinion of the Chernobyl nuclear accident in the Soviet Union. The Swedish nuclear plant is located within 12 miles of Copenhagen's city center, bestowing on Denmark the dubious honor of having the closest proximity of any capital to any nuclear plant.

The Danish Prime Minister, Poul Schlüter, openly confessed after a meeting with his Swedish counterpart, Yngve Carlsson, that he had mixed feelings about the Barseback plant. The Swedish Prime Minister said that although he could understand the Danish feelings, he would make no firm commitment to close the Barseback plant. Conditions in other Swedish plants might develop in such a manner that they should be closed first, he added.

Denmark has no nuclear plants of its own, and, as a political issue, the possible construction of any Danish plants is not even an item on the agenda any longer. But it is one of the more interesting examples of political geography that the 10-mile-wide sound between Copenhagen and Sweden could so completely sever any link between Danish and Swedish decision-making on nuclear policy.

But political geography extends beyond the Danish-Swedish relationship. The Danes were extremely keen on having food imports from Eastern Europe temporarily banned to preserve the reputation of E.C. food imports, with special emphasis on the U.S. and Japanese markets. But some Danish officials still wonder how the German Democratic Republic managed to escape the ban, while countries further away from Chernobyl were included.—LEIF BECK FALLESEN

ROME

Disappearing Wildlife

Recently, a little black bird with an orange beak alit briefly on the edge of our terrace in a suburb of Rome. But such is the ignorance of natural phenomena of children in Italy, that the bird had flown away before they identified it as a common, or garden, blackbird.

In most other European countries, such lack of knowledge would be inconceivable. But in Italy, actually to see wildlife in many parts of the country is a rare event. Early every spring morning there is a dawn chorus of birds, but they are so thin on the ground that one hardly ever sees them during the day. One major reason for this is that Italy is the most heavily hunted country in the European Community. There are at least 1.5 million hunters—also called “shooters” to distinguish them from the mounted variety—who enjoy rights that greatly exceed

those of their fellows in other countries, who, anyway, are far fewer in number.

Whereas in Britain—another European country well known for its hunting tradition—the right to shoot normally goes with the ownership of the land, an Italian can shoot wherever he wants unless the owner of the land has surrounded his entire property with a fence six and a half feet high, or if he is on a special nature reserve or within 150 yards of a house. Furthermore, the Italian hunter enjoys a very broad definition of what constitutes fair game. He may pursue not just such birds as pheasants, partridges and ducks, but also thrushes, blackbirds and sparrows, using a gun that can fire three times without reloading. The hunting season for some species begins in certain parts of the country in August and ends for others in mid-March.

For years, the E.C. Commission has urged the Italian Government to bring its laws closer into line with those of other E.C. countries and limit the hunting season, outlaw the shooting of certain small or especially rare birds and ban the use of guns that fire more than two shots without reloading.

But, as in many matters of legislation, the Government is powerless to oblige parliament to change the law. Although bills to tighten the hunting regulations and to conform with E.C. practice have been put forward, they have to compete with others that would make some concessions toward the E.C. requests, while, in practice, permitting the reinstatement of “traditional” local pastimes presently illegal, such as the shooting of chaffinches in the region of Tuscany.

But now action may at last be taken. A coalition of wildlife

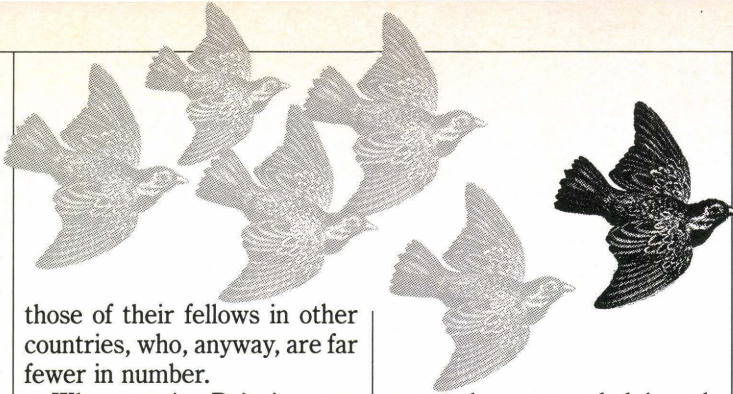
groups has succeeded in collecting 500,000 signatures to a petition for a referendum that would propose the total abolition of hunting. This is the minimum number of signatures needed in order to be able to bring the proposal before the constitutional court, which establishes whether it meets the legal criteria for a valid referendum.

If the court approves the referendum proposal, it would go ahead probably in a year's time. But it would be possible to block it if parliament in the meantime changed the law on hunting to make a referendum irrelevant or unnecessary. It is possible that this is what will happen in the end.

The opposing camps over hunting are not as clear cut as one might expect. Opponents of hunting include environmental groups and their followers, many young people, but also a large number of farmers who are fed up with having their land trampled on and their fences broken down.

The Italian hunter is not necessarily a countryman. He may live in a country village, but it is more likely that he resides in a town and goes out into the country with a friend and his dogs at weekends. Unlike in Britain, where hunting is very much an upper middle-class sport, Italians perceive it usually as a sport of the ordinary man.

For this reason, neither of Italy's two mass parties, the Christian Democrats and the Communists, has dared to oppose it, especially since the main sportsman's federations are affiliated to the big political parties. What is more, the Italian arms and ammunitions industry—a major employer in northern Italy—has sponsored



campaigns in favor of hunting that argue that this sport is a good way to get to know the countryside better. For the increasingly urban modern Italian, the slogan is valid up to a point.

The battle lines on the hunting issue are likely to be drawn up in the next few months. If no legislative compromise can be found that satisfies the constitutional court and enables the referendum to be called off, the issue will be put to the vote. But it is not certain that such a sweeping measure as the total abolition of hunting would be approved by the majority of the Italian people.—JAMES BUXTON

AMSTERDAM

Rewarding Moluccans

In May, the Dutch Government paid its “debt of honor” to some 3,500 Moluccan ex-soldiers who arrived in the Netherlands with their families some 35 years ago. Of all the colonies in present-day Indonesia—over which the Dutch presided for 350 years—the Moluccans had proved the most loyal.

In order to understand the background to the ambiguous Dutch-Moluccan relationship over the years, one must go back in history. Indonesian independence was soon followed by turbulence, resulting, in 1950, in the declaration by the Moluccans of their own sovereign state: the Republic of the South Moluccans. This separatist movement was soon suppressed by the first Indonesian President, General Suharto.

It was at this time that the 3,500 Moluccans arrived in the Netherlands with their families. Many of them were staunch Christians—having been converted to Dutch Calvinism—as well as royalists, and had for many years formed the backbone of the Royal Dutch East Indies Army (KNIL). They nurtured their ideal of the newly-formed and suppressed republic, insisting that

their exile was temporary, pending independence in Indonesia. They claimed that it was the duty of the Dutch people to promote the self-styled republic through the United Nations.

Over the years, they have staged violent protests—including hostage seizures of schools that made international headlines—to make their point and to try to force Dutch Governments to negotiate with Indonesia on the establishment of an independent Moluccan republic.

Last year, the Moluccan Unity Movement, "Badan Persatuan," finally asked the Dutch Government to "talk." The response from the Government was positive: "The Dutch Government feels that it would make sense to sit down with you and talk about your feelings of misunderstanding and about the way Dutch society could express public appreciation for the input and services that the KNIL military has rendered to the Netherlands in the past." A few weeks later the first round of talks took place.

These resulted in the Dutch Government's pledges to make annual payments of \$800—tax free—to former Moluccan KNIL members or their widows, and to award commemorative medals to those 3,000 members still alive. In addition, the Government promised to set up a museum of Moluccan history.

The Dutch Government also pledged to deal actively with the even greater problems of assimilation faced mainly by the second- and third-generation Moluccans in the Netherlands. Housing conditions and education facilities are among the chief concerns to the Government, which hopes that better conditions in these areas will help ease the integration process of the Moluccans, whose self-imposed living in barracks and in closely-knit family groups has kept them very isolated from the rest of Dutch society.

Despite lingering bitterness, there has been some success in the integration process. Mixed

marriages are one important example. Moluccans are also beginning to have an important role to play in other fields: Two were elected in recent municipal elections and a third became a member of the Dutch Parliament. And successful Moluccan poets and authors, as well as lawyers, architects, doctors and psychiatrists are slowly emerging.—NEL SLIS

BONN Hard Times For Drivers

After sex, soccer and—lately—radioactivity, a German male's thoughts generally turn to his car and the problems of his driver's license.

The problem is that a driver's license is easy to lose in the Federal Republic of Germany, but not always easy to recover. Of the 32 million to 35 million driver's licenses that the federal statistical office estimates have been issued to residents of the Federal Republic of Germany, around 150,000 are pulled in annually by the courts or the police. A further 40,000 persons who

cause an accident while driving without a license are officially disqualified from receiving one. Although this is a small proportion of the number of actual license holders, it is nevertheless a large enough number to keep most drivers on their toes.

This is the whole point of an elaborate demerit point system, set up and run by the federal vehicle registry office in Flensburg in northern Germany, to track down traffic violations. It is here that all demerit points awarded against each driver for traffic violations are recorded. If a driver accumulates 21 demerit points within 24 months, the license is automatically withdrawn. Once lost, it can be recovered only after a fairly long waiting period, which often entails having to go through a driver training refresher course as well as, in some cases, a psychological examination.

Drivers who lost their German licenses promptly tried to find ways to get around the prohibition by buying a license issued in another country—often the Netherlands or Ireland—arguing that they had a second residence there. For a time, this legal dodge worked, until a court declared that a driver's license was valid only

if issued in the country of a driver's primary residence.

In recent years, authorities have been particularly tough on drunk driving, so tough, in fact, that it is almost normal these days to see one of a group of couples out on the town to drink only mineral water. This may be the one who fails to laugh at the others' jokes, but it is also the one who will drive everyone home safely through late night police checkpoints.

The program has been effective. The number of traffic deaths—in a majority of which alcohol was involved—peaked at 19,192 in 1970. Primarily because of the anti-drinking campaign, this number has now been reduced drastically every year since then, to 11,732 in 1983, to 10,199 in 1984 and to 8,400 in 1985.

Demerit points are also awarded, of course, for parking and speeding violations, the latter usually showing up in radar speed traps. Here, however, the police ran into major problems when it came to proving who was driving or otherwise in charge of the vehicle at the time of the violation. Only in the most rare cases would the camera at a radar speed trap catch a perfect likeness of the driver through the windshield, so that the violation ticket, together with a fine assessment, could be sent to the car owner.

Much more frequently, though, a man would routinely declare that his wife had been driving on the day in question, pay the fine for her and let her pile up 20 demerit points in Flensburg so that his own record would remain immaculate. And the best excuse of all was that, on the day in question, the driver had lent the car to a cousin visiting from America or Australia who had, unfortunately, long since returned home. . . . Unable to prove otherwise, police would have to drop the case. But even on those occasions when the police insisted, car owners would appeal—easy to do, as most of them buy insurance that will pay their legal costs in cases



An elaborate demerit point system to record traffic violations is keeping German drivers on their toes.

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involving their vehicles.

Police, the judiciary and parliament have lost their patience and will soon pass the final version of a bill that will make the vehicle owner responsible—no matter who was driving it when a traffic violation was committed—and disallowing appeals of small traffic fines.

German drivers face hard times, but some fellow with legal insurance will undoubtedly test the bill before the constitutional court, although it clearly is in no mood to continue to tolerate nuisance cases.—WELLINGTON LONG

MADRID

Hankering For Art

Spain's democracy is not yet 10 years old, but it is already evident that in the arts these years have been marked more by an explosion of awakened interest in them by millions of ordinary Spaniards—who are trying to catch up after 40 years of deprivation—than by major creative achievements. Until now, it has been the long queues waiting to enter art exhibitions, overnight stands for star opera singers and famous visiting symphony orchestras, rather than the emergence of significant new artists, that have characterized the cultural scene.

The popular hunger for the arts has been evident everywhere. Although handicapped by severe financial constraints, the Socialist Government, recognizing the population's desire for music, the theater and art exhibitions, is consciously embarking on backing all artistic and intellectual activities.

Two recent major art exhibitions proved to be revelations for the Spanish public. The Guggenheim Museum and the Museum of Modern Art in New York organized a joint showing of their abstract art treasures, covering the period from 1910 to 1980. And another exhibition of the Impressionist painter Claude Monet mustered 123 paintings lent by



The Prado Museum in Madrid houses some of the finest paintings by Spanish artists, including the Goya portrait of the "Marquesa of Santa Cruz," which was acquired recently for a sum of \$6 million.

galleries and private collectors from 12 foreign countries.

Both exhibitions proved a tremendous success, since Spain has no Monets in any public collection—not to mention foreign abstract masters. Moreover, both exhibitions were free, for the Socialist Government abolished all state museum entrance charges for Spanish citizens. Only foreigners still pay.

The Government's adamant pursuit of a cultural policy inevitably led to controversy. A Goya portrait—"The Marquesa of Santa Cruz"—smuggled out of Spain in 1983 without the knowledge of the authorities, was repatriated at a cost of \$6 million just before it went on sale at Christie's in London. This move led to an outburst among art experts who claimed that Javier Solana Madariaga, the Minister of Culture, had blundered or been badly advised. It was charged that he had wasted precious funds that could have been better spent on filling some of the many gaps in Spain's public collections of modern painters after the willful neglect of them by the Franco regime. Further criticism pointed to the fact that there were already many fine and famous Goya portraits

in Madrid's Prado Museum, and that, moreover, the quality of the painting was very much in doubt.

But Solana stuck to his guns, saying that the portrait was not only worth its elevated price, but that Spain was now also in the vanguard of those nations showing determination to recover art treasures plundered by foreigners in the past. It seemed that Solana was clearly not to be outdone by Greece's Culture Minister Melina Mercouri, who has been actively campaigning for the return from Britain of the Elgin Marbles.

With music, less of a "native" art form perhaps for Spaniards than paintings, the problems run deeper, and clearly show the Government's basic predicament: a lack of funds. Singers, for instance, such as Plácido Domingo, Josep Carreras and Montserrat Caballé, perform in the best opera houses around the world, but not in their own country. Not only does Madrid have no permanent opera company, the opera house is used for all kinds of performances, from harpsichord recitals to a 100-player-strong symphony orchestra concert, because Spain's capital also still has no

concert hall.

All this still reflects the conservative tastes and demands of a bygone era and slowly dying social elite, not those of a mass consumer society, which is rapidly evolving in Spain. As in music, there are some outstanding Spanish actors, such as Nuria Espert, but the country's golden age of drama remains neglected due to a lack of actors properly trained to play it.

But the Government hopes to change all this. The foundations have been laid for a concert hall and the establishment of a national theater company. And hopes are high that, with generous public funding, Spain's national orchestra may eventually be turned into one of the top 10 in the world.—RICHARD WIGG

ATHENS

Religious Differences

An unusual trial has focused attention on hostility between the Orthodox Church of Greece—enshrined in the constitution as being the guardian of the country's official faith—and a small Protestant minority. In May, three missionaries who gave a 16-year-old Greek boy a copy of the New Testament, were acquitted of proselytizing by an appeal court. The decision canceled a three-and-a-half-year sentence for each defendant handed down by a lower court in 1974.

The trial received widespread publicity because one of the missionaries was American, another British and a third a Greek national who had worked in New Guinea for 16 years. None of the three spent any time in prison since they were freed pending the appeal court hearing, but the case revealed the difficulties that religious dissenters may face in Greece.

More than 98 percent of Greece's 10 million inhabitants profess Orthodoxy. The Church still enjoys a privileged

position because of its past role in keeping Greek values alive during the four centuries of Ottoman occupation, but almost five years of Socialist Government have slowly eroded the ecclesiastical authority of the Orthodox Church through the introduction of civil marriage, automatic divorce and abortions on demand. Nevertheless, the 90-odd bishops who make up the Holy Synod are still deferentially treated by political leaders, and parish priests are considered civil servants and are paid a small stipend by the state.

The Orthodox Church in Greece has a reputation for extreme conservatism. Bearded priests in long black robes, their hair knotted into a bun beneath a black stovepipe hat, look disconcertingly medieval in modern Greek surroundings. Petitions by younger priests to go clean-shaven and wear modern clerical dress—like the orthodox clergy in the United States—have made little headway.

Although church-going has declined steadily, orthodox religious education is compulsory in schools. Freedom of worship is guaranteed under the 1975 constitution, but proselytizing is banned under a 1938 law passed by a right wing dictatorship, and orthodox clergy remain deeply suspicious of evangelical movements.

Testimony at the missionaries' trial showed a deep-rooted concern that evangelical Protestants may try to lead the orthodox faithful down the path of heresy. The court was told that Protestantism is dangerous because it discards icons, still objects of devotion both in churches and homes, ignores the teachings of the Old Testament prophets and does not require its flock to make the sign of the cross. Evangelical groups were denounced in court because they use modern media skills to tempt young people away from Orthodoxy.

Defense lawyers at the missionaries' trial detailed a streak of religious intolerance in Greek society that goes unnoticed in the press. There are

thought to be only about 8,000 Protestants in Greece, who mostly belong to non-denominational evangelical groups. In recent years, the groups' requests for Government approval have been turned down by the Ministry of Education and Religion. Members of the Jehovah's witnesses sect have been regularly sentenced under the proselytizing law.

But the missionaries' acquittal meant that the legality of the old-fashioned edict against proselytizing could not be effectively challenged. Their defense lawyers had prepared arguments to show that their original conviction was invalid under European Community law, which takes precedence over national law among E.C. member states. They also pointed out that the law contradicts Greece's international treaty obligations under the

European Human Rights Convention, which guarantees freedom of conscience and worship. But although the Government has promised in the past to repeal legislation against proselytism, few legal experts expect that to happen soon.—KERIN HOPE

LUXEMBOURG

Polyglot, But Aloof

There is a regular, fresh wreath at the grave of General George Patton in the American military cemetery at Hamm in Luxembourg that serves as a strong reminder of the powerful affection for America that still exists throughout this tiny country some 42 years after its liberation by the U.S. 4th Infantry



Greek Orthodox priests lead a procession of the icon of Salonica's patron saint, St. Demetrios.

Division. To many Luxembourgers in their 50s or older, the depth of sentiment for America is as natural and as unshakable as mother-love. More surprising is the extent of such feelings among the younger generation: At a time when much of Europe has found cause for suspicion and disillusionment over the Atlantic alliance, the Luxembourgers have remained America's most steadfast and uncritical friends.

There are some special reasons for this. Luxembourg has no university and in sending its bright young children away to be educated, it is, in a real sense, exporting a source of articulate dissent that might well have taken an anti-American form in recent years. Moreover, the United States, perhaps because of the war experience, has been a major destination for emigrants. There are said to be more Luxembourgers in Chicago than in the Grand Duchy itself, and almost every Luxembourg family here can claim a relative in America. Finally, the flow of U.S. investment into Luxembourg in recent years has been handsome and largely free from the kind of disputes that often mar Luxembourg's relations with its close European neighbors.

Whatever the reason, Luxembourg's attitude toward Americans is in striking contrast to that it takes toward other foreigners. The subject is one of endless fascination and discussion in the capital, stimulated chiefly by the fact that a quarter of the population in Luxembourg is foreign and that, if present demographic trends continue, the proportion will be almost half within the lifetime of most living inhabitants.

Foreigners here fall neatly into two groups with only one real thing in common—their social and economic detachment from the mainstream of native Luxembourg life. It has become almost commonplace to say that Luxembourgers themselves are almost entirely middle class, relying on foreigners to provide both a man-

COURTESY GREEK EMBASSY PRESS AND INFORMATION SERVICE

ual working class below them and a social elite above.

It is fair to bet that virtually all the people one will find cleaning hotel rooms, mending roads and removing garbage in Luxembourg are immigrants from southern Europe, more likely than not from Italy and Portugal. Some stay for a lifetime, but for most of them their jobs are an opportunity to make a lot of money in a short time and then to return home. Very few make the effort to learn the language (which is partly understandable since there are three official languages in Luxembourg), still less to fraternize socially.

At the other extreme are the 6,000 or so staff of the European Community institutions, plus probably a similar number of foreign executives in banking and other commercial enterprises. The economic gap between them and the rest of the country is vividly illustrated by the fact that, while they represent only 3 percent of the total population, they are responsible for an estimated 10 percent of all consumer spending.

The Eurocrats are tolerated. There is general recognition that such well-heeled foreigners have brought an important measure of prosperity to Luxembourg, but this is tempered by resentment at the fact that they pay no taxes to the country at present.

This, however, could change. The E.C. Commission has drawn up plans under which the Community's employees would pay taxes to the country in which they work. The prospect has sparked an interesting split in opinion among Luxembourgers—many expressing delight at the thought of some relief of their own tax burden, others fearing that the drop in net income of the foreigners could spell disaster in the retail trades and housing markets. Virtually all are agreed, however, that even a drastic narrowing of the income gap will not lead to any marked assimilation of foreigners into Luxembourg's social circles.—ALAN OSBORN

LISBON

Rediscovering Brazil

Portugal and Brazil are now rediscovering how an old, friendly relationship, based on a common language and culture, also can turn out to become economically interesting. Business, in fact, was the key word last May, when Brazil's new president, José Sarney, spent a whole week in Portugal on his first state visit outside Latin America since he was appointed roughly one year ago.

Nearly 200 Brazilian businessmen joined the President on a parallel mission, essentially trying to get acquainted with the new opportunities Portugal can offer them now that it is a member of the European Community. This has not been an isolated act. Since last November, a set of coordinated initiatives has been established to try to promote a new image of Portugal as a viable economic partner for the business community of Brazil.

The São Paulo State Bank has negotiated special arrangements with the Foreign Investment Institute and an important development bank in Portugal, thereby creating a very useful institutional and financial framework to support entrepreneurial cooperation.

In both countries, everyone knows that the Portuguese accession to the E.C. cannot, by

itself, bring a significant direct stimulation to bilateral trade. To take advantage of the new situation, Brazil has to invest in Portugal—preferably in association with Portuguese companies—so that the final product can benefit from free access to the Community's huge market of 320 million people.

Specific factors such as the common language and similar industrial costs in industry can improve the appeal of this strategy, according to some business circles. But, like the United States and Japan, Brazil can also be attracted, essentially, by making the best use of comparative advantages enjoyed by Portugal. Lower labor and transportation costs are good examples, but it would be foolish to forget the really stimulating effect that can come from the investment incentive systems now in place as a consequence of E.C. membership.

"During the second half of the 1980s, we will see an increasing number of Brazilian businessmen make tactical investments abroad, complementary to their basic activity and liable to improve their global efficiency and ability to penetrate foreign markets," says Milliet de Oliveira, chairman of the São Paulo State Bank.

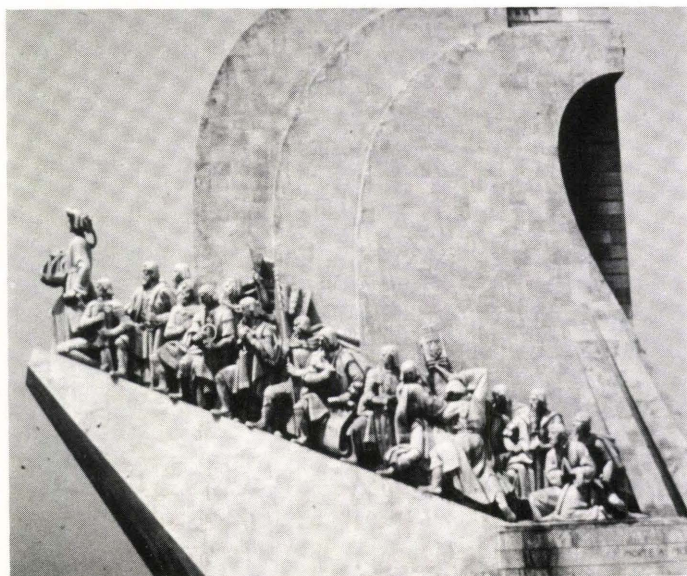
This kind of logic has already allowed for the organization of 35 joint-venture projects, presented to the Foreign Invest-

ment Institute in Portugal. Agribusiness, ceramics, weaponry, footwear, textile and apparel are among the elected areas in this first round of a process that can dramatically change the prospects for the Portuguese relationship with Brazil.

The enthusiastic rhetoric of political statements and the solemn declarations mark a sharp contrast with the weakness of economic links and the relatively low importance of trade flows. This is why most Portuguese businessmen are looking cautiously at this new initiative and tend to avoid any kind of euphoric attitude. Better than anyone else, they know it will be a slow, difficult process, depending on many elements they cannot control, such as political stability or the evolution of the world economy.

Trying to cope with this prudent skepticism, President Sarney committed himself personally to the development of a new economic relationship. "This time it is going to work," he said in a meeting of businessmen, certainly counting on the experience of the 150 Brazilian trading companies now operating in more than 100 countries.

In the very beginning of the European integration process, this is the kind of message the Portuguese authorities like to hear. And beyond immediate economic advantages, they may well be thinking about the crucial role that Atlantic relations, globally considered, are to play in order to preserve a specific identity of the country in the framework of the Community.—JOSÉ AMARAL



COURTESY EMBASSY OF PORTUGAL

LONDON

Betting Gains Status

The British Government very recently allowed something that will add a small, but nonetheless tangible, bonus to the quality of life of millions of its people. It was a

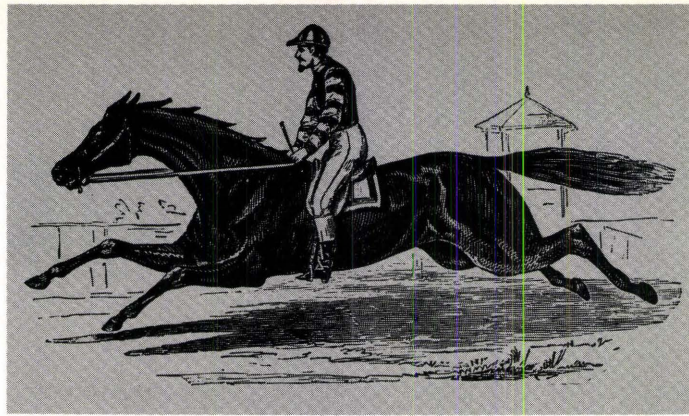
move that was both sensible and a step away from a long-standing hypocrisy: The installation of television sets and the serving of non-alcoholic drinks in betting shops has ceased to be illegal.

The betting shop would not be a familiar institution to most Americans. It is, as the name suggests, a shop into which people may go to place cash bets on horses, dogs and, increasingly, on some rather more bizarre contests ranging from the results of the next general election to whether it will rain on Christmas Day. Millions of people go into a betting shop at some time during a year and a rather smaller number spend the larger part of every day in one. Most people, however, will stop off to place a bet on their way to work, and, if Providence has smiled, they will pick up their winnings on their way home.

But the British have been profoundly uneasy about betting and betting shops for a very long time. For decades, cash betting was regarded as something socially undesirable, seeming to pander to the baser instincts of greed and irresponsibility. If fathers could back horses, then there was always the risk of an unhappy and starving family as his paycheck was carried away on the backs of tragically slow horses.

Until the late 1950s, the formal position, therefore, was that cash betting was illegal and that those convicted of the offense of receiving cash bets (in other words, acting as a bookmaker) could face fines or imprisonment. The actual position was rather different. In the early 1950s, my father purchased a cash betting business from an old friend of his who had inherited it from his father. The business had been illegally operated from the front room of a terraced house in a working-class neighborhood for 47 years.

This betting shop was a local institution, as much part of people's lives as the public house. Once a month the local policeman would stand on the



front doorstep to receive a modest encouragement so that he would continue to turn a blind eye to my father's activities. The police, however, had to be able to demonstrate to the local magistrates that they were ever vigilant in their battle against the evil of gambling, which meant that they had to have prosecutions. So once a quarter my father would volunteer for prosecution and pay his fine, as well as an additional fee to compensate for his martyrdom. This way of doing things was not peculiar to my home town: The entire betting system around the country was regulated in a similar manner.

The conservative Government of the late 1950s recognized that it was perhaps better that cash betting should cease to be an underground activity, not least because there were some attractive revenue possibilities in making it legal. The law was changed and my father moved out of the front room of the old terraced house in which he had prospered modestly and into something resembling a shop with a name above the door.

But to the Government of the day, legislation still felt like a slightly improper act. People were to be allowed to bet, but not in comfort. Nor were they to be offered any enticement to remain in the betting shop once they had completed their transactions. While a racing commentary over a radio link—"The Blower"—was permitted, television was outlawed and so was any other kind of service. "You may bet but you will not enjoy it," said the authorities.

Governments, while still ap-

parently embarrassed, came to be very thankful for this small step toward permissiveness. After a direct tax was placed on cash betting in the mid-1960s, betting shops became a vital source of revenue. Now

the betting shops alone pour more than \$2 billion a year of tax revenue into the national treasury. But still, the shame of pimping on such an apparently dubious activity has lingered on until just recently.

At last, but not for the first time, the British have abandoned a moral position by stealth. Pragmatic experience has shown that the betting shop has not been the cause of our major social ills and I will bet you a lot of money that the country's decline will not be accelerated by the availability of television and a cup of tea in the local "bookies."—JOHN WYLES

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PARIS

Art for Art's Sake?

The new conservative Government expected controversy over its plans to liberalize the economy and privatize state-owned companies. But—this being France—one of the most heated disputes in the first months of the mandate has revolved around esthetics, history, culture and taste.

It was an argument over whether modern sculpture should be allowed in the courtyard of the 17th-century Palais Royal in the heart of Paris. At issue was a project by French sculptor Daniel Buren to adorn—or adulterate, depending on your perspective—the *cour d'honneur* of the palace with 252 black-and-white striped columns. The columns were to repeat the lines of pil-

lars that already formed an arcade edging a garden of fountains, shrubbery and park benches. Buren's zebra-like pillars were of varying heights, placed over grids with water flowing underneath. They were to be lighted at night and people were meant to sit on the lower columns, becoming part of the sculpture itself.

It was a perfect 20th-century compliment to a centuries-old French garden. At least this was how Buren and the former Culture Minister Jack Lang, who commissioned the sculpture, saw it. Lang ordered the work to begin without seeking the normal permission from the city of Paris. The parking lot that had occupied the site was cleared and the columns started going up before battle was joined.

But earlier this year, a cry of outrage was sent up by a committee for the defense of the Palais Royal, by the rightist mass circulation newspaper *Le Figaro*, and by the city of Paris. It became a cultural dispute that pitted the most political of opponents against each other: the conservative leader Jacques Chirac, Mayor of Paris and now also Prime Minister, against the high priest of culture, the flamboyant and highly popular former Socialist Culture Minister Jack Lang.

In February, when the sculpture was already more than

half complete, the city halted work and sought a legal opinion. Lang, the opposition leaders argued, had failed to inform the city and had ignored the opinion of France's Commission for State Monuments, which voted against the construction of such a work in the Palais Royal. The *Conseil d'Etat*, the highest administrative body—with its offices in the palace overlooking the contentious artwork—decided against the sculpture and ordered work to be halted, pointing out that work could be legally halted indefinitely.

Enter the new Culture Minister, François Léotard. He, too, is dynamic and politically popular, but had a hard act to follow after Lang. Léotard's first official duty was to make a final decision on the future of the Buren columns in the midst of hot public controversy. Full pages were devoted to the argument in the major newspapers and the issue was at the center of endless television and radio reports. Many called the sculpture a "violation of history and architectural integrity, an abomination that destroyed an earlier artwork, the equivalent of painting a hat on the head of a classic portrait."

Others argued the change would rejuvenate the palace. "There is not a work of art that looks the way its creator originally designed it," said lawyer

Georges Kiejman, who has defended other artists facing destruction of their works. "The role of the state is not to respond to public taste but to lead it," he added.

Buren took on those who labeled his work transitory and contemporary. "I don't believe in eternal art. Duration of art depends on the love with which it is preserved." A Socialist defending the project during a debate at Paris City Council pointed out that "if we had always listened to the conservatives of yesteryear, who refused all innovation, the conservatives of today would have nothing to defend."

The new Culture Minister was torn between the strong opposition to the work—led by his own rightist coalition—and his obligation to the art world. Finally, Léotard grudgingly decided the work must go ahead. "I am not here to judge what is ugly or beautiful, but to defend the rights of artists," he declared. He added that he could hardly open his term by bulldozing a work of art.

But it was President François Mitterrand who had the last word. The debate over the columns, he said, was "excellent," noting that "France is one of the few countries in the world where there could have been such lively public discussion over an issue of culture."—BRIGID JANSSEN

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Placing 252 very modern black-and-white striped columns into the courtyard of the 17th-century Palais Royal has led to much heated public controversy in France.

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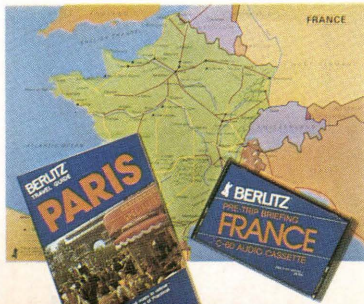
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U.S.-EUROPEAN RELATIONS/COVER STORY

LIBERTY: A SYMBOL OF TRANSATLANTIC UNITY

FOR IMMIGRANTS AS WELL AS RETURNING SOLDIERS, THE STATUE HAS HAD SPECIAL SIGNIFICANCE.



LESLIE ALLEN

At age 100, the Statue of Liberty is firmly entrenched, to friend and foe alike, as the preeminent image of the United States itself. But over the years, much of the fascination she inspires has stemmed from her ability to evolve as a symbol, representing changing conditions and alliances on either side of the Atlantic.

The conditions that brought the Statue of Liberty into existence had relatively little to do with the United States. Officially, the monument arrived as a gift from France to commemorate the two nations' alliance during the Revolutionary War, but in reality, more recent events in France were responsible for the gesture. In 1865, Frenchmen were chafing under the despotic regime of Napoleon III, who, like his legendary uncle, had appointed himself Emperor of France. Opposition was rife, especially among the "liberals," or "republicans" who revered the American model of government.

Their leader, Edouard-René Lefebvre de Laboulaye, was a distinguished jurist, professor, businessman and author of several volumes on American history. During the Civil War, his anti-slavery tracts put him further at odds with Napoleon, who had supported the Confederacy.

In his writings and teachings on America, Laboulaye was usually addressing the political situation in France, but press censorship forced him to use indirect means. Thus the idea of a statue, as a sweeping symbolic gesture to strengthen the liberals' association with America—and remind the French of *liberté*—came

An immigrant family arrives at Ellis Island in 1908 (below). Left: a group of Russian orphans in 1907.

PHOTOGRAPHS COURTESY NATIONAL PARK SERVICE.

naturally to him at a dinner he hosted for his supporters at his country home near Versailles. Among the guests was Frédéric Auguste Bartholdi, an ambitious young sculptor with a passion for the colossal. But Bartholdi would have to wait several years to begin work on the Statue of Liberty. In 1865, Napoleon's strength was simply too great for such a challenge, even a subtle one.

The turning point arrived with the Franco-Prussian War of 1870-71. That short-lived *débacle*, flaring out of tangled alliances and ancient rivalries, produced several results for a badly defeated France: the end of Napoleon's rule and the Second Empire, violent social unrest that culminated in the Paris Commune and the loss of Bartholdi's native Alsace and southern Lorraine to Germany. For 10 years, Bartholdi refused to return to Alsace. His Parisian exile was further embittered by the fact that his beloved mother, the model of Liberty's face, had stayed behind in the German-held town of Colmar.

For Laboulaye as well, the war and its aftermath made the idea of an American monument look more timely than ever. Napoleon's downfall left France with little that passed for a government, and as Laboulaye's republicans vied for power with other groups, a trans-Atlantic link looked increasingly attractive. But there was also much to regain in the way of Franco-American friendship, for the United States had tacitly thrown its support to Germany during the war. Hostility to Napoleon was the main reason; in addition, America's million and a half German-born immigrants formed a powerful bloc of support for the fatherland. The statue would help to reestablish the old alliance.

Moreover, the idea of a colossal statue was in context with the times. It was the heyday of such endeavors: Throughout the Western world, the vast majority of public statues ever built was erected in the last quarter of the 19th century. The Industrial Revolution had bred not only the affluence of materialism, but also advances in engineering and metallurgy, to make these grand new works possible. In France, there were additional reasons for the feverish profusion of monuments. The war had given the nation a new roster of fallen heroes to memorialize. And though defeat brought humiliation to France, the time that followed was marked by a sense of renewal.

A republic was eventually reestablished; no longer were political notions embodied in the likeness of absolute rulers, but rather in monuments to *la Nation, la Révolution, la République, la Liberté*. And because public subscriptions were becoming a common way of financing the new monuments, the French took in stride what might otherwise have seemed an outrageous proposition: a call for one million francs (roughly \$400,000) to build a statue for another country.

The upcoming American Centennial offered the perfect occasion to commemorate historical ties. When the fundraising campaign was launched in 1875 with a nationwide newspaper appeal, descendants of Lafayette, de Rochambeau and de Tocqueville—all men whose names

Leslie Allen is a senior writer with the National Geographic Society and author of *Liberty: The Statue and the American Dream*.



still evoked fierce pride in France—figured prominently among the signers.

But the Centennial also symbolized something quite different as well: the overtaking of the Old World by the New in terms of economic development, signing altered relationships in trade and other areas. At the Philadelphia Centennial Exhibition, growth, expansion and development in all realms were celebrated in an almost incoherent diversity of exhibits. Corliss' steam engine and Bell's telephone made their debut; a section of Brooklyn Bridge cable was displayed. The Exhibition's main building, 20 acres in area, was the world's largest structure. When Bartholdi arrived with Liberty's torch-bearing arm, the only part of the statue he had completed, size rather than symbolism was the attraction to thousands of fairgoers who paid a quarter and climbed 30 feet to the balcony circling the torch.

Ironically, the technological feats shown off in 1876 were largely a reflection of a "brain drain" from western Europe by massive immigration to America. German-born craftsmen were building fortunes on inventions ranging from optical equipment to typesetting machines. In each shipload of English immigrants came dozens of skilled metal and textile workers who gave America the know-how to quickly surpass industrial production in the mother country. Newcomers and native-born had transformed the young republic into something quite different from the image of a wilderness utopia long-cherished in Europe.

Bartholdi's varied ideas as to how to personify America reflected this. One of

Serbian gypsies arriving in the early 1920s (below).



his early monuments included a statue of America as a powerful young Indian brave. On his American tour of 1871, he facetiously pictured the nation as "an adorable woman chewing tobacco." Most similar to Liberty in her final form were sketches and models for a monumental torch-bearing female figure conceived, but never built, as a lighthouse at the Suez Canal's entrance. This was to be called "Egypt Carrying the Light of Asia," or simply "Progress." Liberty, instead, would beam her message toward, rather than away from Europe.

But for that very reason, Americans—who were to pay for the statue's 89-foot pedestal—showed pitifully little enthusiasm for the project. When they considered the statue being built in France at all, it stirred misgivings. What was the meaning of this unsolicited gift, and why was it being ransomed for the price of a pedestal? Quipped *The New York Times*: "The Frenchmen, when they undertook to put us to the expense of providing a pedestal, cunningly took advantage of our fondness for big things." Even after the immigrant publisher Joseph Pulitzer raised the necessary money through a relentless newspaper campaign, Congress waffled about appropriating funds for the statue's unveiling and maintenance. Liberty, as statue and as ideal, was taken more for granted in America than in Europe.

Like the adopted child who recalls little of its real parents, though, Liberty quickly lost her association with her French origins. And even as the statue was being unveiled in 1886, her message was no longer shining toward France in

particular. Instead the upraised torch now beckoned to Emma Lazarus' "huddled masses" from eastern, central and southern Europe. They were arriving in numbers unprecedented in the entire history of world migrations, but Americans were not ready to acknowledge it. Neither Lazarus nor her now-famous poem were awarded official recognition until 1903, when a plaque bearing the sonnet was affixed to the statue's pedestal.

By then, the new immigrants who sailed into New York harbor had already transformed the statue into a "Mother of Exiles." There was poetic justice in this: These latest newcomers, much more than earlier immigrants, knew the personal suffering of liberty denied—whether by Czar, King, Sultan, Chancellor, or their appointed emissaries. Moreover, in the lands they had left, the stage was already being set for events that would again transform the statue's meaning, and the face of Europe itself. To thousands of American soldiers who steamed past her on their way to the battlegrounds of World War I and World War II, she represented an ideal worth fighting for—even in distant lands—and the alliance of free nations. To those who returned, she signaled home—America itself.

Laboulaye, Bartholdi and the rest of Liberty's champions could never have envisioned the character their statue would assume as she reached maturity. Yet so attuned to nuance were their motives, and so broad their theme, that chances are that they would have recognized her in her newer guises.

An Armenian family before emigrating to the United States in 1918 (below).



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A B-Grade Hollywood scriptwriter would blush at dumping so much melodrama into a single movie, yet the headlines from Europe this past year have made “The Towering Inferno” look like a backyard barbecue. Before the ink had time to dry, news reports were predicting Americans would stay home in record numbers. Yet the reports were unscientific and impressionistic, a collection of random quotes from travel agents be-moaning a drop in business in Europe.

Wildly divergent figures were tossed about, too. Cable News Network, in a report on May 18, predicted that Italy would lose \$800 million in revenue from American tourists this year. Yet the Italian Government Travel Office insists the country derives only \$1 billion in tourism revenue from the United States, and not even the most pessimistic reports have suggested an 80-percent drop in travel to Italy. Understandably, the Italians are reluctant to discuss the matter in any detail.

Yet hard figures about American travel to Europe are as scarce as good news. In February, after the Rome and Vienna airport shootouts, the U.S. Travel Data Center surveyed 1,500 households. The results, extrapolated to cover the entire U.S. population, indicated that 5.1 million Americans had originally made plans to visit a foreign country, and that 35 percent had now switched destinations. Seventy-eight percent (1.8 million) intended to stay in the United States, with the remaining 22 percent planning to visit a different foreign country. But only a tiny

fraction of the American populace was polled.

Conversations with airline officials indicate across the board a pattern of heavy cancellations by group tour operators. Tours account for the largest share of economy class tickets sold by airlines, with operators often booking huge blocks of seats in advance. But if, for example, an operator makes 300 reservations and 100 clients cancel, he is faced with taking a big loss or scrubbing the entire tour. A large portion of the tour market is made up of special groups such as schools or incentive travel by corporations where a single person (a principal, a company president) must shoulder responsibility for the safety of the entire group, and these tours have especially been hit hard by the fear factor.

Hedy Wuerz of the German National Tourist Office reports incentive travel to Germany is down 80 percent to 90 percent, with group tours reportedly off by 20 to 60 percent. But Wuerz remains cautiously optimistic about the rest of the season, pointing out that two-thirds of Germany’s American tourism comes from business and individual travelers who seem to be going over in large numbers.

“Plus, you must keep in mind,” she adds, “1985 was so good we could hardly hope to reach those levels a second year in a row.” Overall tourism to Europe was up 20 percent in 1985 from 1984 to just over 6.4 million people. “If nothing else happens, I think we may even get back to 1984 levels later this summer. If you talk to the airlines, especially the European flag carriers, you will find out the planes are full.” Swissair, Air France and Lufthansa all confirm business is good in first and executive class, and slowly picking up in economy. Most of the airlines and tourist organizations expect an overall drop-off of 20 percent.

The European airlines have even gained a rather embarrassing windfall of

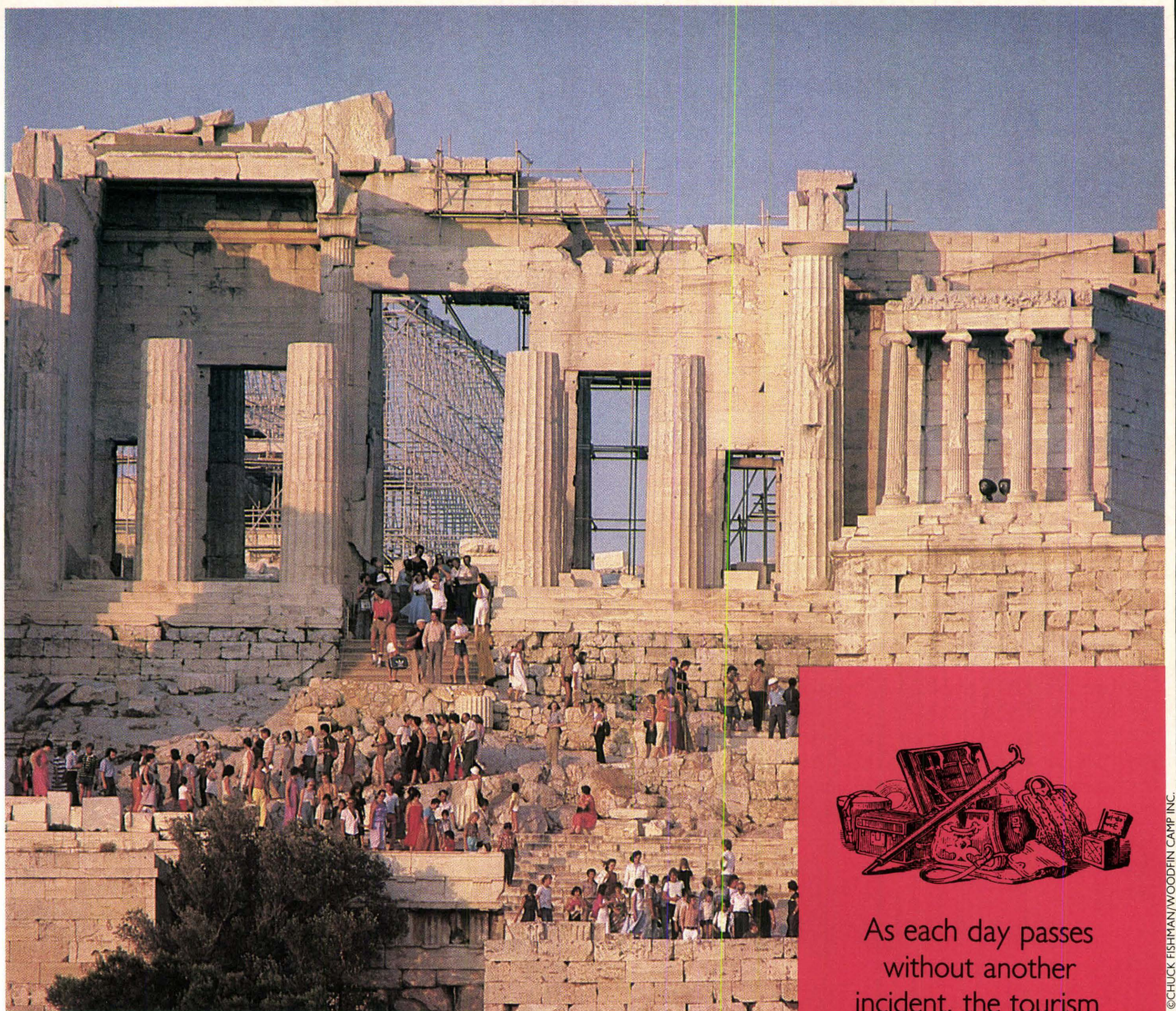
passengers. Press reports suggesting that Americans would be safer on non-U.S. planes have helped siphon off business travel, which makes Pan Am’s James Arey absolutely furious. “I’ve read some pretty ridiculous articles and I think it’s absurd to pit one airline against another on the basis of safety. We’re doing everything we can.”

Pan Am came out swinging with full-page ads announcing stepped-up safety measures, and the company’s chairman met with travel industry officials and the heads of major corporations in an effort to convince them that American airlines are safe. Arey maintains the response was positive, but concedes Pan Am does not expect overnight results. “It took a while to get over World War II. We’ll get over this.”

Of all the airlines, TWA has suffered the most from terrorism, coping with one fatality during the Athens hijacking and four in a bombing over Greece. Business on some flights has reportedly been slashed up to 80 percent, and service to Italy, Greece and Egypt has been severely cut back or rescheduled.

Yet despite the bad publicity, few major marketing programs are underway to lure Americans back to Europe. Greece has mounted an expensive, flashy advertising blitz in response to a travel advisory issued by the U.S. State Department last year. That advisory followed the TWA hijacking that listed the Athens airport as unsafe. The Greek Government angrily denounced the move, claiming it was prompted in part by Washington’s displeasure with the Papandreou regime. Despite the campaign, Mediterranean cruises (one of Greece’s big draws for Americans) have virtually dried up, with Italy a big loser too (the ill-fated Achille Lauro is an Italian ship owned by a Greek shipping firm).

Still, price-cutting has been minimal. Off the record, airline officials admit they’re waiting for the other guy to blink. Pan Am is offering “2 for 1” coupons for travelers to Europe good for flights to any North American destination, and British Airways—whose traffic was reportedly down 40 percent at one point this spring—launched glitzy sweepstakes to give away flights to London. But Air France has actually raised its regular fares 3 percent—in view of last year’s record business, this tiny increase in prices may be seen as really a cut in prices—though they have reduced prices of charter flights which is where the impact of group cancellations has been the greatest.



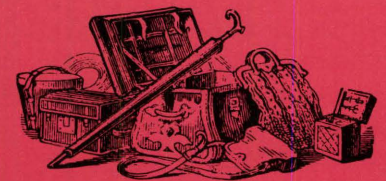
Some travelers are beginning to question whether the dangers from terrorism have not been blown out of proportion. Above, the Acropolis in Athens.

The decline in travel to Europe cannot be blamed entirely on fear of terrorism. In the past year, the dollar has fallen steeply against most European currencies, including the pound sterling (down 24 percent), French franc (26 percent), Italian lira (26 percent) and German mark (32 percent). London's Ritz Hotel, Paris' Tour Argent restaurant or an orchestra seat at Berlin's Philharmonic are significantly more expensive than last year. Lufthansa's Lucille Hoshabjian maintains it was 1985's strong dollar that lured travelers on a low budget to Europe in the first place and that its fall has sent them elsewhere.

Other economic factors cannot be ruled out either. The drop in oil prices has caused gasoline prices to fall by 50 percent in some areas, and Americans are jumping into their cars instead of boarding airplanes. The U.S. travel press is

pushing North America, especially Canada and Mexico. Unlike the disastrous fair at New Orleans, Vancouver's "Expo" is a sure winner, and Mexico's public relations problems following the murder and kidnapping of several Americans last year seem largely forgotten.

As one airline source put it bluntly: "The travel public has a short memory." He quickly added, however: "God help us if there's another accident!" Travel agents and some tourist officials are less optimistic that business will rebound so quickly. School trips to the cultural shrines of Europe will likely resume next year, but as Erika Faisst of the Swiss National Tourist Office points out, each incentive booking lost this season hurts tourism twice: "We lose the business now, and we lose the repeat business we would normally get when incentive travelers come back on their own."



As each day passes without another incident, the tourism market looks up.

As each day passes without another incident, the tourism market looks up. After the initial revulsion at the brutality of the terrorist actions directed at Americans, some travelers are even beginning to question whether the danger of terrorism has brewed up into a potent hysteria. No one can deny the pain and anger that the TWA hijacking or the Achille Lauro incident brought to the victims and their families. However, in the past 18 months only 18 Americans have been killed in terrorist incidents worldwide, while more than 43,500 died in traffic incidents during 1985 alone. As of yet, no one in the Reagan Administration has called for a punitive air strike on Detroit similar to the one carried out against Libya. €

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OVERHEARD AT JOEY'S EURO-AMERICAN DINER

AN IMAGINARY DIALOGUE BETWEEN A SINCERE AMERICAN AND A WELL-INFORMED EUROPEAN.

BENITO GRELI

The American: Any excuse is good for you Europeans to close your markets. I have read that you will be even more protectionist with 12 E.C. member states than you were with 10.

The European: I am afraid that your information is flawed. The reality is quite different. But first, let me ask you one question: Is a strong and united Europe in the interest of your country? Don't you think that integrating Spain and Portugal—two countries which recently freed themselves from tyranny—to the democratic fold of the European Community is

in the best interest of the democratic values we share on both sides of the Atlantic?

A: Of course I do, no one here would deny that. Don't try to change the subject. You know that our problem is economic, not political.

E: Ah, *mon ami*, how easy would life be if things were as simple as Americans think they are . . . You cannot separate the economic and the political: It is in your political interest not to weaken Europe nor to create a wave of anti-Americanism. And this is precisely what you do when you blame all your trade problems on nasty old Europe. Europeans get the impression that they are unfairly treated by

the United States.

A: Our farmers are going to lose \$1 billion with the accession of Spain and Portugal. Is that fair treatment?

E: To me, \$1 billion sounds more like campaign rhetoric than an objective figure . . . I'll come back to that later, but first a general comment. At present, 85 percent of your exports are industrial products, the remaining 15 percent farm products. What do you think will happen to your industrial exports to Spain and Portugal?

A: I don't know; my newspaper never mentions industrial exports.

E: Well, to paraphrase an old saying, good news, no news . . . And the good news is that U.S. industry will greatly benefit from the accession. Until this year, custom duties in Spain and Portugal averaged between 15 percent and 17 percent. As you perhaps know, averages can hide wide differences. For example, even though custom duties average 4 percent in the United States, there is a 40-percent duty on motorcycles. This is what customs experts call a peak. Spanish and Portuguese custom tariffs have had many of these peaks. Also, there are numerous tariff barriers in these countries. How do you think that their acces-

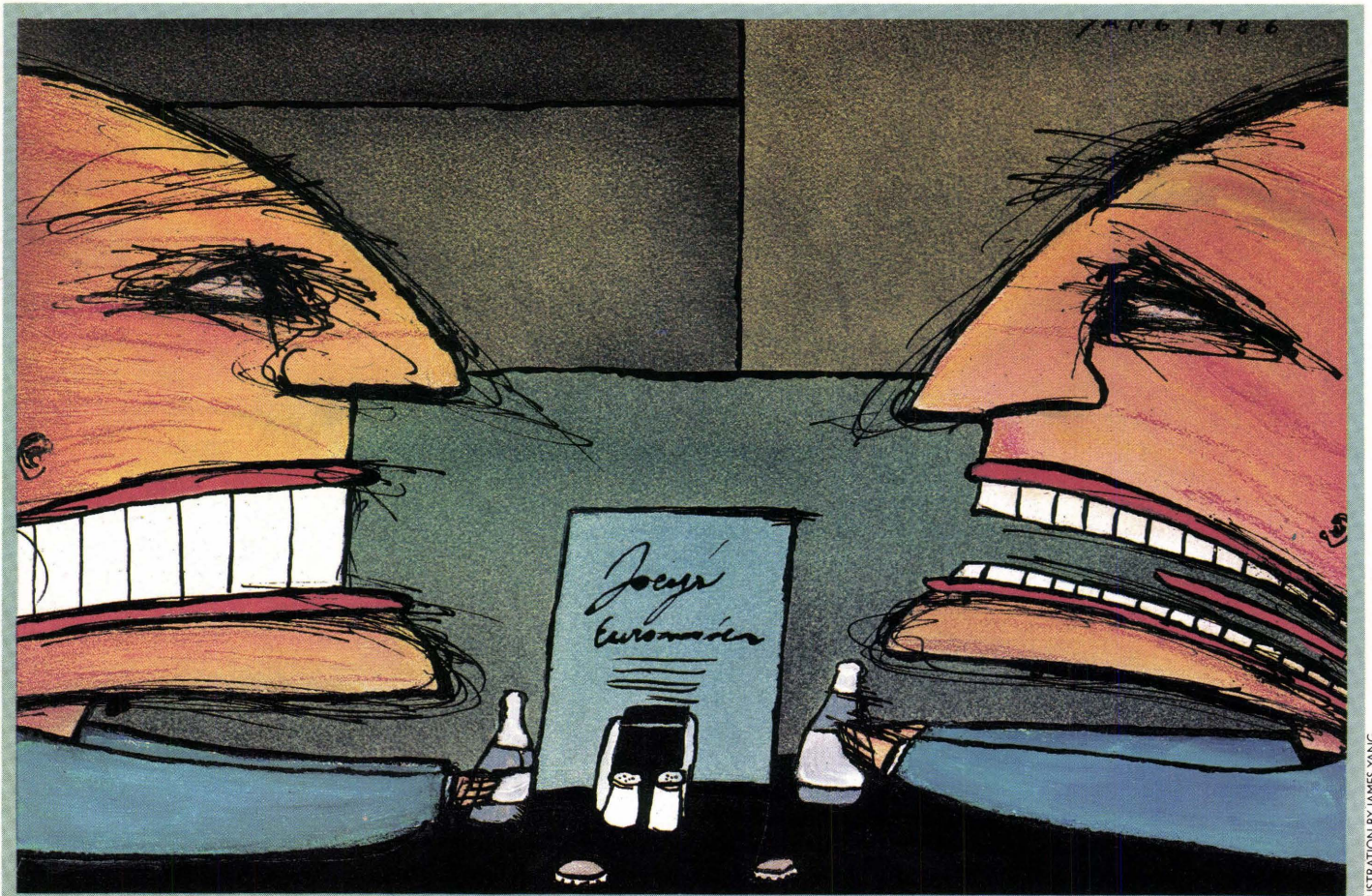


ILLUSTRATION BY JAMES YANG

sion to the Community will affect trade in industrial products with the United States?

A: Don't try to confuse me with all your technicalities. I know that it will be more difficult for us to export to Europe. It's all over the newspapers. According to the State Department (and those guys know what they're talking about), the E.C. is the most disruptive element in international trade.

E: Let me tell you then what your State Department fails to mention. After a transitional period of a few years to allow the Spanish and Portuguese to adapt to the Community system, their import systems will be aligned on the Common Custom Tariff of the E.C., which is one of the lowest in the world on average and which has very few peaks. On average, the E.C. tariff is about 5 percent to 7 percent. And, of course, the suppression of non-tariff barriers will benefit your exporters as well as those of other countries.

A: Hey, you almost convinced me that we are not going to lose in industrial trade. But why all the shouting and roaring then?

E: Believe me, it does not come from the industry. Your exporters of industrial goods know that they will gain from the enlargement of the Community. Remember my figures: Industrial exports represent \$180 billion out of a total of \$210 billion. Since you want at all cost a new round of trade negotiations to lower custom tariffs and dismantle trade barriers, you should congratulate the Community, not criticize it. We are doing exactly what you advocate.

A: OK, OK, I agree. You are a bunch of innocent little lambs in a world of big bad wolves. I admit that our industrial exports will be easier. But what about the \$1 billion that we will lose in agricultural trade? Isn't it true that by adopting your protectionist Common Agricultural Policy, Spain and Portugal will close their markets to American farm products?

E: Here again, your information is incomplete. Basically, there are three problems in agriculture:

- Portuguese imports of soybeans and related products.
 - Portuguese imports of cereals.
 - Spanish imports of corn and sorghum.
- Let me take them one by one. First soybeans.

A: Careful there, you are touching a sensitive nerve. . . .

E: I know, I know, talking about E.C. soybean imports is like mentioning gun control in front of a member of the NRA. Let me explain what we are doing there. Before enlargement, imports of soybeans

into Portugal were subject to a system of prior authorization. This is a very restrictive system, deemed incompatible with the rules of free trade. Portugal will have to repeal it in the next five years. Why five years? Simply because it is impossible to switch instantly from a very restrictive system to a totally open one.

A: Don't tell me that the E.C.'s import system of soybeans is totally open. We know that you plan to limit imports into the Community. The quota for Portugal is clearly the first step toward quantitative restrictions for soybeans. First, you set the principle then you reduce the quota.

E: Soybeans have always been imported freely into the Community and always will be. We have no reason to limit these imports, since we do not produce enough soybeans to cover our needs.

A: But during the next five years, the United States will lose exports to Portugal.

E: Not at all. The quota for Portugal was fixed at 20 percent over and above the best of your three years of exports. This simply means that you will not be able to export more than 20 percent of your best performance. I hope you will agree that it is rather a limited restriction.

A: Let's leave soybeans, then. What about cereals? Aren't you trying to keep us from selling our cereals to Portugal?

E: There you go again. . . . Let's look instead at hard facts. Until now, Portugal has imported its cereals through a state monopoly. We in the Community consider that state monopolies go against free trade. (I am sure that your Administration is very strongly against the intervention of the state in trade, isn't it?) Consequently, Portugal was asked to dismantle its state monopoly over the next four years. During that same period, Portugal must reserve 15 percent of its imports for other E.C. member states. That means that the United States will have access to 85 percent of the market.

A: You mean the opposite, don't you: 85 percent for the E.C. and 15 percent for the United States?

E: Not at all. You heard me correctly: 85 percent for you and 15 percent for us.

A: Now you have me totally confused; why, then, would our exporters complain?

E: Perhaps because under the monopoly, their exports represented 97 percent of the Portuguese imports; they do not like the idea that they are now competing with E.C. member states.

A: Ah, at last I've caught you. You are actually restricting U.S. imports, to the benefit of your own member states. So you are a protectionist group, after all.

E: My dear friend, you are going a bit far here. Imagine that there were a customs

union between Canada and the United States. What would you say if France or the United Kingdom insisted on maintaining a monopoly of imports into Canada? Remember the reaction of the farm lobby two years ago, when one of your multinationals announced that it would import cereals from Argentina?

A: Speaking of cereals, what about the increase in duties on Spanish imports?

E: There again, the problem is that Spain must adopt the common rules of the Community. In that particular case, it means that the 20 percent custom duties levied up until now on grain imports in Spain will be replaced by the Community variable levy system.

A: Ah, but then you agree that for some of our exports, the enlargement of the Community will mean reduced access.

E: Yes, but according to General Agreement on Tariffs and Trade (GATT) rules, the Community must compensate for the loss; and this is precisely what we have offered to do. But instead of agreeing to open negotiations, the United States threatens to restrict our exports of agricultural products. We have no other choice, then, than to counter-retaliate. Now, who is looking at this escalation in our trade dispute with a great big smile?

A: Japan?

E: Right, and the Soviet Union. One thing that the Europeans fail to understand is why the Community has been singled out as the main target of U.S. trade actions. Your exports to the Community are about twice your exports to Japan. And your trade deficit with the Community is half what it is with Japan. Yet, Japan gets incredibly soft treatment from the U.S.

A: Oh well, you must remember that we have an older and closer relation with Europe. You know the old French proverb "*Qui aime bien chatie bien.*"—"Spare the rod and spoil the child." We know that it is easier for us to discuss our differences with Europeans. To begin with, we speak the same language. It facilitates understanding. It's getting late, let me offer you one last Scotch whiskey.

E: Whisky.

A: That's what I said.

E: No, you said whiskey.

A: What's the difference?

E: Whiskey is Irish, Whisky is Scottish.

A: That's the trouble with you guys, you're always splitting hairs. If we cannot agree on the spelling of one of the most basic necessities of life, how can you expect us to agree on import levels for soybeans, corn. . . .

E: Maize, not corn. €

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A EUROPEAN IN AMERICA

REFLECTIONS ON A YEAR AT HARVARD UNIVERSITY.

BARBARA EMERSON

Although it was so convenient and easy to touch down at Logan Airport a few hours after leaving Brussels, I thought back to my first impression of the United States some 23 years before. I was fortunate, I reflected, to have arrived the first time by ocean liner. Five days at sea and then we were steaming past the inspiring Statue of Liberty as the dignified Queen Mary entered the New York docks.

Newly graduated from Oxford, I was looking for excitement and adventure in 1962. I had barely unpacked my cabin trunks in Washington when the Cuban missile crisis erupted. People suddenly took off for late vacations in West Virginia. I sensed the tension, but—with a somewhat dubious secondhand car and the rapidly acquired knowledge that it did

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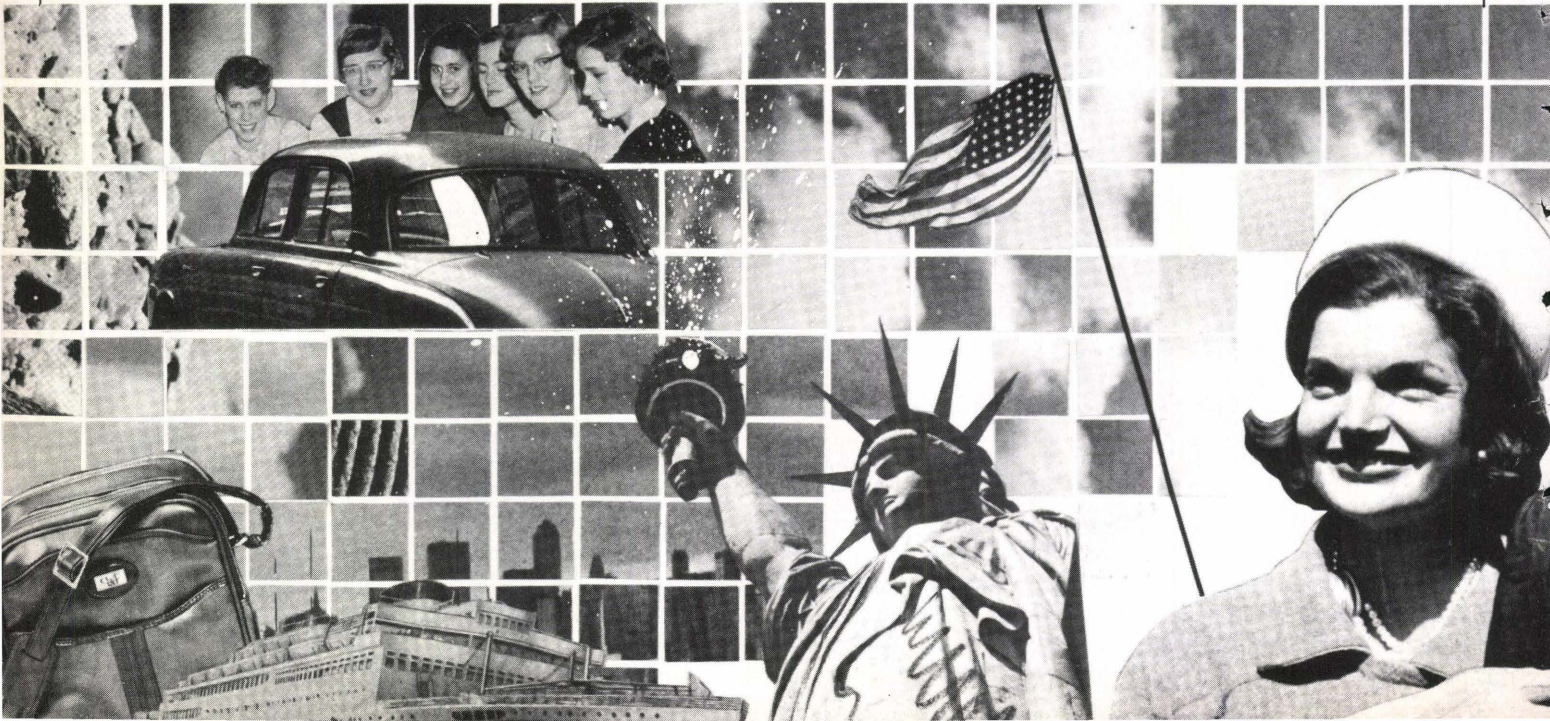
not take much to block Key Bridge over the Potomac and go nowhere from there—I decided that the most I could do in the circumstances was to sit tight and hope that there would be a spare place in someone's fallout shelter, should the need arise. We sat glued to our television sets while the confrontation between Kennedy and Khrushchev was played out. I realized in October 1962 that there was a center of power in the Western world. It was simultaneously thrilling and terrifying.

My friends were in their 20s and not in positions of power themselves. However, many worked for members of Congress or for the government and the feeling of being in touch was contagious. We were the new generation that was going to change the world for the better and the young President set the tone. (Harold Macmillan's Government in Britain did not convey a similar message.) Many of my friends were attracted by the Peace Corps; we believed that arms control was only a matter of letting us sort things out.

Style was incarnated in Jackie Kennedy. I left the United States while John Kennedy was still President, my New World enthusiasm intact, before we were prematurely aged by the terrible blow in November 1963.

I returned last summer, this time with my family, my elder children close to my age in the heady Kennedy years. A house in the Boston suburbs betokens a different sort of life from that of the Georgetown apartment I shared with students; the Harvard community does not approach matters from the same standpoint as those actively engaged in government. Yet the sensation that one is here in contact with a superpower cannot but hit one. There is a dynamism and the rightful conviction that whatever dents may have been made to its hegemony, what the United States does matters greatly in the world. Americans clearly live with this. How is it, I wonder, that hardly any are arrogant? I have a nasty feeling that we, the British, at our imperial zenith were verging on the insufferable.

As I am a historian, I am fascinated by the sense of mission that has pervaded American foreign policy in this century. It is a feeling that, as a new country of revolutionary origins created as a result of the denial of liberties in the Old World, the United States must do its utmost to see that others are given the opportunity to experience democracy. I do not agree with quite a few of the policies followed by the present Administration and some of its predecessors, but I am struck—when living in the United States and being exposed daily to a wide range of newspapers, magazines and television



channels—by the earnest American conviction that, whatever the circumstances, “we must do something about it.”

This very fundamental dynamism and desire to create has transformed a vast continent in 200 years. Steeped as we Europeans are in our own past that has evolved over many centuries, we cannot but be astounded by American achievements of so short a time—from the settlement townships of New England, through the wonders of New York to the dreadful spaghetti junctions of southern California. At the same time, impressive though man’s work is, nature beats him hands down with breathtaking and varied vistas from the wild rocks of Maine, the rolling countryside of Virginia, the dramatic slopes of the Rockies and the lush paradise of California.

Where we Europeans are disturbed is in the lack of care for the poor and the sick. My family tends to move in circles where people can afford to contribute to health plans, but one does also meet, and read of, unemployed people who are without insurance coverage. They live in fear of falling ill and their teeth are in dire need of treatment. Poverty and affluence both exist in Europe, but society does provide a safety net for those in need in a way wanting in the United States.

I was distressed by the utter desolation and squalor that I saw in Harlem recently, and, in Boston, racial tensions exist and serious imbalances exist among the ethnic groups. But, fully aware though I am of what needs to be done to improve the opportunities and quality of life for some citizens, I do want to register my profound admiration for the civil rights reforms that have taken place since I lived here two decades ago. Young blacks have

grown up with a confidence denied previous generations. The servility I once witnessed is now part of history.

I expected much of Harvard and it has fulfilled my hopes. After a number of years of working largely on my own, I recognized that I needed some intellectual jolts to my thought processes. Yet historical interpretation has not changed all that much in recent years. New archival sources have permitted better founded analyses of contemporary history, but there is no real driving force at the moment comparable, for example, with the Wisconsin School of the 1960s. The real “action” for me has lain among the political scientists. There has been hardly any original work done in Europe in recent years on theories of international relations, while exciting new lines of investigation have been followed in the United States.

One has only to glance through a few journals to appreciate the range and depth of American university resources. Europeans tend to think in terms of the Ivy League universities and colleges and do not appreciate the excellence to be found in many of the state universities and smaller colleges. I would advise any European to undertake postgraduate study in the United States.

What has added immeasurably to the enrichment of my husband’s and my year in America has been having our three children at school here. Kind neighbors hoped when we arrived that we would be able to integrate. Twice recently I have had to crave their indulgences because of my children’s parties; on one occasion the high school band played in our garden at what must be maximum decibel count. When, another day, the seniors de-

scended, their fleet of cars blocked the road. Meeting Americans has not been a problem for us.

The year at Lexington High School has proved both worthwhile and enjoyable for the children. There are differences in educational systems such as the American horizontal approach as opposed to the vertical in Europe. For example, in the United States it is all chemistry one year and physics the next, whereas chemistry, physics and biology are studied concurrently in Europe. Changing track inevitably leads to overlaps and gaps. It is worth it. New subjects are studied, vantage points change, but, more importantly, I believe, the American logical analysis approach inculcates independent thought more rigorously than the Continental European system which is more content-oriented.

It is true that the level of achievement here is lower than in comparable schools in Europe and teachers are more generous at their grading. However, any advance in Europe at the high-school level is more than compensated for by the infinitely larger number of young people who go on to higher education in the United States.

British state schools are racked with problems these days: a shortage of financial resources and, from what I read in the press and hear from friends with children at state schools comparable with Lexington High, teacher militancy that results in little homework and no teacher cooperation outside school hours. Not so at Lexington. Teachers arrive before school hours (and they are early enough as it is), and are available to students and parents. An English teacher telephoned

Continued on page 55.

ILLUSTRATION BY STEVE POSTMAN



SOURCES OF EURO-AMERICAN DISCORD ON TERRORISM

RESPONSES VARY DUE TO DIFFERING IMPACT, VALUE JUDGMENTS AND TERRORISM'S NEW FORM.

MAURICE TUGWELL

Terrorism has a bad name on both sides of the Atlantic, conjuring up images of indiscriminate, clandestine attacks against innocent civilians. It is variously regarded as cowardly, ruthless, irrational and illegitimate. Such generalized attitudes are probably shared by most West Europeans and most Americans. Why, then, are Western Europe and the United States so often at loggerheads over measures to deal with terrorism? Tentative answers come under four headings: impact, value judgments, cost-gain calculations and terrorism's new form. Let us deal with these in turn.

Impact

A fire on Main Street attracts more attention in the city concerned than a disaster involving hundreds of thousands in some distant, unknown land. People are community-oriented, insular to the point of selfishness. A terrorist outrage in Munich such as the Olympic massacre of 1972 has an altogether different impact in the Federal Republic of Germany and Israel than in the United Kingdom, the United States or Canada. For the victim nations, such an event generates intense feelings of frustration and anger, leading to a desire for vengeance. For the spectators, reactions may be limited to horror and sympathy, emotions that do not necessarily stimulate action.

America's current crusade against terrorism is undoubtedly driven by domestic reactions to the murders of U.S. citizens. The impact of such acts is emotional and political, in the form of a demand for retribution. People in Western Europe, many of whom have been targets of terrorism for a longer period than people in the United States, feel horror and sympathy, but cannot easily share the political

impact, because the victim is in this case another body politic.

Value Judgments

Value judgments decide, in the wearisome cliché, whether or not one man's terrorist is to be hailed as another man's freedom fighter. Academics seek to short-circuit this conundrum by insisting that terrorism is a method, a way of fighting, which can therefore be separated from moral judgment on the cause on whose behalf terrorism is conducted.

But most people find it difficult to condemn a method as immoral while at the same time justifying its use in some noble cause. So terrorists are considered bad guys, both to ends and means. A good cause must always be fought by good guys who cannot be burdened with pejorative titles. Since 1945, Americans have been willing to see in a more romantic light groups that one European country or another has branded as terrorists. The independence struggles in such places as Palestine, Algeria and Cyprus produced many examples of this. Of course, some causes were, and are, just. Perceptions tend to vary, however, depending on whether one is looking down the sights of a gun, or into the barrel.

One current example of American ambivalence relates to the conflict in Northern Ireland. A loophole in the Anglo-American extradition treaty provides safe haven for IRA terrorists in America. Federal judges in California and New York City have ruled that certain acts of murder or attempted murder committed in Ulster or England were "political" and that fugitives were therefore exempt from extradition.

On May 31, however, President Ronald Reagan urged the Senate to approve an extradition treaty that would return suspected Irish nationalist guerrillas to Britain for trial. Senate Foreign Relations Committee members hindered the process, however, by blocking the treaty

sought by the British Government.

The danger from such misguided values is that any European country that felt its terrorism problem was misinterpreted in the United States might mistake minority pressure-group opinion for majority-group sentiment. This is particularly likely when Congress votes against Europe's interests. The media's distorting mirror tends to inflate minority causes, thus increasing the danger of misunderstanding.

In the same way, Americans are apt to overreact when their televisions show pictures of angry crowds in Paris, London or Rome protesting some aspect of U.S. anti-terrorist policy, such as the air strikes against Libya. They may feel that the whole world is against them, when in reality the protesters represent well-organized minority groups. By the values of such minorities, the U.S. Administration and armed forces are the terrorists: Arab terrorists are freedom fighters. But most West Europeans don't believe this.

Cost-Gain Calculations

When it comes to designing responses to terror, cost-gain calculations must be made. These fall into two main areas—credibility and legitimacy. Under the first, governments must consider the chances of inflicting damage on the reputation and operational capability of the terrorist group or its sponsors. They must also think the problem through, hoping for medium-term improvements in the security situation, including a lowering of terrorist morale and confidence.

Unintended side effects should be anticipated so far as possible. Without becoming paralyzed by fear of terrorist reaction, governments must consider all scenarios. They have to measure the possible costs of physical response in terms of its being seen as necessary and justified, proportional, likely to improve and not worsen the situation, being applied to guilty persons and sparing the innocent and not being in disregard of international or national laws, conventions and agreements. Often the demands of credibility and legitimacy seem to be in conflict.

Obviously, the country which has been the main target of terrorist attack is likely to calculate the odds differently from those less directly involved. The latter are likely to urge caution, particularly if they have doubts about the efficacy of the response and if they fear collateral terrorist retribution, political or economic penalties, or whatever. Fear is not an emotion that people or nations like to acknowledge, but for many countries

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The U.S. raid on Libya followed the April 5 bombing of a Berlin night club in which two people were killed and over 200 injured.

with Mediterranean coastlines or large Arab populations, vulnerability to attack does create an urge toward a kind of neutrality. This may be disguised behind other higher-sounding arguments. Fragile economies dependent on trade with Arab countries also generate political pressures to stand on the sidelines.

Western nations are also intellectually disturbed by the use of force. To be sure, Britain and France have not hesitated to employ force when their own vital interests have been threatened. Quite recently, France intervened militarily against Libya in Chad. Nevertheless, force is regarded as a last resort, to be used only after political and legal means of redress have been exhausted.

Moreover, terrorism as the product of small independent radical groups has al-



Force is regarded as a last resort, to be used only after political and legal means of redress have been exhausted.

ways been regarded as crime, albeit committed in some political purpose, to be countered by lawful actions on the part of the police and security forces. Extra-legal response, on the Latin American model, has been something to be avoided at all costs because it heralds the breakdown of normality and law and order, and threatens democracy. The action against Libya was particularly disturbing to Europeans because it seemed to transgress operational as well as moral norms.

New Forms

This leads us to the fourth factor dividing Western Europe from America—terrorism's new form. All the assumptions underlying the liberal democracy's response to terrorism were shaken to the core by
Continued on page 55.

MONETARY REFORM: A GLOBAL MODEL

ADVOCATING A SYSTEM BUILT AROUND
THE DOLLAR, THE YEN AND THE
EUROPEAN CURRENCY UNIT.

CLIVE BERGEL

The purpose of this article will be to touch upon a subject that has just started to be addressed by governments as well as monetarists. In the final analysis the need for change will overcome the fear of change.

Some 11 years have elapsed since the collapse of the Bretton Woods accord and the adoption of the floating exchange rates. Since then, the world economy has been subjected to sharp fluctuations in oil prices, inflation, wide cyclical swings in economic growth and, most important, chronically high unemployment. Nevertheless, the 1980s have evidenced great progress in reducing inflation, and a marked recovery in international trade is now underway, thus providing greater flexibility of action by the industrialized nations.

This progress is in danger of being wiped out unless Japan opens up its doors to European and American goods and services. Balance-of-payment deficits of \$11.5 billion sustained by the European Community and over \$30 billion by the United States with Japan cannot be tolerated much longer. The outcome: Protectionism will be disastrous to future development of free trade and in particular for Japan itself. Furthermore, overseas investments by Japan will be insufficient to overcome European and American desires for protectionist policies. Such measures in the long run would adversely affect Japanese reserves and capital flows.

In spite of these strains, the international monetary structure and floating exchange rates have stood the strains of the most demanding economic forces since the Depression. However, cracks in the structure are beginning to appear, parallel to an international liquidity contraction that is definitely reason for concern.

Exchange rates, the topic being ad-

ressed in this article, have proven highly volatile and unable to sustain a course of reduced velocity in spite of greater economic convergence in the industrialized nations.

Further pressures have arisen from a restructuring in domestic industrial priorities in Europe and the United States. The emergence of industrial technology and services has caused a reallocation of resources and priorities still in its developing stage in Europe and the United States. These drastic changes have been responsible for the chronic unemploy-

The European experience also shows that by allowing central banks of the component currencies to participate in foreign-exchange markets and their respective domestic money markets, short-term abrupt dislocations are avoided.

ment we have witnessed in the past five years. Exchange-rate stability must therefore be an integral part of any policy decisions and objectives of the major economic powers. Under the existing floating-rate mechanism, an exclusive "club"—the Group of 5 (G-5)—has emerged as the dominant institution that, in reality, controls economic and monetary world policies. It is, in fact, within G-

5 members where capital flows are the major factor of external transactions and where exchange rates have displayed the greatest volatility, leading to dislocations and misalignments that have ultimately required massive interventions.

Past experience has shown that these interventions are short-lived and, even if undertaken on a concerted effort, fruitless in the long run. The old theory that a direct correlation exists between interest-rate movements and exchange rates is no longer totally valid. It is economic performance or expectancy of future performance that determines and will determine the fate and trend of a currency during a specific period of time.

Fixed rates and the gold standard make no political or economic sense, and have become obsolete with the new economic order of the past two decades. To allow the major currencies to float against the price of gold, as some have suggested, would be suicidal. It would leave the door open to outside forces to manipulate the market almost at will.

With this background in mind, focusing on a possible alternative to the present exchange-rate mechanism would be an avenue to provide flexibility and orderly markets within acceptable degrees of volatility.

On a regional level, it is imperative to examine the European Monetary System (EMS) not because it is perfect in its nature or workings, but as a model upon which to improve and to adapt to the needs of a global system. There is no doubt that the EMS restored stability to exchange rates among the member states of the European Community (the United Kingdom does not participate in EMS).

Article 2 of the Treaty of Rome establishing the E.C. called for economic integration of a common market and the gradual convergence of economic policies of the member states. The recent incorporation of the EMS into the Treaty of Rome will now provide a more well-defined "policy of common interest." The gradual convergence of commercial and economic ties within the E.C., as demanded by Article 2, kept the idea of creating an integrated monetary zone alive. The collapse of the dollar in 1977-78 gave birth to the EMS as it is today. The lessons learned from the weakness displayed by the "snake" and reasons for its failure, were taken into account when designing the new European monetary order.

The exchange rates were directly linked to the gross national product (GNP)

of each member state as well as to trade and other national political and economic considerations. Unlike Bretton Woods, no country of currency imposed its will. The EMS has endured the most difficult moments of postwar European economic history.

It has survived and strengthened its structure and purpose because it is a "cooperative," with no particular country or central bank imposing or controlling its activities and responsibilities. Member states undergoing economic prosperity contribute, but do not dictate. Decisions are collective with exchange parities exercised in the interest of all members. Surveillance of exchange rates is negotiated, but not dictated. In this regard the EMS procedures are a milestone improvement over the Bretton Woods or the "snake."

Parallel to the EMS emerged the European Currency Unit (ECU). Since 1980, its success in the international foreign exchange and capital markets is nothing more than an acknowledgement that the EMS mechanism of floating rates within prescribed parameters works, and should serve, as it has been indicated earlier in this article, as a model from which to draw ideas and concepts for a global system.

The future demands that a similar model can be structured with three major currencies interplaying—the dollar, the ECU and the yen, or the "DEY." Let us assume that the DEY would be based on a negotiated formula similar to that of the ECU but taking into consideration the role of each currency—i.e., dollar, ECU, yen—in the international markets. Furthermore, maximum and minimum percentage variances would be instituted so that intervention would be triggered at specific levels. If such a model were to be conceived—together with the harmonization of economic policies—exchange rates and international trade will *de facto* bring all other world currencies to be pegged to this new global monetary order or any of its three components. In essence, the stability of the DEY will fall upon the three major components sharing the monetary burden with weaker currencies.

The European experience also shows that by allowing central banks of the component currencies to participate in foreign-exchange markets and their respective domestic money markets, short-term abrupt dislocations are avoided. The ECU since 1981 has undeniably established itself as the only European alternative in any new global monetary accord. To deny this reality would be political shortsightedness and economic suicide by

ECU-Denominated Issues International Markets 4/16-5/15, 1986				
Date	Issuer	Amount (Million ECU)	Term in Years	Fixed Rate
Straight Issues				
4/16/86	Ford Credit	40.00	5	6.75
4/17/86	Eutelsat	150.00	8	6.5
4/17/86	Kredietbank Luxembourgeoise	53.75	9	6.625
4/18/86	EDC of Canada	100.00	10	6.375
4/18/86	Iceland	50.00	10	6.875
4/18/86	Crédit Lyonnais	175.00	6	6.375
4/18/86	Cariplo (Italy)	15.00	4	6.875
4/21/86	Den Danske Provinsbank	30.00	7	7.25
4/23/86	E.I.B.	50.00	12	6.5
5/ 6/86	Citicorp	50.00	7.5	7.0
5/ 6/86	BFG Luxembourg	25.00	6	7.0
5/ 9/86	World Bank	60.00	15	6.875
5/12/86	International Finance Corp.	55.00	9.5	6.625
Total Straight Issues		853.75		
Zero-Coupon Issues				
4/11/86	Mortgage Bank of Denmark	109.80	10	Issue Price 54.90
National Markets				
Italy				
5/ 9/86	Cert. del Tesoro	800.00	8	Fixed Rate 6.9
Foreign Markets				
France				
4/23/86	E.I.B.	250.00	12	6.5
Total (May 15, 1986):				
International Market		3,782.80 million ECUS		
National Markets		1,600.00 million ECUS		
Foreign Markets		250.00 million ECUS		

any of the participating members.

The recent incorporation of the EMS and the ECU in the Treaty of Rome has

The European Monetary System has survived and strengthened its structure and purpose because it is a "cooperative," with no particular country or central bank imposing or controlling its activities and responsibilities.

given the E.C. greater and wider responsibilities. Its voice will be heard in the future. The sooner the European Mone-

tary Cooperative Fund develops into a central bank, the faster a new international monetary system can be put into effect.

There can be no European influence in international monetary affairs without the EMS and an ECU performing the vital function of one of the three world currencies (dollar, ECU, yen) upon which all other currencies will find their real value. This is an economic and political reality that all member states will come to accept as demands on their individual currencies become increasingly difficult to handle independently. It can be postponed, but not avoided.

It is naive to believe that the demands and strains of capital flows, trade and, ultimately, foreign exchange can be borne by anything other than the DEY or a similar composition. The burdens of the future will be greater as an increasing number of nations climb the road of development and national debts in the world markets become increasingly interwoven. €

Clive Bergel is managing director of the international fixed income department of Bears Stearns in New York.



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NEW OPPORTUNITIES FOR THE EUROPEAN BANKING SECTOR

THE E.C. COMMISSION, WHILE BUILDING A GENUINE COMMON MARKET, ALSO HAS A ROLE AS REGULATOR.

PETER SUTHERLAND

Bankers are often regarded—and often like to be regarded—as the most conservative of men, pillars of the establishment, reluctant to change and certainly reluctant to finance new ideas. Yet today the banking world is in a ferment of change, being transformed before our very eyes, confirming the wisdom of that most subtle of British Conservatives, Disraeli, who once said: “In a progressive country, change is constant.” New technologies have radically altered the nature of a banker’s business, and financial institutions are now called upon to provide an ever-expanding range of services designed to solve the old and unchanging problems of liquidity, investment capital and return on investment.

The E.C. Commission in all its aspects—political, legal, economic and social—has a profound involvement with the banking community. In this article, I want to concentrate on two particular areas where our interests coincide and sometimes collide:

- The opportunities offered by our efforts to build a genuine common market in financial services.
- The Commission’s role as regulator of the European banking sector.

The Internal Market and the Banking Sector

The principle assignment which the Community has currently set itself is the completion, or perhaps one should say the liberation, of its home market of 320 million citizens. In a world of trading blocs, corporate giants and “instant” global exchanges, it is obvious that there is strength in numbers and that prosperity depends on having a worthwhile share of international economic activity. One of Europe’s greatest weaknesses is in its reluctance to think beyond national frontiers and its failure to realize the potential of its own size and wealth. It therefore

makes both economic and political sense to work for the rapid consolidation of this vast “home market,” and the E.C. member states have now accepted this priority. On the basis of a proposal from the Commission, the E.C. Heads of Government have set a target date of 1992 for the completion of the common market.

The achievement of this goal will provide enormous new business opportunities for efficient economic operators. Cross-border trade in agricultural and manufactured products is long established, but still unsatisfactory in its working. Truck-loads of perishable goods rotting at border posts, or consignments of electrical equipment turned back because they fail to meet sometimes esoteric technical standards, are the most glaring examples of the absence of a common European market. But the obstacles to expansion of tradeable services across national boundaries are also readily identifiable: Licensing and supervisory controls, establishment rules, nationality requirements and so on lead to lost opportunities and often higher costs for the national business community. In the past, the Commission has tended to focus on freeing trade in goods; today, it is pushing with legal force for the liberation of trade in services.

Money proverbially knows no borders, but its mobility has virtually been made absolute by the new technologies. There is now no objective reason why European bankers should not operate on a European scale. It is now no longer necessary to establish a physical presence in a market in order to sell your product or service. The establishment of branches in each member state is often worthwhile for an enterprise, but if it simply represents a way round the existing obstacles, it is an indirect and inadequate way of building a common market.

Removal of national restrictions on banking activities will expand the area of business available to banks, accelerate

the development of specialist services and provide a better deal for bank customers who will have greater freedom of choice and a wider selection of services. The liberalization of financial services, linked to that of capital movements, will represent a major step toward Community financial integration and the consolidation of the internal market.

If however there is no objective reason to prevent the creation of a genuine European market for financial services, we are all aware that there are many other obstacles. The Commission does not wish or intend to set up a vast supervisory system to replace national controls, but rather to facilitate trade in financial services throughout the Community, using minimal co-ordination of the rules as the basis for mutual recognition of what each country does to safeguard the interests of its general public. Therefore the Commission’s thrust is founded on the principle of “home-country control”—which means that the national authorities will continue to supervise financial institutions, but on the basis of harmonized surveillance which will exclude the protection of the domestic market.

The pace of change in the banking sector, quickening with the explosion of new technology and the proliferation of new kinds of banking services and financial products, poses particular problems for legislators. There is a need for a speedy, flexible and effective response if the supervisors are even to keep up with changes in the market place. The Commission is trying to find such solutions to both old and new problems. One of the newest challenges is posed by the development of so-called “financial conglomerates,” but I use it to denote organizations which offer a variety of financial services or a mix of financial and nonfinancial services.

These new services are clearly a result of market forces, with clients wanting to be able to address themselves to a single institution for banking, insurance, securities, etc. The emergence of such new groupings is likely to bring about a restructuring of the banking and financial systems in some member states which may be enough to change the assumptions on which Community coordination of banking, insurance and securities is based. The Commission will therefore be obliged to adapt its policy in order to maintain its objective of drawing the structures of national markets closer together.

Since “financial supermarkets” are a relatively recent phenomenon, we are

still in the process of developing a Community approach to them and of discussing them with the banking sector. A basic question to be answered is the extent of the importance of "financial supermarkets"—are they mainly a U.S. phenomenon of little real relevance to the E.C., or are they a manifestation of a revolutionary restructuring of our financial systems? The dialogue and debate will continue at various levels—a study into the comparative legal aspects of the problem has been planned and a further meeting of government experts in the various relevant fields will be held later this year.

Clearly some degree of supervision and control is necessary if we are to ensure that national markets do not develop along different lines. The Commission so far has not become aware of any major difficulties posed to national supervisors by transnational "financial supermarket" operations, but several practical difficulties seem to not readily fit the statutes of certain member states.

Devoting several paragraphs to the development of "financial supermarkets" serves to illustrate both how quickly the landscape of our traditional financial sectors can be changed by market demand, and also to highlight the difficulties for supervisory bodies in finding the most suitable instruments to adapt to these changes. In this particular case, we can be in on the ground floor and ensure that developments respect the internal market, with the Commission and the natural authorities providing the framework within which the market will ultimately decide.

The Commissioner as Regulator

Bankers are accustomed to regulators and probably regard them as a necessary evil. Various supervisory bodies set outer limits to their operations to protect the citizen, and sometimes to save the financial institutions from each other. The need for regulation is accepted nationally; it is less accepted at the European and international levels, but is just as necessary.

I will admit that it often requires rather complicated techniques to administer a Community of over 300 million people in 12 countries through nine official languages. There are some justifications for the stream of regulation and legislation which pours from E.C. headquarters Brussels.

Underlying most of it is the basic ambition to ensure fair play for all operators in the market—private banks, state owned banks, borrowers and lenders. Since we live in a mixed economy, we need to ensure the maximum interplay of market

forces commensurate with the type of social protection expected by the European citizen today. The basic framework for achieving this mix is laid down in the Treaty of Rome. In relation to banking, the areas I want to concentrate on are the competition rules and the freedom of services chapters.

A) Competition and the banking sectors

The competition rules of the E.C. Treaty apply fully to the banking sector. This has been confirmed by the European Court of Justice in the Züchner judgment of 1981. However, since we must recognize that banks are subject to considerable intervention by the national authorities in pursuance of economic policy aims, the Commission is ready to take account of the particular characteristics of the sector.

Since the competition rules became applicable to the banking sector in 1962, the Commission has shown considerable flexibility in response to changing economic circumstances. Our system of supervision has been flexible enough to evolve in tune with economic realities and, more recently, we have shown flexibility while developing our enforcement policy. It is my intention to continue to shape policy in close cooperation with representatives of the banking sector, even if not always with their full agreement.

In 1983, the Commission granted exemption from the competition rules to the interbank agreements relating to the international use of Eurochecks. The Commission was satisfied that the agreements did not distort the competition in a manner contrary to the common market. In fact, the facility offered to Europe's citizens to write cheques on their own bank in any Member State might be considered as a useful step toward eventual use of a European currency. The ultimate aim must, of course, be the development of a single European currency. The interest in the use of the ECU in recent years has been heartening.

Following the 1981 Züchner case and a European Parliament resolution in the same year, investigations were carried out in all member states into interbank agreements on commissions. These inquiries revealed the existence of such pricing agreements in most European countries, with notable exceptions in the United Kingdom and Germany, whose bankers years ago abandoned restrictive agreements of that kind.

Following the Commissions inquiries, a number of meetings took place with the representatives of banking federations, and the Commission persuaded the banks to abandon their restrictive arrangements or, at least, to notify them to the

Commission.

B) Free movement of services and capital

In its role as supervisor of the European banking sector, the Commission must rely on national supervisors, but also go beyond them. I have already referred to the principle of home-country control which guides us in this and related policy areas. National supervision serves to protect the public interest and to implement national economic and monetary policy, but it can also be used to restrict competition. Rather than try to harmonize all the various aspects of 12 different national systems, the Commission aims to promote the basic freedom to provide services which is guaranteed by the Treaty of Rome. Articles 58 and 60, supported by the jurisprudence of the Court, mean that restrictive supervisory requirements are unlawful, unless, of course, the Member State can prove they are necessary to protect a public interest which cannot be served by less stringent measures.

In its White Paper on the internal market published in June 1985, the Commission concentrates on promoting trade in financial services and removing barriers to that trade. Much work remains to be done in this area and in the area of coordination, allowing for a smooth integration of financial service operators in all member states. The White Paper lists 20 proposals designed to promote freedom of financial services; eight of them relate directly to the banking sector. The internal market for financial services cannot be opened up without further liberalization of capital movements. Exchange controls have been relaxed in several countries and I hope that the general improvement in the economic situation will lead to an increased willingness to free capital flows (see page 32).

The recent currency realignments in the European Monetary System (EMS) have demonstrated again that the system provides an important framework for coordinating national monetary policies. It acts as guarantor of monetary stability and predictability in Europe and the Commission tends to strengthen its role. E.C. Commission President Jacques Delors, addressing the European Parliament in February 1986, pointed out that the EMS cannot be further developed without liberalization of capital flows. He illustrated the problem with a banking example by saying that the day an English bank could make a short-term loan to an Italian company would be the day the member states accepted the full implications of the free movement of capital: in other words, a tight coordination of monetary policy.

In many ways, the climate is now right

for liberalization and the Commission will be encouraging member states to move toward that goal. Some of them—such as Germany, the United Kingdom and Denmark—are already well advanced, whereas others are still reluctant to open their borders to capital movements. Change will be gradual rather than sudden, and it may still be some time before we see direct bank loans operating freely across national boundaries.

The Commission has already announced its intention to extend the scope of the general directive on the liberalization of capital markets, in force since 1962. There will also be some amendments to the safeguard systems applied by France and Italy under article 108 of the treaty to make them more amenable to the process.

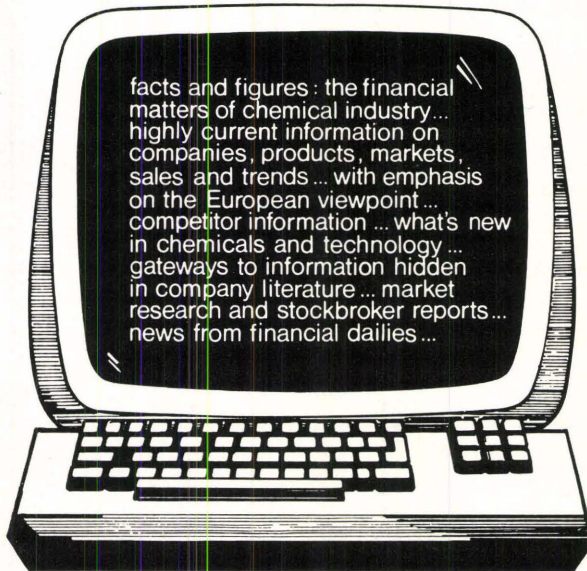
Conclusion

The Commission has a dual role to play vis-à-vis the banking sector. As guardians of the treaty charged to build a common market out of the diverse national markets of Europe we are the bankers' allies. Our efforts to remove barriers and discrimination will offer banks new opportunities. Their ability to expand their operations beyond national boundaries will not be impeded by protectionist government action. We want to arrive at a situation where all E.C. banks can compete on equal footing. However, this cuts both ways. The Commission must also act as regulator, and ensure that the banks do not attempt to parcel the market out between them, either privately or with the intervention of government.

As a convinced believer in market forces as the best and most efficient allocator of resources, I feel that the Commission's role is to provide the right framework—to remove the obstacles and ensure fair play—after that, it is up to those who provide goods and services to make the running in the marketplace. Progress toward a single European market place will be difficult because it involves disturbing traditional systems and vested interests. We believe, however, that it is essential for the future prosperity of Europe, and we shall continue to insist that the target date of 1992 can and will be met. The banking sector will be among the first to reap the benefits because it has made the necessary preparations and already has long experience of cross-border operations under sometimes difficult conditions. Our aim is to make bankers' business easier to transact and more competitive in the long-term. €

Peter Sutherland is the E.C. Commissioner responsible for competition policy and relations with the European Parliament.

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E.C. PUBLISHES FORECASTS FOR 1986 AND 1987

PROSPECTS IMPROVE DUE TO DEPRECIATION OF THE DOLLAR, WEAKER INTEREST RATES AND LOWER OIL PRICES.

The E.C. Commission's staff has completed new forecasts, including revised estimates for 1985 and revised forecasts for 1986 and 1987.

The International Environment

Over the last 12 months, the world economy has been fundamentally influenced by three major developments:

- The depreciation of the U.S. dollar, which began in the spring of 1985, and gained additional momentum partly as a result of the Group of 5 agreement of September 22, 1985.
- The change in the policy of certain oil-producing countries and the resulting fall in the price of oil.
- The passing in the United States of the Gramm/Rudman/Hollings legislation that reflects a genuine desire by the American authorities to overcome the U.S. budget-deficit problem.

The eventual net effect of these developments should be beneficial as they serve to correct imbalances that were unsustainable in the long term.

In the United States, real growth of the gross national product (GNP) averaged only 2.2 percent in 1985. At present, prospects for economic activity have been improved by the depreciation of the dollar, weaker interest rates and the collapse of oil prices. The oil price fall should help to moderate the boost to inflation resulting from the fall of the dollar.

Although economic activity in Japan remained relatively buoyant on average in 1985 (real GNP increased by 4.6 percent), there was a marked deceleration during the course of the year. Prospects for the Japanese economy have also been improved by the fall in the price of oil. However, the appreciation of the yen will clearly put a squeeze on the profitability of exports, notably to the U.S. market. Thanks to the favorable trend in the terms of trade and to the slower adjustment of export volumes, the Japanese current-account surplus is expected to

remain high in 1986 and 1987 (around \$80 billion) and the conversion of the Japanese economy toward a lower dependence upon exports may take some time to mature.

Latest available data suggest that the growth of world trade in 1985 was about 3 percent: This was significantly weaker than previously expected, and reflects the effect on world trade of the slowdown in U.S. economic growth and the fall in imports by the Organization of Petroleum Exporting Countries (OPEC). Prospects have been altered fundamentally as a result of lower oil prices and interest rates, which are expected to provide a significant stimulus to economic activity in industrial countries, with a consequential increase in the rate of growth of their imports. However, the effect at the world level will be partially offset by a further large contraction of imports by oil-exporting countries and by the slowdown of imports to the United States.

The E.C. Economy

Real growth in the European Community had been running at an underlying rate of between 2 percent and 2.5 percent in 1984 and 1985. In the present forecast, real gross domestic product (GDP) is expected to grow by 2.7 percent this year and by 2.8 percent next year. Quite naturally, not all E.C. member states are seen to follow the same pattern. The two main energy-producing countries—the United Kingdom and the Netherlands—will probably experience a slowdown of overall growth at least this year. For Greece, the downward impact of the adjustment policies will dampen any oil price effect. In some countries, the main boost to overall growth is likely to happen in the current year (notably in Germany), while in others this will not happen until 1987 (Italy), given the delays with which the effects of the oil price fall will be passed over to households' disposable incomes.

The impact of the oil price decline on

the Community economy may be seen more readily in the acceleration of domestic demand, which is forecast to grow by 3.6 percent in 1986, and by 3.3 percent in 1987 (after 2.1 percent in 1985). Private consumer demand in the Community as a whole is likely to grow both in 1986 and 1987 at an annual rate of above 3 percent. Such a rate of expansion has not been achieved since the recovery of 1978-79 and, furthermore, will now be achieved within the context of a much sounder budgetary and monetary framework. While the nominal increase in household income is expected to slow down further, real disposable income will be driven by quickly falling inflation rates (rise in real disposable income: 1.6 percent, 3.8 percent and 3.1 percent in 1985, 1986 and 1987, respectively). At the same time, unit labor costs are expected to grow moderately.

Over the last few years, the Community has experienced strongly divergent trends of investment in equipment and construction. While the construction sector continued to suffer from a severe recession, capital formation in equipment has recovered since 1984-85. This recovery may be expected to be maintained in 1986 and 1987 on the Community level, with an annual growth rate of close to 7 percent in both years. The factors that initiated the recovery in equipment will basically remain intact over the period ahead: The liquidity situation of enterprises is generally favorable, the degree of capacity utilization is fairly high, the prospects for consumer expenditure are improving, pressures from wage costs are not likely to become excessive in the foreseeable future and nominal interest rates may be expected to decline further.

Public consumption in real terms is likely to remain on the moderate path it has been following since the beginning of the 1980s (+1.3 percent and +1.2 percent in 1986 and 1987, respectively).

E.C. exports are likely to be slowed down on account of several factors such as the slow growth of world trade—above all, that of Community markets—and the sharp appreciation of European currencies against the U.S. dollar. Consequently, the E.C. is likely to lose market shares, and, at constant prices, exports of goods and services are forecast to grow by around 3 percent in 1986 and by a little more than 4 percent in 1987.

With domestic demand expanding vigorously, the volume of imports is likely to grow much faster than that of exports (about +6 percent in both years). The E.C. will thus be spending a notable part

COMPARATIVE STATISTICS EC-12 AND UNITED STATES

EC-12 Extra-EC Trade 1985^{1,2}



	\$ millions	ECU millions	1 ECU = \$.76
Exports World	287,648	378,484	
Imports World	308,329	405,696	
Trade Balance	-20,681	-27,212	
Exports to US	64,998	85,523	% world exports 22.5
Imports from US	52,390	68,934	% world imports
Trade Balance	12,608	16,589	16.9

US Trade 1985³



	\$ millions	1 ECU = \$.76
Exports World	213,146	
Imports World	361,626	
Trade Balance	-148,480	
Exports to EC-12 (FAS)	48,993	% world exports 22.9
Imports from EC-12 (CIF)	71,617	% world imports 19.8
Trade Balance	-22,624	

Gross Domestic Product 1985^{1,4} \$ billions



	EC-12	US
GDP Current Prices	2406.4	3865.0
% increase 1985/84 volume	2.1	2.5
Ratio exports to GDP %	11.9	5.5
Ratio imports to GDP %	12.8	9.3

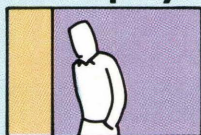
EC-12 US Foreign Direct Investment 1984



(book value \$ billions)³

EC-12 in US	\$95.1
US in EC-12	81.5

Unemployment As % of the Civilian Workforce⁵



	1971	1982	1983	1984	1985	1986	1987
1981							
B	6.0	13.0	14.3	14.4	13.7	13.2	13.1
DK	4.6	9.5	10.2	9.8	9.0	7.7	7.3
D	2.9	6.9	8.4	8.4	8.4	7.7	7.3
GR	.9	—	7.9	8.1	8.5	9.4	9.9
E	4.6	16.3	17.9	20.7	22.1	22.1	21.9
F	4.1	8.7	8.8	9.9	10.3	10.6	10.5
IRL	7.6	12.2	14.9	16.5	17.1	17.2	16.8
I	5.9	9.7	10.9	11.9	13.0	12.9	12.5
L	.4	1.3	1.6	1.7	1.6	1.4	1.2
NL	4.9	11.8	14.3	14.5	13.1	12.0	11.1
P	—	—	10.2	10.5	10.5	10.3	10.1
UK	4.5	10.6	11.6	11.8	11.8	11.8	11.5
EC-9	4.4	9.3	10.4	10.9	11.1	10.8	10.5
USA	6.5	9.7	9.6	7.5	7.2	6.9	6.6
JAP	1.8	2.4	2.7	2.7	2.6	2.9	2.9

¹ Estimated

² Source: Eurostat

³ Source: USDOC

⁴ Source: OECD

⁵ SOEC DEFINITION, EXCEPT FOR GREECE, SPAIN AND PORTUGAL, WHERE NATIONAL DEFINITION FIGURES ARE SHOWN

of the additional income from lower oil prices in foreign markets, thereby supporting world trade in a difficult period of adjustment.

The greater buoyancy in overall activity will probably have a favorable impact on employment. For the first time since the early 1970s, the increase in employment (+0.8 percent in both years) could outweigh the rise of the labor force, and the average unemployment rate in the E.C.—excluding Spain, Portugal and Greece, countries for which no harmonized definitions are yet available—could decline from an annual average of about 11 percent in 1985 to 10.5 percent in 1987.

The disinflation in the Community will be accelerated by exchange-rate and oil-price developments. Average import prices of goods and services in national currencies are forecast to fall substantially in 1986 (-9.6 percent) and to rise only moderately (+1.7 percent) next year. Assuming that wage policies do not undergo substantial changes and that competition prevents excessive profit margins, domestic factors will continue to dampen inflation as well. As a result, the consumer price deflator, taking the Community as a whole, is forecast to fall from 5.8 percent last year to 3.5 percent in the current year and to 3.1 percent in 1987.

Like overall activity, the balance of payments of the Community will be transformed by the new situation on the energy and the exchange markets. The improvement in the terms of trade in 1986 will outweigh the negative impact from volume changes in exports and imports, and the trade balance (fob/fob) could yield a substantial surplus. With the traditional large surplus on services and the important deficit in net factor income and transfers, the surplus in the current balance may be expected to exceed 1 percent of GDP (\$45 billion). Next year, this surplus is likely to decline.

Main Assumptions

The exchange rate structure established in the spring of 1986 is not assumed to undergo further substantial changes during the forecasting period. The European Currency Unit (ECU)/dollar rate that has been adopted as a working hypothesis is practically stable. In annual averages, the retained hypothesis implies a depreciation of the dollar against the ECU of 19 percent in the current year and of 1 percent in 1987.

The hypothesis on oil prices retained in this forecast is \$16 and \$15 per barrel for the average of 1986 and 1987, respectively. It is hardly necessary to underline the fragility of such an assumption. €

E.C. PROPOSES LIBERALIZATION OF CAPITAL MOVEMENTS

PLAN WOULD REMOVE ALL BARRIERS BY 1992.

QUENTIN PEEL

If you take an international flight from the Milan airport to another part of the European Community, the chances are that a customs agent will demand to see your wallet or purse and count the bank notes in it. Try to transfer a personal sum of money from France or the United Kingdom to Belgium, and you will have to fill out a pile of forms to justify the transaction.

European businessmen and travelers have grown too accustomed over the years to a random and often illogical collection of exchange controls at banks and borders that disrupts their daily lives. If a British investor wants to invest abroad—to buy stocks or shares on a foreign exchange—the chances are he will think first of New York. European stock markets have traditionally been too tied up with the red tape of exchange controls to interest them.

The United Kingdom and the United States are wide open to such transactions. So, in theory, is the Federal Republic of Germany. But that is not the case in other parts of the E.C., such as Italy, Greece, Spain and, still, although to a lesser extent, France.

Now all that is supposed to change. The E.C. Commission has published sweeping plans to do away with all barriers to the free movement of capital in the Community by 1992—the date by which the Common Market is supposed to become a reality. The two-phase program amounts to the first major move to ease the foreign-exchange controls within the E.C. since 1962—almost 25 years of virtual inaction on a crucial element in the process of turning the national markets of the E.C. member states into a single internal market.

Of course, it is going to be much easier said than done. The plan has been welcomed with remarkable enthusiasm by the 12 E.C. Finance Finisters, but that

was before their national officials had a chance to start finding flaws with it. The first problem is that even the present rules for moving money between E.C. countries allow for some big exceptions.

Since 1962, things like direct investment, property purchases, personal capital movements, short- and medium-term trade credits, insurance payments and buying listed stocks and shares, have been supposed to be free from controls. Italy, Ireland, Greece and, until this month, France, have been given exemptions to ignore the rules—ostensibly to protect their balance of payments. The new members, Spain and Portugal, have years to fall in line. Only the northern member states have gradually lifted controls between them.

Even under the new plan, Jacques Delors, the President of the E.C. Commission and mastermind of the move, admits that a two-speed Community is inevitable. There will have to be "differentiation," as he puts it, to protect the weaker economies. The small countries will go on being allowed to impose national controls.

Part of the program is nevertheless to tighten up the conditions for granting exemptions. France now complies with the old set of rules, and Italy has relaxed a little further, reducing the level of interest-free deposits demanded of Italian investors if they want to buy abroad.

The first phase of the plan will bring several new transactions into the area of compulsory, as opposed to voluntary, liberalization: buying unlisted securities, allowing companies to issue new shares on other E.C. exchanges and long-term trade finance for exporters.

The idea is that all money movements directly tied to trade within the Community should be lifted first, ideally by next year. Then the much more ambitious second phase will be introduced, to scrap the remaining controls on all transactions such as short-term money movements

and purely financial flows that could very well include currency speculation.

So why has Delors finally bitten the bullet and pressed ahead with his program? The first answer is the link to the commitment of the 12 member states to remove all remaining barriers to internal trade by 1992. "It is scarcely conceivable that the single great market can be done about without liberalizing capital movements," Delors said in presenting the plans.

The intention is broader than that: to improve the attractiveness of the European capital markets and to increase their capacity to provide venture capital and finance high-risk investment in the highly competitive new world of advanced technology. It has been possible to go ahead now because of the much greater convergence of economic policy between the member states as ever-decreasing differences in inflation and growth rates remove the potential strains on an unintegrated monetary system.

Thanks to the successful performance of the European Monetary System (EMS) in recent years and to the cooperation of the central banks in keeping their currencies floating within limits, it is possible to conceive of the even closer cooperation required of a liberalized capital system. It is also, on a political level, a tactical move by Delors. He wants to develop the EMS and the use of the European Currency Unit (ECU), which is a basket of 10 E.C. currencies. The Federal Republic of Germany, in particular, is skeptical, fearing a loss of independence and of the cautious monetary control exercised by the powerful Bundesbank, the German central bank.

Delors has shelved earlier plans to "instrumentalize" the EMS and use of the ECU, and has chosen a practical path that should lead to the same conclusion.

The liberalization of capital movements is one of two preconditions set by the Bundesbank for any further development of the EMS and wider use of the ECU. The other is the full inclusion of the pound sterling (which still does not participate in the EMS exchange-rate mechanism linking the currencies) and imposition on the Italian lira of the same fluctuation limits (it currently enjoys a wider band than the other participants).

Delors seems confident that if he can push ahead with the solution to the first precondition, the United Kingdom and Italy will in the not too distant future fall in line on the second. Then the Bundesbank will not be able to stand in the way of progress toward further re-

enforcement of the EMS and the ECU. The first move has already been taken by the E.C. Commission: the abolition of France's exemption and the tightening of Italy's. National officials believe the first directive can be approved even by the end of the year.

The questions lie over the total liberalization and over what other difficult issues it will bring with it. The first point is that genuine free capital movement implies freedom to provide financial services anywhere in the Community. On that question, the Federal Republic has a very conservative set of rules and very strict prudential requirements. It thus manages to keep most other operators out of its insurance and banking markets.

A major case in the European Court of Justice on insurance is due for a decision late this summer, which is expected to force Germany to open its insurance markets to other E.C. operators. In the long run, however, what may be needed is either the harmonization of prudential rules to protect the customers in all member states, or a system whereby such regulation in one state is accepted as adequate in another.

The member states are moving in the latter direction—they have agreed rules for trading in mutual funds along these

lines—but negotiations on each area of financial services are likely to be protracted.

A linked question is the freedom of establishment for financial institutions like banks and removal of any remaining barriers to, say, a British bank setting up in Italy or Germany. That point relates to what may be politically and practically the most difficult problem of all: how to ensure that free movement of capital does not simply drain the poorest countries and regions of the Community of available development cash.

One way of preventing that is to allow establishment only to banks that provide adequate services in outlying areas. Another is clearly, on a national basis, to allow the poorest member states to maintain some exchange controls. A third is to seek to compensate the poor regions with alternative capital flows from public funds—like the E.C. Social and Regional Funds.


Both the latter are currently hugely oversubscribed, and they are falling years behind in payments as they struggle to keep up with the demand on their resources. They are likely to remain short of cash until the member states agree to raise their contributions to the Community budget in the longer term.

A classic tradeoff between the member states is therefore in prospect: agreement to liberalize capital flows in exchange for more cash for the poorer regions. The danger is that such a difficult decision for the countries which put more into the budget than they pay out—the Federal Republic of Germany, the United Kingdom and, now, France—will hold up moves on capital flows.

So what do the moves mean for businessmen outside the Community? Certainly the same as for businessmen within as far as easier cross-border operations are concerned. Factories in Greece are likely to be constrained on the availability of foreign currency for the foreseeable future, but those in Italy may soon find the going easier.

If the new rules really work, then, as Delors hopes, the European capital markets will become more attractive and more competitive on the world stage. There is already real concern about the financial muscle increasingly wielded by Japanese institutions. In the short term, it could also reduce the amount of cash coming out of the E.C. to invest in the United States, as opportunities at home become relatively easier to take up. €

Quentin Peel is the Brussels bureau chief of the *Financial Times*.



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ALTIERO SPINELLI DIES AT AGE 78

ELDER EUROPEAN STATESMAN'S
INFLUENCE LIVES ON.

EMANUELE GAZZO

Altiero Spinelli, who died on May 23, was one of the founding fathers of the European Community. And while his presence will no longer command the European Parliament as it has for the past decade, his influence will continue to be felt as strongly as ever, both in Europe and throughout the world. The struggle that Spinelli undertook to bring about European integration continues—a struggle that is one of the most important of our times.

Who was Altiero Spinelli? He was not a prophet in the ordinary sense of the word. He never spoke or acted as if he were “possessed.” His language was always clear, unclouded by vague premonitions, never promising utopia. His analyses were always lucid—and, on occasion, pessimistic.

Spinelli was neither an impulsive dilettante nor a wild-eyed visionary. When he held power, he always exercised it carefully, in the framework of a precise strategy of action. He understood that the dreams of today can become the realities of tomorrow, and he knew that without a vision of the future it is difficult to get people to act. He was, unquestionably, an idealist, who held fast to his principles without being doctrinaire about them.

“The special quality of the plan to unite the European Community is that it is proposed to achieve union not by means of force and conquest, but by the free consensus of the European nations,” he wrote in 1972. “The Community is, for this reason, one of the most extraordinary adventures of the human spirit. It will be difficult, if not impossible, to appreciate its profound meaning if this particular characteristic of the union is not understood.”

Spinelli was not a man acting alone, as his whole life proved. Like few others, he inspired wholehearted devotion in many

who knew him. Of course, he sometimes found himself isolated, as often happens to those who are ahead of their times. And as he was a total stranger to sentimental rhetoric and formal reverence, there were many who disliked him; he told the truth too often, and was a thorn in too many sides. His effectiveness as a man of action mobilized many against him who feared that “The European adventure” (as he entitled one of his many books) might escape their banal control.

But who was Altiero Spinelli? What is his place in the history of Europe? To answer, let us examine the stages of his

**An indefatigable
activist, Spinelli
established contacts
with the Americans,
who saw the
federalization of
Europe as the best
means toward peace
and stability.**

life, the political content of those stages and the philosophy that guided him.

Spinelli was born on August 31, 1907, and spent his youth in Rome. As a student he became an active member of Gramsci's “Communist Youth” movement, which had been outlawed by the Fascists after coming into power in 1922. Spinelli was arrested in Milan in 1927 at the age of 20, and sentenced to 16 years and eight months in prison.

Spinelli spent the next 10 years in jail, reading and talking with his fellow prisoners. He discovered the federalist ideas of Luigi Einaudi, Alexander Hamilton, John

Jay and James Madison, and translated Lionel Robbins' “The Economic Cause of War.”

During the long years of prison, Spinelli came to the realization that it was not the conquest of national power that would save Europe from stagnation and downfall, but rather the creation of a federated Europe. “This is the only way,” he wrote in 1941, “to get out of the situation in which the people of this continent find themselves.”

In 1937, Spinelli's sentence was commuted to exile on the island of Fonza. By this time, his differences with the central Communist Party apparatus had become complete. Expelled from the Party and shunned by his former colleagues, he wrote with Ernesto Rossi “Toward a Free and United Europe: A Manifesto.” This brochure was distributed secretly throughout Italy in 1941 by Ursula Hirschmann, who was later to become his wife.

In July 1943, with the collapse of Fascism in Italy, Spinelli was finally set free. He was then 36 years old, and had spent 16 of those years in prison. On August 27, 1943, he founded the European Federalist Movement in Milan. During the intense clandestine activity of the last months of the war, local centers sprang up rapidly, and, in October 1947, he took over control of all the federalist organizations.

The speech that year by U.S. Secretary of State George Marshall, in which he proposed an American-funded European Recovery Plan, opened for Spinelli a new perspective on the unification of Europe. An indefatigable activist, he established contacts with the Americans, who saw the federalization of Europe as the best means toward peace and stability. “If a democratic Europe cannot save itself,” he said, “profiting by the offer extended by the United States, if it does not develop federal economic and political institutions, then a policy of American imperialism will prevail.”

Spinelli refused to accept any ambiguous strategy aimed at making Europe a neutralist “third force” in the world. A Europe founded on democracy would be a force for peace, he argued, and would discourage American hegemony. Spinelli felt that nationalism had been an underlying cause of the war and no place in any successful rebirth of Europe. “If the concept of European unity was felt by the nations returned to democracy to be no longer an abstract ideal to be realized at some unspecified future date—but to be a task for the present to be faced and

made reality in our generation—this was possible because the long nationalistic past had suddenly become repugnant and had ceased to be a crushing weight on the political conscience of the people,” he wrote.

In the early 1950s, Spinelli got the Assembly of the European Coal and Steel Community to draw up a statute for a European Union. This initiative was dropped, however, after the failure in 1954 of the European Defense Community—Europe’s first attempt at establishing a politically unified organization.

Spinelli became a professor at the Johns Hopkins University’s School of Advanced International Studies in Bologna from 1962-1966, and established the In-

stitute for International Affairs in Rome, which became a center for federalists and political scientists. He was director of the institute from 1965 to 1970.

By the late 1960s, it was becoming clear that the “functionalist” school of thought (which said that European political integration should come about gradually through economic institutional integration) had come to dominate the “federalist” school in Europe (which argued for a political federalization of the European states). Spinelli, a dedicated federalist, developed a new strategy of “acting from within,” and became, in 1970, a member of the E.C. Commission, a position he held for six years.

Why did Spinelli—like the fox in the

henhouse—join the Commission? The answer is simple. Spinelli believed that the Commission could become a center of power which would not be subordinated to the power of the member states and which would act independently. The report drawn up by the Commission on European Union in 1975 was exemplary—but it was ignored by the member states. This was the reason Spinelli decided to “return to the people.”

In 1976, he was elected to the Italian Parliament, which he saw as a way to get into the European Parliament. Spinelli had one overriding goal—to get the European Parliament to adopt a Treaty of European Union. Despite initial indifference and even hostility to the proposal, it was finally adopted by the Parliament on February 14, 1984 by a huge majority.

The Heads of State and Government could no longer remain indifferent to the Treaty. At the 1984 summit meeting in Fontainebleau, an ad hoc committee was set up to study institutional reform of the Community, and, in Milan in 1985, the European leaders called for an intergovernmental conference to establish a treaty of union.

Supported by the entire European Parliament, Spinelli pressured the conference to accept the treaty. What was adopted in the end, however, was a “Single European Act” which the Parliament saw as very unsatisfactory. Spinelli refused to give in, and the institutional commission he presided over drew up a “new strategy” which called for more power for the Parliament. From his hospital bed, Spinelli continued the struggle, giving instructions to his collaborators until the end.

Much has been said about Spinelli’s life and work, and his followers have vowed to continue his efforts toward a Treaty of European Union. Occasionally, there has even been a certain tendency to remember Spinelli’s personality and work as if he was a slightly off-center epiphenomenon contained within the larger context of the general postwar movement toward the unification of Europe which, they contend, has already reached its natural limits.

But such an interpretation is doubly wrong. Europe is still not unified; indeed, it sometimes appears on the verge of falling apart. Spinelli’s European vision remains the only valid base of political action which could bring about complete and lasting unification. The path he mapped out before he died must be followed. €

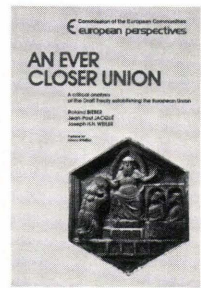
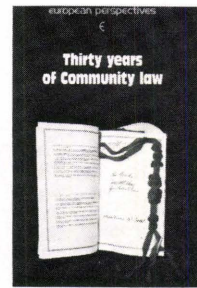
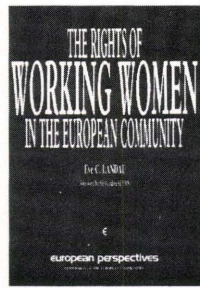
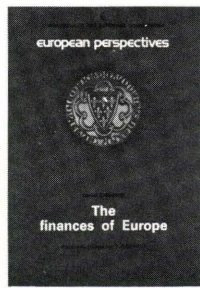
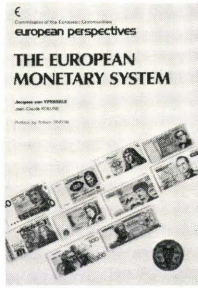
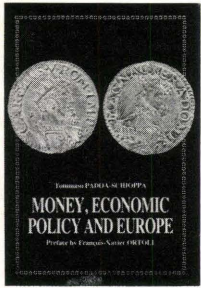
Emanuele Gazzo is the publisher of *Agence Europe* in Brussels.



Altiero Spinelli in 1970 when he was the E.C. Commissioner responsible for industrial affairs.

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IRELAND

HIGH TAXES AND UNEMPLOYMENT REMAIN A PROBLEM, BUT ECONOMIC OUTLOOK IS GOOD.

DERMOT McALEESE

The Irish are a happy people, much happier than the more prosperous nations in the European Community. Such, at any rate, is the conclusion of a London-based Gallup poll conducted last year. Almost 40 percent of the Irish people were found to be "very happy," compared with less than 10 percent in the Federal Republic of Germany and under 20 percent in France. Interestingly, the happiness index for the Republic was the same as that for Northern Ireland, which is something of a blow to the "dour Northerner" stereotype. Whatever about their political divisions, North and South are united in a cheerful disposition to life.

All this would be very reassuring were it not for the fact that, despite their apparent state of happiness, there are specific aspects of Irish life about which the populace is definitely unhappy. For one thing, the poll seems to indicate a large degree of dissatisfaction with the present Government. Faced with the certainty of an election sometime between now and 1987, this specific source of unhappiness is likely to be of more concern to the Prime Minister, Dr. Garret FitzGerald, than the more general expression of content.

Two major problems for the Irish economy are the high level of taxation and the rate of unemployment. Although the top marginal income tax rate has been cut from 65 percent two budgets ago to the present level of 58 percent, income taxes are still high. They bite into incomes at a low level, they are particularly severe on single people without mortgage write-offs and child allowances, and they make it difficult for young people to accumulate capital. The burden is made all the harder to bear by the thought that many who should be in the tax net have escaped attention—the farmers, the self-employed and the "black-economy" sector.

The actual degree of tax-dodging has probably been exaggerated—most farmers, for instance, are not earning enough to constitute a significant source of tax revenue—but there is no doubt about the intensity of the perception that the system is not working as fairly as it should be. Resentment is further fueled by the fact that Irish income taxes are now higher than British taxes. From the time of independence, it has been a deliberate matter of policy for Irish Governments to set the tax rates below the British level.

The unemployment rate now amounts to 17 percent of the workforce. Yet, while there have been public demonstrations in protest against taxes, it is difficult to muster similar crowds in support of the unemployed. There are a number of possible reasons for this. Since most people are at work, the inadequacies of the tax system are felt more keenly than the problems of the unemployed. Social welfare payments in contemporary Ireland are much higher than they were over a decade ago. There are more unemployed who have spouses working than was previously the case.

Moreover, a significant—but for obvious reasons unqualifiable—number of the unemployed work part-time or work on an irregular basis while at the same time collecting the dole illegally. These factors combine to make the unemployment problem less acute than the statistics suggest. Nevertheless, it is still a depressing reality for too many of Ireland's young people, undermining their self-confidence and drive to get on in life, and it is a waste of the energies and experience of the older workers who find increasing difficulty in reentering the workforce should their original jobs be lost.

If taxes are too high, why not cut them? This is the main thrust of the proposals of the opposition parties. Fianna Fail, as part of its campaign to return to government with an overall majority, has promised to reduce taxes to the level where

the 35-percent tax will apply to two-thirds of income tax payers. It has also undertaken to reduce the top rate to 50 percent during the first three years of government.

The Progressive Democrats (PD)—a new party set up this year by Desmond O'Malley, a former Fianna Fail member and senior government minister, and wedded to the principles of lower taxes, less government and a liberal line in social issues—have gone one step further. They propose introducing a flat 25-percent income tax rate on all income. The details of how this proposal is to be financed have yet to be published.

The PD's tax program has been much influenced by the Commission of Taxation, which, in the course of a number of lengthy and elegantly written reports, has set out the blueprint for a root-and-branch overhaul of the present system. The main thrust of the income-tax reform would be the abolition of special tax allowances (mortgage reliefs, life assurance concessions, etc.) and imposition of an expenditure tax, the revenue so accruing to be devoted to a replacement of the present tax bands by a low, single, flat rate of income tax.

FitzGerald's Government—a coalition between the conservative Fine Gael party and the Labor Party—faces a dilemma. There is irresistible electoral pressure to "do" something about taxes and unemployment. The Government has indeed already responded to such pressure by restructuring taxes, by lowering the higher marginal tax rates and by devising special schemes to help the young and long-term unemployed. But any proposal for really large-scale action will cost money and the public finances are already under considerable strain. The government's total debt, for example, now equals almost Irish £20 billion pounds, 116 percent of Irish gross domestic product (GDP) at the end of 1985.

By E.C. standards, this represents a level of borrowing twice to three times that of the major European countries and topped only by Belgium. Besides, even with unchanged tax rates and expenditure programs, the borrowing continues to increase. The public-sector borrowing requirement is expected to reach 14 percent of gross national product (GNP) this year. Interest payments on Ireland's bloated public debt will amount to two-thirds of total income tax receipts this year.

Some limited room for maneuver has been obtained as a result of favorable external developments. First, the fall in



The continuing crisis for European agriculture is a matter of considerable immediate concern for the Irish economy. Meanwhile, manufacturers in traditional Irish industries such as Waterford crystal (above) are afraid of being caught at the wrong end of the growing U.S.-E.C. trade dispute.

the interest rates is good news to borrower nations—long-term rates are now below 10 percent, high in real terms, but substantially below their level of two years ago. Second, the weakening of the dollar, which has fallen from an average of Irish £1 = \$0.96 in the first quarter of 1985 to Irish £1 = \$1.29 in the first quarter of 1986, has further eased the burden of debt service (a large proportion of Ireland's foreign debt is denominated in dollars). Third, the collapse in oil prices has boosted purchasing power in an economy heavily dependent on oil. It has strengthened the balance of payments, reduced inflation and promises to gener-

ate further tax revenue indirectly through the stimulus it will give to faster economic growth.

Thus, despite the heavy tax burden and the parlous state of public finances, the macroeconomic aggregates look quite reasonable. GNP growth just below the 3-percent range is forecast for 1986 and 1987, indicating that the Irish economy is rather belatedly joining the trend toward economic recovery in Europe.

Ireland has become a low-inflation country, much to the surprise of its own citizens, not to mention others. From inflation of 20 percent in the early 1980s, consumer prices are expected to rise by

only 2.5 percent in 1986. This compares with forecasts of a 3-percent average for industrial countries and nearly 4 percent for the United Kingdom. The fact that debt-ridden and fiscally relaxed Ireland can enjoy a lower inflation rate than its fiscally proper neighbor is a matter of quiet satisfaction to the Irish. It must certainly add a few digits to the "happiness index."

Luck has a part to play in this, of course. So also has Ireland's participation in the European Monetary System (EMS), which has been associated with a strong currency policy and which has prevented the Irish pound from sliding downward

with sterling. In fact, the Irish pound, which sold for as little as 80 pence sterling in mid-1985, now fetches 90 pence sterling, an appreciation of over 12 percent. Given the close trading links between Ireland and Britain, this appreciation has a powerful effect on Irish price levels. It is good for Irish inflation statistics, although not so good, of course, for those trying to sell Irish products to British customers.

External developments have also helped the balance of payments. The current deficit peaked at 15 percent of GNP in 1981 and has fallen sharply since then. The recovery in export demand, oil price

it is not itself sufficient and for most Irish people the first half of the 1980s has been a period of lower living standards and straitened finances. Purchases of new automobiles, for example, are down to half their level of 1981. Retail sales fell by 10 percent in real terms between 1980 and 1984, and recovery is only beginning. For most people, after-tax real living standards are still lower than they were at the beginning of the decade. Clearly this is an unsatisfactory state of affairs.

An external stimulus in the form of a continued recovery in the E.C. economy would help matters considerably. Over three-quarters of Irish exports are sold

1985, the workforce of British manufacturing subsidiaries operating in Ireland had been reduced to 60 percent of its 1979 level—the result of retrenchment in the existing companies and increased competition for new projects by British regions. High levels of unemployment also have had an impact on the Irish labor market by discouraging emigration and increasing domestic unemployment. The diminution of job opportunities in Britain is all the more serious given the domestic market's limited capability of generating employment and the strict barriers to emigration into the United States.

In the early years after entry to the Community in 1973, the agricultural sector could be relied upon to provide a further significant boost to growth, but this is no longer the case. Ireland was one instance of the E.C.'s Common Agricultural Policy (CAP) working to underpin agricultural incomes in a relatively less prosperous area of the Community. Since 1978, however, Irish farmers have been caught between inflationary cost increases within the economy on the one hand and downward pressure on price increases for their output exercised from Brussels on the other.

The continuing crisis for European agriculture is therefore a matter of considerable immediate concern for the Irish economy. Support prices for beef and dairy products in Ireland have risen as a result of the price settlement for 1986-87 reached by the Community's Agricultural Ministers in April. But this has happened as a result of a green pound adjustment and not of a change in common prices which were left unaltered.

Indicative of the trend in policy is the obligation on Irish farmers to cut milk output by 3 percent over the next two years as part of the Community-wide cut in milk quotas. Planned cutbacks in intervention buying in beef were resisted but, with the United Kingdom about to take over the Presidency, further pressure to restrict CAP spending will be actively pursued. Dismantlement of the CAP price system—unless it were accompanied by a comprehensive system of income support—would be a disaster for the typical small Irish farmer who relies for his income on beef and dairy products.

To add to the prevailing mood of uncertainty, there is fear that Ireland might become an innocent casualty were a trade war to break out between the United States and the Community. Unlike most other Community countries, the balance of Irish-American trade is strongly in America's favor. Last year, for example,

Continued on page 56.



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The Irish are a happy people, much happier than the citizens of more prosperous nations in the E.C., according to a Gallup poll conducted last year. Above, Galway on the Atlantic coast.

falls, interest payment reductions and the weakening dollar have contributed heavily to this. Domestic policy measures have also played a key role, in particular the reduction in spending on large public-sector investment projects with high import content and the depressed state of consumer demand. Traditionally a deficit-prone country, the emergence in Ireland of the possibility of an actual surplus on the balance of payments has come as something of a culture shock to many Irish economists.

Getting the macroeconomic aggregates into shape is a necessary condition for improved economic performance. But

within the Community. Ireland is still heavily reliant on foreign investment and a tightening of the European labor market, combined with a more buoyant economic climate, would help to increase the flow of new projects. Indigenous industry could also benefit from the renewed growth in the wider market and the Government is looking to this sector, especially small- and medium-sized firms, to strengthen growth prospects.

Sustained growth in the British economy, even at the 2-percent-plus evident in recent years, would also be welcome. Ireland has been adversely affected by the post-1979 changes in Britain. By end-

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February 6, 1986

IRISH ECONOMY CONCENTRATES ON HIGH TECHNOLOGY

INVESTMENT OPPORTUNITIES HAVE
ATTRACTED SOME 330 U.S. COMPANIES.

JOHN O'BRIEN

Ireland has the highest ratio of high-tech to total exports of any E.C. country. This finding by an E.C. Commission study is but one indicator of the remarkable transformation which has changed Ireland from a largely agriculture-based economy to a modern, technology-based economy over the last 20 years.

The basic strategy which has wrought this transformation has been:

- A commitment to free trade which culminated with Ireland's entry into the E.C. in 1973.
- A pro-business environment—with very low corporate tax rates and other financial incentives—which encourages investment.
- A strong welcome for foreign investment.
- Heavy investment in the infrastructure (including technological education) required by a modern industrial economy.

The success of this strategy may be seen from the fact that agriculture now accounts for only 13 percent of gross national product while industry accounts for 44 percent. Manufacturing exports have grown in volume terms by 10 percent per year for the past decade and the electronics industry now exceeds dairy products as the single largest export category.

The driving force has been the development of modern sectors such as electronics, health care and pharmaceuticals. Electronics, which was an insignificant sector in 1972, is today a \$4-billion industry with over 350 companies employing over 25,000 people. Major U.S. companies include Digital Equipment, Wang, Apple, Prime Computer, Amdahl and Analog Devices.

- The pharmaceuticals and health-care sector, which in 1972 employed 9,500 people in 27 companies and exported \$59 million worth of product, today employs

19,000 in 110 firms exporting \$2.5 billion worth of product. Most of the major companies, including Pfizer, Schering-Plough, Merck and Squibb, have facilities in Ireland.

Investment by overseas companies has played a vital role in development. There are now in excess of 800 foreign firms, employing over 80,000 people, which amounts to 36 percent of manufacturing employment. There are 330 U.S. companies, employing 37,000 people. Ireland's relative attractiveness may be seen from the fact that while it only accounted for 1.7 percent of U.S. manufacturing investment in Europe when it joined the Common Market in 1973, it now accounts for 9.4 percent—or a per-capita level five times the European average.

Ireland offered such firms access to the European market; an adaptable, well-educated and English-speaking work force; high productivity; and a favorable fiscal and financial climate. This made Ireland the most profitable location in Europe for U.S. investment—U.S. Department of Commerce figures show that the return on investment in Ireland at 28.7 percent was double the European average over the last seven years.

Ireland will need to maintain its rapid pace of development and continue to attract overseas investment since it has the fastest growing population and labor force in Europe, with half of the population under 30. While this intensifies the need for job creation, it also provides a considerable resource in that bright young people will be in short supply in the United States and in many parts of Europe as the "baby boom" turns to a "baby bust" over the next 10 years.

Ireland's target is to double industrial output over the decade 1982-1992. While it is recognized that this will only lead to a marginal increase in direct manufacturing jobs, it will create the income and wealth which will induce many more jobs in the services sector. Ireland has also

forged a unique incentive package to attract free-standing service jobs. This, combined with the ready availability of analysts, programmers and engineers, has already induced firms such as IBM, MSA, Microsoft, Lotus and Keane to locate software facilities in Ireland.

Furthermore, improved communications links will enable more companies to locate back-office functions in Ireland to take advantage of an educated and growing labor force. For example, A.C. Nielson employs 500 people in Ireland on magazine subscription fulfillment through a direct link to a main-frame computer in Boulder, Colorado.

Ireland is continuing to attract new investment. In the recent past, companies such as EE&G, Analog Devices, AT&T, Keytronic, Accuray, Amdahl, G.E. and Sterling Drug have either undertaken expansions or investments in new facilities. The basis for this success is:

- Membership in the E.C., the largest market in the world, which many commentators now believe will be the star performer of the late 1980s;
- A huge commitment to education which has involved massive expenditure (\$700 million over the last five years) and a reorientation toward technologically based subjects. For example, output of engineers has increased by two-thirds, while over 50 percent of all college students now follow engineering, science or business-based courses.
- A modern telecommunications network, which has the highest level of digitalization in Europe and which has modernized at a cost of \$1.5 billion.
- A favorable fiscal/financial environment, with a maximum tax rate of 10 percent guaranteed to the year 2000 as well as capital and training grants. This incentive package has been extended to cover software and computer services as well as manufacturing. €

John O'Brien is public relations director at Ireland's Industrial Development Authority.



PHOTOS: ©COTTON COULSON/WOODFIN CAMP INC.

There are over 800 foreign companies, which employ more than 80,000 people, operating in Ireland today. Large photo: The Japanese firm NEC manufactures chips. Inset: Electronics, an insignificant sector 15 years ago, today is a \$4-billion-a-year industry. Overseas companies are attracted by an adaptable and well-educated work force.



J U S T P U B L I S H E D

A new map of the European Community has been published to mark the accession of Spain and Portugal on 1 January 1986.

It shows the member states, regions and administrative units of the E.C. in twelve colors. It measures 75 x 105 cm, the scale being 1:4,000,000 (1cm=40km), and is available in the nine languages of the European Community.

Inset on the map are 105 block diagrams giving basic information about the twelve member states and comparative statistics for the E.C., the United States and the Soviet Union. To order mail entire page to the European Community Information Service, 2100 M Street, N.W., Suite 707, Washington, D.C. 20037, (202) 862-9500. Price is \$5.00 including postage.

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A new map of the European Community

NEWS OF THE E.C.

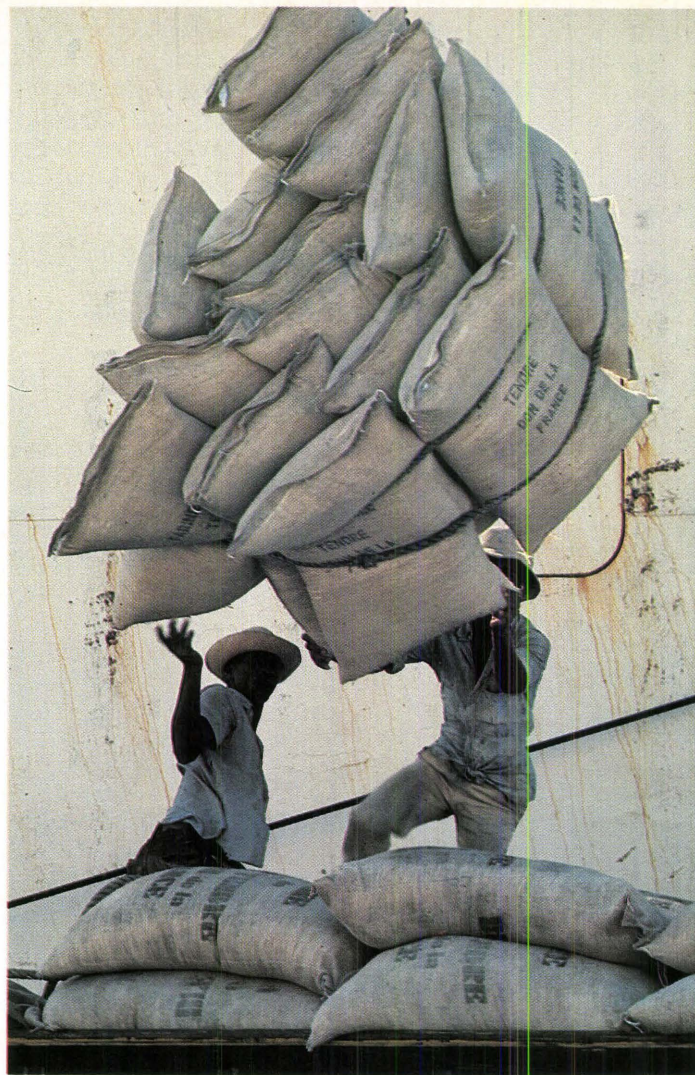
AID: E.C.-NGO PARTNERSHIP THRIVING

Over the last 10 years the European Community has formed a partnership with Europe's numerous voluntary aid agencies (such as Oxfam, War on Want, and Trocaire, among others) to ensure that its development aid reaches people who might be overlooked by official programs. Just how successful this partnership is proving is clear from the volume of Community aid that is being channeled through these Non-Governmental Agencies (NGOs), as the agencies are collectively known.

Some 150 million ECU (about \$115 million), representing roughly 7 percent of the Community's aid budget, now goes to the NGOs based in E.C. member states. A key element of the Community's contribution is allocated to co-financing development projects.

In 1976, when the partnership between the NGOs and the European Community began, the Community contributed some 2.5 million ECU (\$1.9 million) to co-finance 75 development projects in the Third World. Last year it gave over 40 million ECU (\$30.4 million), to be shared out among 315 projects in 90 different countries.

Total Community financing amounted to 174 million ECU (\$132 million) between 1976 and 1985 (out of a total E.C.-NGO expenditure of 431 million ECU), and 1,913 projects have been financed with 280 NGOs. All available budget appropriations were fully committed. Over the period, 46 percent of the funds went to projects in Africa, 27



European Non-Governmental Agencies have provided food and development aid to dozens of developing countries in partnership with the European Community since 1976.

percent to Latin America, 20 percent to Asia, 6 percent to the Mediterranean and 1 percent to the Pacific. Projects aimed at populations with a per capita income of less than \$500 accounted for 54 percent.

As in the past, these projects were extremely varied in content and focused on the three traditional sectors of rural development, health and training. Most projects concerned more than one sector, reflecting the integrated approach which is a feature of NGO operations.

The projects are deliberately kept small, with the Community's contribution averaging 115,000 ECU (\$87,400) per project. As Claude Cheysson, the E.C. Commissioner responsible for North-South relations has pointed out, official aid programs sometimes neglect the human factor, due in part to

their sheer size. NGO projects "are not conceived in ministries or engineering consultancies but among the very men and women for whom they are destined."

Where governments and international agencies see people as "anonymous and uniform recipients" of aid programs, Cheysson said, the NGOs "see in them the inspiration for their activities and immediately treat them as partners."

When the Commission met with NGO officials earlier this year to review the past 10 years of cooperation, it noted that "the success of these operations can be attributed to the high level of motivation and commitment of the NGOs' staff, their independence from external pressures, their relatively small size and the resultant autonomy and flexibility of action. The Commission's relations

with NGOs are characterized by its confidence in their underlying motivations and abilities. In the overwhelming majority of cases, the results fully justify this confidence."

ECONOMICS: OUTLOOK FOR 1986-1987

The European Community's economic growth, which has averaged between 2 percent and 2.5 percent over the last two years, will probably increase over the next two years due to the drop in oil prices, according to new E.C. Commission economic forecasts.

Gross domestic product (GDP) is expected to grow by 2.7 percent in 1986 and by 2.8 percent in 1987, Commission experts are predicting. Inflation in the European Community continues to slow, and the current account surplus is expected to grow slightly this year before declining in 1987.

Increased business activity is expected to stimulate the growth of employment, with



the E.C.'s unemployment rate dropping from its 1985 level of 11 percent to a 1987 level of 10.5 percent—a rate the Commission still considers unacceptable.

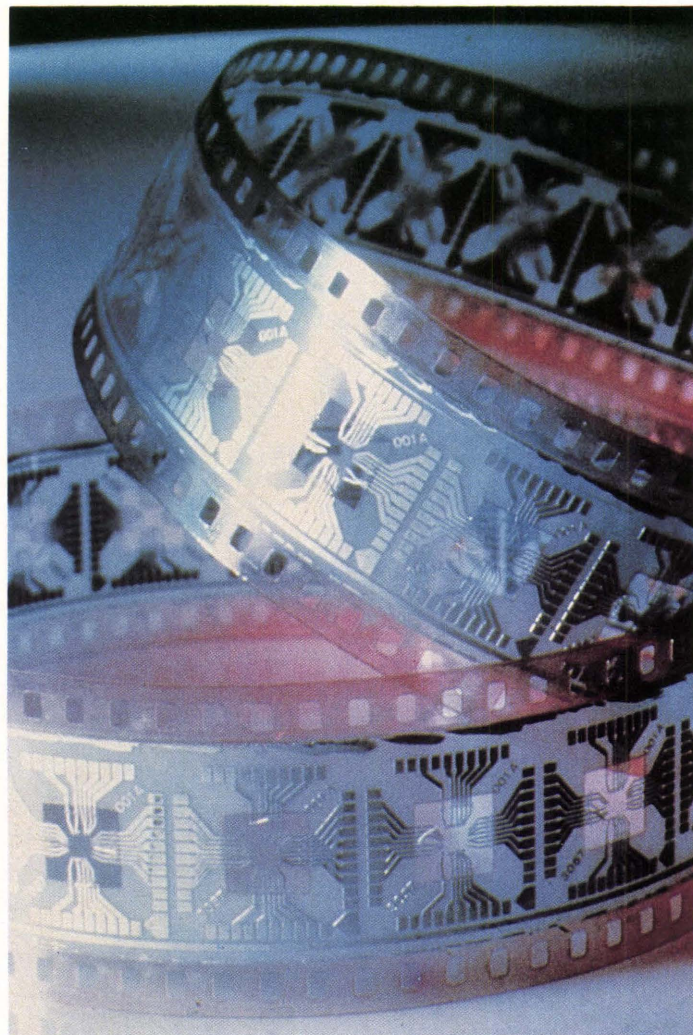
The increasingly favorable outlook for the future does not modify the nature of the medium-term economic problems the Community is facing, Commission sources said at a recent press conference. The "Co-operative Strategy for Growth and Employment" proposed by the Commission in its last annual report continues to be relevant, the sources stressed.

The most recent economic outlook by the Organization for Economic Cooperation and Development (OECD), released at the end of May, indicates that both France and the Federal Republic of Germany can expect improved economic growth over the next 18 months, but that other E.C. member states may see a slowdown in their economies. The head of the OECD's economic statistics department, David Henderson, noted in remarks to the press that developments in the world economy—including lower oil prices, the prospect of lower U.S. deficits and significant changes in exchange rates—made it likely that the expected short-term improvements could be sustainable into the longer term.

The OECD expects the fall in oil prices to affect both inflation and growth, with inflation predicted to be around 3.5 percent for the OECD as a whole in 1986, and to drop to 3 percent in 1987. This compares with previous predictions of 4.5 percent. For this year, the lower inflation rate reflects not only falling oil prices, but also downward adjustments in the prices of other fuels and a further weakening in the prices of non-oil commodities.

The effects on economic growth of lower oil prices, Henderson said, would be less marked. While the OECD expects that in some countries the full benefits will not be directly passed on to households and businesses, higher real incomes associated with better

terms of trade will be reflected in a generally faster rate of growth in total real domestic demand. Growth for the OECD as a whole this year, Henderson indicated, is expected to be about 3.5 percent.



Developing and producing complex—and inexpensive—integrated circuits is a priority for the second phase of Europe's Esprit technology program.

TECHNOLOGY: RESEARCH PROGRAMS TO BE STEPPED UP

The E.C. Commission announced recently it would seek extra funding for four scientific research programs designed to increase Europe's competitiveness in world high-technology markets. The increased funding would be used to continue and expand the programs and to integrate a number of important projects that have until now been conducted separately.

The programs concerned include Basic Research in Industrial Technologies for Europe

(BRITE), the biomolecular engineering research program, the "stimulation plan for scientific and technical cooperation and exchange," and the information technology program Esprit. Because of their international,

1985 with Community funding of 125 million ECU, to which industrialists are contributing an identical sum.

The first stage of the biotechnology research program, which was launched in 1982 and ended in March of this year, produced a number of important results in genetic engineering and has resulted in the establishment of a transnational European biotechnology research network. Its most spectacular developments occurred in the field of plant genetics, where researchers were able to transfer foreign genetic information to monocotyledones, a class of plant which had formerly resisted all attempts at modification through genetic engineering.

In an evaluation of the program, the Commission stressed the importance of transnational cooperation in research, noting that "in biotechnology, as in many other fields, productivity depends on the attainment of a certain 'critical mass' in both human and financial terms. The Community program made the attainment of this 'critical mass' possible."

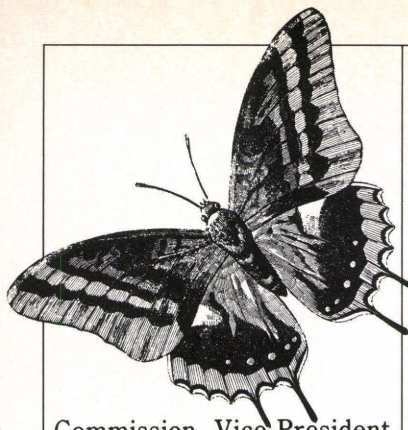
By the end of this decade, the Commission believes, Europe will be the largest market in the world for information technology (IT) products and services, from data processing to office and industrial automation, including the new generations of electronic chips.

Worldwide expenditure on research and development in IT, currently some \$27 billion, is expected to more than double by 1990. The Commission is therefore trying to speed up and intensify research in this area, in the form of the Esprit program.

Esprit, begun in 1984, is designed to provide European IT industries with the basic technologies to meet the competitive requirements of the next decade, to promote European industrial cooperation in precompetitive R&D, and to pave the way for the introduction of international standards of European origin. "In spite of the short time span since the program was launched," said

intersectorial and interdisciplinary nature, the programs are highly representative of the kind of enhanced research policy which the Community is implementing throughout Europe.

The BRITE program brings universities and enterprises together in developing practical applications for new technologies (such as lasers and computer-assisted production techniques) in Europe's main industrial sectors, and is designed to cover "pre-competitive" research, an intermediate stage between fundamental research and development work immediately preceding marketing. It was adopted in March



ENVIRONMENT: COMMISSION CHANGES VIEW ON BUTTERFLY IMPORTS

While it may seem paradoxical to allow exotic wildlife to be imported and sold as a way of protecting it, the E.C. Commission is proposing to do exactly that for several species of butterflies grown in Papua New Guinea.

The import of rare butterflies has been prohibited in the E.C. since 1984, following a 1982 regulation giving effect to the international convention on trade in endangered species of wild flora and fauna. But studies over the last few years have shown that a ban on trade is the wrong way to save butterflies from extinction.

The fact is that in several Third World countries, butterfly ranches not only bring in money but are an effective way of protecting the natural environment. Papua New Guinea has many such farms, set up with the help of the Government and the World Wildlife Fund, where specimens taken from the wild are reared in a controlled environment.

Butterfly ranching relieves pressure on endangered species, maintains a healthy wild population near the ranch, and preserves natural habitats by leaving most of the land intact.

Commission Vice-President Karl-Heinz Narjes recently, "it is already possible for us to state that this program has enabled us to bring forward common standards, develop systems and produce results, including patents, and to encourage and stimulate promising new technological and industrial cooperation within the Community."

The second phase of the Esprit program will focus on a number of specific areas, including microelectronics and computer peripherals, data-processing systems, and applications technology, including industrial and office automation. European industry must also become capable of supplying integrated circuits for complex specific applications (containing up to four million basic components on a single chip), reducing by a factor of 10 the development costs of certain computer hardware and software, and supplying generic components for a wide range of IT applications.

Such a complete habitat attracts and holds a breeding population that renews itself normally. Butterfly farms allow the local population to earn money without having to cut down rain forests in order either to sell the timber or set up coffee or cocoa plantations.

The Papuan program—known as the Insect Farming, Trading and Conservation Project—was begun in 1974 and is regarded as a model of its kind as well as a pioneering conservation effort. Similar programs are envisaged for a number of tropical countries, including India, the Philippines and Mexico.

The program in Papua New Guinea has greatly increased the number of its two common birdwing species of butterfly, and is likely to increase the seven rare and endangered species that are so far banned from trade. The success of the farms, however, depends on the existence of a market for their output. Hence the Commission's proposal to lift the current ban on imports.

TRANSPORT: COMMISSION CALLS FOR HIGH-SPEED TRAIN NETWORK

High-speed trains—such as France's 200 mile-per-hour

train à grande vitesse—represent an extraordinary technical achievement. They have the potential for carrying tens of millions of people throughout Europe at a fraction of the time it now takes to travel—but only if the 12 E.C. member states agree to set up a Community-wide rail network rather than concentrating on their national networks, said Stanley Clinton Davis, the E.C. Commissioner responsible for transportation, in recent remarks at the Hanover Trade Fair.

The E.C. Commission, which has been taking part for several years now in studies on an integrated European network, wants to see a high-speed rail network that is in keeping with today's Europe. But four conditions must first be met, Commissioner Davis said.

The first is that all new lines be properly integrated into the European network from the beginning. The second is that the rolling stock for all future high speed trains must meet European standards, so that passengers do not have to change trains each time a national border is reached. This "absurd" situation, said Davis, is likely to happen at the entrance to future tunnel across the English Channel.

The third condition, said Davis, is that the possibilities of European cooperation for the manufacture of the new trains and other equipment should be fully evaluated, as such cooperation would allow large-scale production at lower cost.

Finally, common marketing and tariff-setting policies will be needed if the high-speed trains are to compete successfully against airlines and long-distance bus services.

Commissioner Davis, who is also responsible for the E.C.'s environment policy, stressed the need to apply and adhere to high environmental standards.

On the question of standardization, he noted that although it has long been an objective, progress so far has been, in his words, "less than inspiring." The French and Germans each have their own high-speed trains, for example,

The E.C. Commission is pushing for an integrated European rail network for high speed trains like France's *train à grande vitesse* (TGV), below, and Britain's Advanced Passenger Train (APT).



despite plans for linking Paris to German cities. Davis said he would be soon be submitting proposals for a high-speed European rail network to his colleagues in the Commission.

TRADE: E.C. REMAINS COMPETITIVE ON WORLD MARKETS

The E.C. of 12 remained one of the world's most important trading entities last year, with total external trade of \$595.98 billion and an overall trade deficit of \$20.68 billion, according to 1985 trade statistics released by the E.C.'s statistical office, Eurostat. Of \$287.65 billion in European exports last year, \$65 billion—or 22.5 percent—went to the United States.

According to the U.S. Department of Commerce, the United States had overall exports of \$213.15 billion and imports of \$361.63 billion, leaving a trade deficit of \$148.48 billion. The U.S. exported \$48.99 billion to the E.C. and imported \$71.62, leaving a trade deficit of \$22.62 billion.

The industrialized countries took around 60 percent of E.C. exports, the developing countries about 32 percent. While exports to the former rose by 13 percent, however, Community exports to the Third World declined by 1 percent, due largely to an 11 percent fall in exports to the OPEC countries.

The E.C.'s trade deficit with Japan widened to \$12.9 billion last year, from \$11.4 billion in 1984. Exports to Japan rose by 13 percent in 1985 to \$7.6 billion, and while growth in imports slowed to 11 percent, they still amounted to a record \$20.52 billion.

Trade between the member states of the E.C. regularly exceeds their trade with third countries; last year it amounted to \$324.5 billion, and imports between the 10-member Community and Spain and Portugal (now members of the E.C.) rose by 15 percent to \$30.4 billion.



One in every 12 European children lives in a single-parent family, which are becoming increasingly common throughout the Community.

SOCIETY: HELPING THE ONE-PARENT FAMILY

The number of one-parent families has risen sharply in all European Community countries, even doubling in Britain since 1961, according to a recent E.C. Commission report on social developments.

Can the Community help such families? Two Members of the European Parliament (MEPs) who think it can are Colette Gadioux (France) and Marijke Van Hemeldonck (Belgium). The two women tabled a resolution last year calling on both the Commission and the member states to take steps to help single-parent families, for example by recognizing them as a legal entity equal in status to the two-parent family.

Their draft resolution was referred to the Committee on Women's Rights, which asked another MEP, Cinciari Rodano (Italy), to prepare a report on the subject. After consulting a number of studies, Rodano concluded that the increase in the number of one-parent families is due less to cyclical factors than to changes in cultural models and social relations. Although one-parent families are

likely to be part of the social environment for some time, she says, social policies have yet to make the necessary adjustments.

Assessing the scale of the problem is not easy. The Commission report put the number of these families in the E.C. at four million—some 10 percent of all the families in Europe. Some 7 percent to 8 percent of all children are said to be living in one-parent families. Over 90 percent of these families are headed by women, who often have more difficulty finding work than men. Finding accommodation is a major problem for single mothers with children, says Rodano, especially if they are divorced or separated, as the family home often belongs to the husband.

Rodano believes that the best way of resolving these and other problems is to create the conditions that will allow all women and men to find jobs, and to ensure that all women have their own, rather than derived, rights to social security and assistance.

Action by the Community could therefore be part of the European Community's equal opportunities policy, says Rodano. Her colleagues on the Legal Affairs Committee share her view, but point out that, as

many single parents are men, the Committee on Women's rights will have to take men's rights into account as well.

DELORS TO VISIT PEKING

Jacques Delors, the President of the E.C. Commission, is making an official visit to the People's Republic of China (PRC) early in July for talks on Sino-European trade and economic relations. China's remarkable economic development and its current trade deficit with the European Community will be the central subjects of the discussions.

China's foreign minister, Wu Xueqian, met with Delors and other members of the E.C. Commission in Brussels last May, where he stressed to the Europeans the importance to China of the political and economic ties that have developed over the past decade. Diplomatic relations were first established in 1975, and contacts have increased greatly since then. The Commission has been holding regular meetings with Chinese authorities at the ministerial level since 1984, and an agreement on economic and commercial cooperation was signed in May 1985.

The results of these contacts have been encouraging. Overall trade between the E.C. and the PRC expanded 58 percent in the first 10 months of 1985, with a trade surplus for the Community of 2.264 billion ECU (\$1.721 billion). The Community imported 3.144 billion ECU worth of goods, predominantly textiles, from China during the period. Textile imports, mostly silk, linen and cotton, grew 22 percent from 1984 to 1985. E.C. exports to China more than doubled over the same period, to 5.408 billion ECU.

During the talks with Wu in May, President Delors noted that a certain amount of imbalance in trade is characteristic of developing countries, and indicated that the Commission was ready to study measures aimed at promoting more cooperation with China. A European suggestion that the Commission install a delegation in Peking was well received by the Chinese foreign minister.

E.C.-CANADA RELATIONS

The E.C.-Canada Joint Cooperation Committee (JCC) met in Vancouver recently for talks on E.C.-Canada relations that focused on the issues of a Canada-U.S. free trade area, exports of fish and beef and the problem of agricultural subsidies. Willy De Clercq, the E.C. Commissioner responsible for trade and external relations, co-chaired the meeting with Joe Clark, Canada's Secretary of State for External Affairs. Representatives from the E.C. member states and the European Parliament were also present at the discussions.

Secretary Clark affirmed during the talks that Canada's search for a free-trade area with the United States and its growing interest in the Pacific Rim countries would in no way jeopardize traditional good relations between Canada and the Community. Any eventual agreement with the United States would be in compliance with Canada's obligations under the General Agreement on Tar-

iffs and Trade (GATT), he assured De Clercq. Canada's trade with the Pacific Rim countries surpassed its trade with the E.C. last year, for the first time in history.

While the recent enlargement of the Community was only touched on briefly in the context of the ongoing dispute between the United States and the E.C., the proposed new round of multilateral trade talks in the GATT was discussed in some depth. Both sides agreed that a new round should be launched as soon as possible with the largest possible participation of the developing countries.

E.C.-Canadian trade relations are conducted both through the multilateral framework of the GATT and through bilateral talks, and the relationship has been strengthened since 1976 through a framework agreement on commercial and economic cooperation. That framework agreement was designed to grant each country most-favored-nation status, to promote reciprocal development and diversification of trade, and to foster economic cooperation in a wide number of fields. It also set up the Joint Cooperation Committee (JCC), whose role is to identify suitable areas for cooperation between industrial enterprises as well as cooperation at governmental level. The most recent JCC meeting was the sixth since the talks began in 1976.

Canadian Secretary of State for External Affairs Joe Clark, who met recently with E.C. officials in Ottawa.



COURTESY EMBASSY OF CANADA

E.C.-COMECON RELATIONS IMPROVING

Efforts over the past year to improve relations between the E.C. and the East bloc countries of Comecon are beginning to show substantial results, the E.C. Commission said recently. The Commission has now received replies from the Foreign Ministers of all the East European countries it wrote to in February expressing the Community's interest in establishing ties between the two groups.

Responses from the Comecon countries (Poland, Czechoslovakia, the German Democratic Republic, Hungary, Romania and Bulgaria) have generally been positive, confirming their willingness to establish relations with the E.C. and to regulate trade questions bilaterally. They also appear willing to discuss establishing diplomatic relations, although some countries are tying this to the establishment of official relations between the E.C. and Comecon through a joint declaration, and others are linking it with the results of trade and economic negotiations. The principle of diplomatic relations between the E.C. and each of the Eastern bloc countries, however, seems to be widely accepted.

On the level of bilateral relations, the Commission has approved a directive for the negotiation of a trade and economic agreement with Romania. A mandate for negotiation on trade in industrial products with Czechoslovakia is being prepared, and contracts are in sight with Hungary and Poland.

A recent E.C. review of prospects and developments in East-West trade indicates that most trade between the E.C. and the Comecon countries appears to be either stagnant or in decline. Soviet exports to the Community fell considerably last year, due for the most part to cuts in crude oil exports. Fuels, primarily oil and gas, constitute over 80 percent of Soviet exports to Europe.

The Community's sales to

the Soviet Union, which stagnated in 1984, fell slightly in 1985. The Soviet Union cut its machinery imports from the E.C. by nearly one quarter in nominal terms, and as machinery constitutes an important share of E.C. exports, gains made by the Community in chemical and food exports were not enough to balance the losses in machinery sales. The Community's trade deficit with the Soviet Union still reached 8.4 billion ECU (about \$6.4 billion), compared to 10.5 billion ECU (about \$8 billion) in 1984.

Trade developments between the European Community and the East European countries were more encouraging in 1985, despite the negative effect on East bloc exports of decreasing energy values (the dominant category of imports from Eastern Europe are refined petroleum products and coal). E.C. machinery exports to these countries increased significantly, averaging 20 to 25 percent higher than in 1984. Machinery exports to the German Democratic Republic, however, fell substantially for the second consecutive year.

The Community's overall sales to Eastern Europe (including the Soviet Union) increased by about 14 percent last year, with the exceptions of the German Democratic Republic and Albania, which reduced their imports from the E.C. to roughly 1983 levels. Community exports to Bulgaria rose by nearly 30 percent, however, as a result of increased machinery and food sales.

The volume of net energy imports from East European countries increased by 30 percent during 1980-1984, while net energy imports from third countries into the European Community decreased by about 22 percent. As a result, the share of the E.C.'s East-West energy trade increased steadily from 15 percent in 1980 to 25 percent in 1984. Energy trade with East Europe met about 11 percent of the Community's total energy consumption, up from 8 percent in 1980. €

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BOOKS IN REVIEW



Europe's Stagflation, edited by Michael Emerson, Oxford University Press.

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MONETARY RELATIONS ACROSS THE ATLANTIC

OR: HOW TO Cope with "UNSTABLE NO..."

ANDRÉ SZÁSZ

Financial and monetary relations between the United States and Europe in recent years have been free from irritation and recrimination. These have gone beyond the sphere of monetary and financial policies have been criticized by Prime Ministers, by Presidents, by a King. Listening to the going back and forth, I sometimes like that judge who, after having heard the plaintiff, concluded he was right and...

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Operation Flood. *Commission, Brussels, February 1986, 22 pages.* Description of the Operation Flood program in India as an example of the use of food aid to fund a development project. **Free**

Effects of Falling Oil Prices in the European Community. *Energy in Europe No. 4, Commission, Brussels, April 1986, 65 pages.* Lead article in the current edition of "Energy in Europe," a periodical on energy policies and trends in the Community. This issue also covers developments in oil refining, the Euratom nuclear safeguards system, a history of E.C. energy policy and a short-term forecast for energy markets. Available on subscription. Sample copy available. **Free**

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Treaties of Accession of Spain and Portugal. *Official Journal of the European Communities, Vol. 28, L 302, Office of Official Publications, November 15, 1985, 497 pages.* **\$30.00**

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

Official Handbook of the European Parliament 1984. *European Parliament, Luxembourg, 1985, 333 pages.* Photographs and biographies of the members, committee memberships, political groups, 1984 election results, and secretariat services. **\$6.00**

The Cooperative, Mutual and Non-Profit Sector and Its Organizations in the European Community. *Economic and Social Committee, Brussels, 1986, 900 pages.* Survey on the structure, economic activities and role of cooperatives, non-governmental organizations and pressure groups at the European and national level in each of the 12 member states. **\$66.00**

The Economic and Social Situation of the Community. *Economic and Social Committee, Brussels, 1986, 134 pages.* Committee opinions on the reports on the mid-1984 and mid-1985 economic and social situations in the Community. **\$4.00**

Associations: EEC-Cyprus, EEC-Malta, EEC-Turkey, Compilation of Texts I. *Council, Brussels, 1985, 175 pages.* Texts adopted in 1984 for the operation of the Association Agreements with Cyprus, Malta and Turkey. **\$5.00**

Generalized Preference Regulations 1986. *Official Journal of the European Communities, Vol. 28, L 352, December 30, 1985, 248 pages.* *Office of Official Publications, Luxembourg.* Texts of the regulations for the operation of the E.C.'s system of generalized tariff preferences for developing countries in 1986. **\$15.00**

NIMEXE Nomenclature 1986. *Official Journal of the European Communities, Vol. 28, L 353, December 30, 1985, 578 pages.* *Office for Official Publications, Luxembourg.* Nomenclature of goods for the external and internal trade statistics of the E.C. **\$36.00**

Yearbook of Agricultural Statistics 1985. *Statistical Office, Luxembourg, 1986, 289 pages.* Statistical vade mecum compiled from specialized agricultural statistical publications.

Gives basic data on E.C. agriculture, agricultural and forestry accounts, structure, production, supply balance sheets, and prices and price indices. **\$15.00**

Labour Force Sample Survey 1983. *Statistical Office, Luxembourg, 1985, 145 pages.* Data on total population of private households, on the labor force and on unemployment by sex and age group; on employment, by sex, professional status and branch of activity; on weekly working hours; on main groups seeking employment, by sex, method of job search and duration. **\$5.00**

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Carriage of Goods by Road 1983. *Statistical Office, Luxembourg, 1986, 104 pages.* Statistics on goods traffic by road, carried on vehicles registered in the E.C. member states. **\$10.00**

Community Survey on the Structure of Agricultural Holdings 1979/1980, Volume IV. *Statistical Office, Luxembourg, 1985, 173 pages.* Results of the 1979-80 survey. Volumes I-III contained the methodology and detailed results. Volume IV shows results, with comparisons to 1975, in graph form with additional figures in an annex. **\$7.50**

Balance of Payments: Global Data 1973-1984. *Balance of Payments Quarterly, No. 3, 1985, Supplement, Statistical Office, Luxembourg, 1985, 130 pages.* Recent quarterly and annual balance of payments for the E.C.-10 and the 12 member states individually, the United States and Japan with historical data since 1973. **\$13.00**

Local Enterprise Agencies in Great Britain. *Programme of Research and Action on the Development of the Labour Market, Commission, Luxembourg, 1985, 82 pages.* A study of the impact, operation and policy implications of agencies for promoting small business development in the United Kingdom. **\$6.50**

Vocational Training Problems in Small and Medium-Sized Enterprises: Seminar Report. *Centre for the Development of Vocational Training, Berlin, 1986, 279 pages.* Analytical report on the discussions and conclusions of a seminar held in Luxembourg, October 1983. **\$6.00**

Employment Effects of Energy Conservation Investments in E.C. Countries. *EUR 10199, Commission, Luxembourg, 1985, 97 pages.* Analysis of the impact in France, the United Kingdom, Denmark, and the Federal Republic of Germany of energy conservation programs on production, employment, income and imports. **\$7.00**

Immunity to Herpesvirus Infections of Domestic Animals. *EUR 9737, Commission, Luxembourg, 1985, 332 pages.* Collection of papers presented at a workshop held in Brussels, December 4-5, 1984 as part of the research program on animal husbandry. **\$20.00**

New Developments and Future Perspectives in Research on Rumens Function. *EUR 10054, Commission, Luxembourg, 1986, 284 pages.* Papers presented at a seminar held in Forsøgsanlæg Foulum, Denmark, June 25-27, 1985 on animal feeding methods and standards. **\$18.00**

Testing and Evaluation of Solidified High-Level Waste Forms: Joint Annual Progress Report 1983. *EUR 10038, Commission, Luxembourg, 1986, 226 pages.* Report on the research program to test solidified high-level radioactive waste to predict behavior after disposal. **\$15.00**

Absorption and Heat Pumps Congress. *EUR 10007, Commission, Luxembourg, 1985, 532 pages.* Proceedings of a workshop held in Paris, March 20-22, 1985 on the state of absorption heat pump research in the Community, United States and Japan. **\$34.00**

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BOOKS IN REVIEW

Shattering Europe's Defense Consensus By James E. Dougherty and Robert L. Pfaltzgraff, Jr., editors. Pergamon-Brassey's; New York; \$19.95.

Star Wars: Suicide or Survival? By Alun Chalfont. Little, Brown and Company; Boston; 169 pp; \$16.95.

The Conventional Defense of Europe: New Technologies and New Strategies By Andrew J. Pierre, editor. Council on Foreign Relations; New York; 185 pp; \$6.95.

MICHAEL D. MOSETTIG

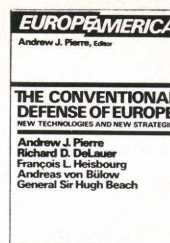
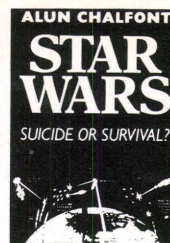
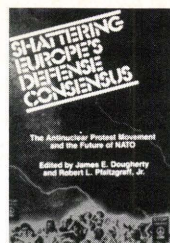
Western Europe's success in avoiding war since 1945 and the durability of its alliance with the United States have helped mask distinct European differences over issues of security that always have lurked near the surface of each separate national consciousness.

The issues have remained constant—how much to spend on defense, how deeply to integrate national forces into a multinational command structure and how to find security as an ally of one of the two nuclear superpowers through the ebbs and flows of Cold War and détente. A unified Western European approach to these questions has remained elusive. The idea that the budding federal European institutions of the 1950s would have a security component died with the European Defense Community. Attempts to revive such a concept never have gone beyond the rhetorical stage since.

The broad agreement that did exist, primarily over the nature of the external (Soviet) threat, has been eroding in the past decade. Recent events—Libya and the continuing demise of strategic arms control—further dramatize how divergently Europeans and Americans are looking at events beyond their borders. The message of these three books is that it will take considerable political adroitness on both sides of the Atlantic to prevent the erosion from becoming irreversible.

Each of these books, in its own way, reflects the growing contradictions in the

Michael D. Mosettig is senior producer, foreign affairs and defense, for the *MacNeil/Lehrer Newshour*.



European defense debate. The continuing buildup of Soviet conventional strength in Eastern Europe increases the likelihood that the North Atlantic Treaty Organization (NATO) would have to rely fairly promptly on battlefield nuclear weapons to stem any westward advance by the Warsaw Pact into the Federal Republic of Germany. Yet, as the Soviets were gaining strategic nuclear parity with the United States in the 1960s and 1970s, Western Europeans grew increasingly skeptical that any American government would sacrifice its citizens in a nuclear exchange just to defend Europe. Furthermore, every move by the United States and its allies to bolster their nuclear arsenals drew more vocal protests from increasingly large portions of the European public.

The authors of **Shattering Europe's Defense Consensus**, staff members of the Cambridge (Mass.)-based Institute for Foreign Policy Analysis, trace the current wave of Euro-pacifism to the on-again, off-again muddle over deployment of the Enhanced Radiation Weapon ("neutron bomb") during the Carter years. The movement gained new force, say most of the writers, with the so-called two-track NATO decision in December 1979 to deploy intermediate-range nuclear missiles in Britain and on the Continent, but also to try to negotiate a theater nuclear arms agreement with the Soviets.

What all but one of these writers overlook is the significance of the collapse of the SALT-II treaty (or at least the Carter decision not to send it to the Senate for ratification) after the Soviet invasion of Afghanistan. As former President Richard Nixon and former Secretary of State Henry Kissinger realized more cynically, but also more clearly than the current Administration, it is much easier to gain public support for armament programs when they advance under the security blanket of arms control negotiations and agreements. Washington never has understood either that the collapse of SALT II created far more alarm in Europe than it did at home or that it paved the way for the protests that swept European cities in the early 1980s against the cruise and Pershing II missiles.

The failure of the European anti-nu-

clear movements to stop the missile deployment was, in good measure, attributable to Soviet diplomatic blundering, especially the Soviet walkout from the Geneva talks in 1983. The writers of **Shattering Europe's Defense Consensus** find only limited encouragement in the ability of the Reagan Administration and the European Governments to prevail on that issue.

The tone of this collection of essays is decidedly pessimistic, the view of the anti-nuclear "peace" movements decidedly unsympathetic. Neil Kinnock is described as "agile in presiding over the evolution of the British Labor Party from social democracy to neo-Marxism, an evolution largely catalyzed by the continuing influence of the British anti-nuclear movement." Of the Federal Republic of Germany and especially the Greens, they write: "Today's wave of protest reflects a distinctly negative perception of pragmatic, bureaucratic politics and a rejection of liberal parliamentarianism. This same "illiberal" tendency has been visible throughout German history. The conclusion from these essays is that Western European Governments are facing a "concerted, well-organized political campaign" that, if successful, will result in Soviet strategic-military superiority over Europe, the neutralization of Western Europe and the end of NATO.

The book covers the successes and setbacks for each of the anti-nuclear movements in the United Kingdom, the Federal Republic of Germany, the Netherlands, France and Italy. Most striking is the contrasting style between the political portrait drawn of the British movement and the psychological one (*angst* and pessimism) of the German. Most open to question, especially in view of recent polls and the by-election results, is the assertion that the British Labor Party cannot win a national election running on a manifesto of unilateral nuclear disarmament. This argument overlooks the inevitable swing of the political pendulum, especially in an economy in double-digit jobless rates. Before long, an American Administration may well be faced with anti-nuclear socialist Governments in both the United Kingdom and the Federal Republic of Germany, Governments led

to power by shrewd politicians capable of papering over the defense differences in their parties and running and winning on domestic discontent. (All three books ignore the high rate of European youth unemployment as a continuing factor to the nihilistic element in the peace movements. But all three do recognize what havoc declining birth rates will cause for the conscript European forces by 1990, especially in Germany.)

If the European demonstrations against intermediate-range missiles in the early 1980s reflected the fear of becoming an inadvertent target in a U.S.-Soviet conflict, the growing debate over the Strategic Defense Initiative ("Star Wars") reveals the opposite fear of being bypassed or ignored in a strategic condominium of the superpowers.

In **Star Wars**, a former British officer, defense correspondent and former Labor Party minister of state has marshalled a better-argued brief for this controversial program than most of its American proponents have done thus far. Lord Chalfont is quite ready to use his pen to skewer positions he finds absurd, among them any European pretensions at forging an independent security or foreign policy. He dismisses the initial European response to President Reagan's first Star Wars speech in 1983 thus: "Each country instinctively consulted its own interest and exhibited the same signs of confused agitation that they have been accustomed to show when confronted with any new political or military development."

Lord Chalfont constantly stresses that the Strategic Defense Initiative (SDI) remains at this stage a research program, which is one way to counter the many physicists who doubt it will ever work. He also argues that even a 50-percent effective program would enhance security by reducing the incentives and likelihood for a Soviet first strike. He also acknowledges genuine European anxieties about the program, especially that technologies that might work against intercontinental ballistic missiles would never stop SS-20s, cruise missiles or bombers, the weapons now targeted at Western Europe. He attempts to turn the argument aside with two of his own, that a European-based defense against SS-20s might work and that the major purpose of strategic defense is to deal with potential first-strike weapons.

Lord Chalfont moves quickly from these points to a larger sketch of Western European defense. He is quickly into a different thicket, beyond SDI and into the issue of how much longer the Atlantic alliance can rely on the 1960s doctrine of "flexible response." The problem with

the doctrine, he argues, is that NATO is trying to implement this concept of graduated escalation (to replace the 1950s concept of "massive retaliation"), with a range of weapons that offer little flexibility between nuclear retaliation and surrender.

Pursuit of this reasoning (though in this case coupled with a vigorous critique of the deterrence rationale of Mutual Assured Destruction that has guided the superpowers since the nuclear age), takes Chalfont into the same complex web of doctrine and argument pursued by the authors in the **Conventional Defense of Europe**. This work is the latest in a studies series on Europe and America issued by the Council on Foreign Relations.

While SDI has been receiving most of the attention, equally dramatic developments have been occurring in conventional weaponry and doctrine. A critical issue argued through this collection of essays by some authoritative American and European defense specialists is the extent to which strategy will follow technology or whether doctrines are being developed on the basis of weapons whose applicability or reliability cannot be judged for years to come.

A unifying theme, advanced by Chalfont in his work and by the writers in the Council study, is to create a defense system for Western Europe that will not be forced to rely on battlefield nuclear weapons early on in any conflict. The jargon is "raising the nuclear threshold." Under discussion are doctrines that would attempt to achieve this goal by disrupting the Warsaw Pact advance with non-nuclear, high-technology and unmanned weapons that would strike deeply behind the lines. The writers of all three books agree with Kissinger that the NATO doctrine that virtually mandates the first use of nuclear weapons in a European conflict, coupled with the morally ambiguous doctrine of Mutually Assured Destruction, make it increasingly difficult for Western Governments to defend the morality of nuclear deterrence to their constituencies.

Major shifts in weaponry and strategy, of course, create major political problems, especially for the Federal Republic of Germany. The essays in the Council book raise all the issues arising from current perceptions of West European vulnerability. Almost stereotypically, the American contributor, former assistant Secretary of Defense Richard DeLauer, expresses the most enthusiasm for the new weapons. The French contributor, former diplomat François Heisbourg, voices some skepticism about technical

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fixes to political problems. Andreas von Bülow, a German Social Democratic member of parliament, seeks a strategy and weapons that can provide a defense without seeming to threaten the Soviet Union and its allies. A British general, Sir Hugh Beach, wonders if the new concepts are so complex as to be inoperable.

While these books are about defense, they all raise explicitly or implicitly the fear that could ultimately predominate in the debates about Star Wars and other super-modern weaponry: How will Western Europe (and the Soviets for that matter) avoid falling desperately behind the United States in this latest rapid

advance of science and technology? The stakes are incalculable. Organizing a political response to that challenge could prove to be as awesome for Europe as deciding how to manage—40 years after World War II—the military legacy of a divided continent. €

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.

European Industrial Policy. Graham Hall, ed. Croom Helm, London, 1986. 315 pp.

Essays written by 16 primarily British economists examine the wide range of industrial policies in Europe and comment on their effectiveness. The book covers four aspects of European industrial policy: (1) E.C. policy, with specific attention to legislation, competition policy and financial disclosure, (2) a comparison of the national policies of the United Kingdom, the Federal Republic of Germany, Italy, Denmark, and Ireland, (3) case studies assessing the policies of European states affecting the cable television, consumer electronics, and defense industries and, (4) the United Kingdom's experience in stimulating investment. Includes author and subject index.

Political Representation in France. Philip E. Converse, Roy Pierce. Harvard University Press, Cambridge, 1986. 996 pp. \$49.50.

Comprehensive study of popular political representation in France. Concentrates on analyzing through empirical data the degree of fidelity to public will in policy making. Methods include interviewing voters and legislators in 1967 and 1968 and monitoring policies of the National Assembly. Volume covers a wide range of social and political issues such as party loyalties, the significance of the first and second round of voting and candidate visibility. Appendix explains the methodological approach and provides sample surveys. Excellent analysis and discussion of French political behavior.

Study in the United Kingdom & Ireland 1986/87. Edrice Howard, ed. Institute of International Education, NY, 1986. 219 pp. \$9.95.

Reference book for students interested in studying in the United Kingdom. Introduction provides information about the different types of study abroad programs, costs, and so on. Listed by city and sponsoring college, it includes information on the subjects offered, level, credit, instruction method, costs, housing, and deadlines. Directed mainly at the undergraduate level.

Adaptability to New Technologies of the USSR and East European Countries. Philip Joseph, ed. NATO, Brussels, 1985. 310 pp.

Synopses of papers presented at the 14th NATO Economics Colloquium in 1985. Its intent was to assess the development, introduction and assimilation of the new technologies in the Eastern bloc

countries. In his preface, NATO official Philip Joseph explains that he organized the colloquium because little research had been done on the subject. The first papers analyze the new technologies in the United States, Japan, the E.C., USSR and Eastern Europe. The later papers focus on Eastern core technologies, technology transfer, gas and oil, robots, biotechnology and trade. No paper specifically addresses military technology and some are written only in French.

Agricultural Policy and Trade—Adjusting Domestic Programs in an International Environment. D. Gale Johnson, et al. Task Force Report to the Trilateral Commission, New York University Press, New York, 1985. 132 pp.

Trilateral Commission study emphasizes the importance of gradual adjustment of agricultural policies toward a more market oriented system. In the context of the new GATT round of multilateral negotiation concerning agriculture, the Commission is especially interested in the relationship between domestic agricultural policies that restrict trade and total trade in the sector. Reviews domestic farm programs and their implications for international trade. Appendix provides background information on various support programs as well as numerous tables. Also clearly explains many complex price support systems and defines key terms used in policy discussions.

1986 World Economic Outlook. International Monetary Fund, Washington, D.C., 1986. 270 pp. \$15.00.

Survey by the staff of the IMF examines the outlook for the world economy in 1986. Reviews the short- and medium-term outlook, providing statistics on inflation, interest rates, external adjustment and debt. Also examines policy issues, coordination and structural policies as well as policy issues in developing countries. Analyzes the prospects for more balanced growth in industrial countries, citing the impact of lower oil prices, exchange market developments and so on. Also looks at adjustment and growth in developing countries and the debt situation. Includes an abundance of tables and charts as well as notes on fiscal and monetary developments, commodity prices and economic developments in Eastern Europe and the Soviet Union.

Liberal Protectionism—The International Politics of Organized Textile Trade. Vinod K. Aggarwal. University of California, Berkeley, 1986. 302 pp.

Examines the growth of protection

through international regimes and discusses the reasons and effects of this increasingly important phenomenon. Using the textile regime as a case study, the author analyzes the cycle of regime transformation from its creation to the weaving of a new regime. Argues that as trade competition increases and actors decide to link related issues, regimes become more protectionist in their goals and wider in their coverage. Sheds light on the movement toward increasing protection in other sectors of trade as well.

The Scourge of Monetarism. Nicholas Kaldor. Oxford University Press, New York, 1986. 114 pp. \$8.95.

Second edition of the Radcliffe Lectures delivered at the University of Warwick. Kaldor charts the effects of implementing the current British government's economic policy and argues that the relationship between the quantity of money, the rate of inflation and real income has no basis in empirical evidence. Technical discussion of monetarism and economic policy.

The Conventional Defense of Europe: New Technologies and New Strategies. Andrew J. Pierre, Richard D. DeLaver, et al. Council on Foreign Relations, New York, 1986. 185 pp. \$6.95.

The five authors offer contrasting points of view on the defense of Western Europe. Issues include the military balance in Europe, the extent of both nuclear and conventional forces in Europe and America's military commitment to the continent. New proposals such as the "deep strike" strategy are also examined. Presents conflicting viewpoints on how to improve the conventional defenses of Western Europe and to reduce the reliance on nuclear weapons.

Who's Who in France 1985-86. 18th Ed. Gale Research Co., Detroit, 1986. 1,500 pp. \$190.00.

This publication, now a standard reference source for French culture, society and politics is made up of over 20,000 biographical entries. Coverage includes French notables living in France, its overseas territories or abroad and foreign individuals living in France. Numerous special sections provide details on other aspects of French society, including nationalized industries, research institutes, professional societies and associations, financial institutions and so on. It also identifies major national government officials, Senate and National Assembly members, French heads of state and more.

African Debt and Financing. Carol Lancaster. John Williamson, eds. Institute for International Economics, Washington, D.C., 1986. 223 pp. \$12.00.

Reports and discussions from a conference held in February 1986 exploring the

African aspect of the global debt crisis. A harsh world environment and misguided policies by the countries themselves have jointly driven many African countries into economic decline and indebtedness. The papers presented explore Africa's economic predicament, the nature of the debt problem and the role of both debtors and creditors in reaching a solution to the region's crisis. Also outlines the prospects for bilateral aid and the role of multilateral development banks.

Blocking the Spread of Nuclear Weapons—American and European Perspectives. Council on Foreign Relations, New York, 1986. \$6.95.

This timely study is the product of separate but parallel studies undertaken by two panels—one from the United States and the other from Western Europe—on new approaches to preventing the proliferation of nuclear weapons. The U.S. report concluded that greater efforts are needed to reduce regional tensions and to convince countries of the limited utility of nuclear weapons to their national security. The European report draws similar conclusions emphasizing the importance of a joint European approach and prudent export policy. The report also makes an effort to put the issue in the perspective of North-South, East-West relations, stressing that improvement in either area would diminish the spread of nuclear weapons.

PUBLISHED FOR THE COMMISSION

Environment and Chemicals in Agriculture. *EUR 10050.* F.P.W. Winteringham, ed. Elsevier Applied Science Publishers, London, 1985. 407 pp. \$79.25.

Proceedings of a symposium held in Dublin, 15-17 October 1984.

Multiple Sclerosis Research in Europe. *EUR 10312.* Otto R. Hommes, ed. MTP Press Limited, member of Kluwer Academic Publishers Group, Boston, 1985. 407 pp. \$79.75.

Report of a Conference on Multiple Sclerosis Research in Europe, Commission of the European Communities, as advised by the Committee on Medical Public Health Research.

Biochemical Identification of Meat Species. *EUR 9745.* R.L.S. Patterson, ed. Elsevier Applied Science Publishers, New York, 1985. 213 pp. \$41.25.

A seminar in the CEC Programme of Coordination of Livestock Productivity Management, held in Brussels, Belgium, 27-28 November 1984. Sponsored by the Commission of the European Communities, Directorate-General for Agriculture, Coordination of Agricultural Research.

TERRORISM

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the emergence of state-sponsored terrorism as a major, and perhaps *the*, major new form. Until the mid-1980s, sponsorship was for the most part covert, and limited to the financing, arming, training and harboring of groups which nevertheless remained independent "non-state actors." Operations were planned and executed according to group agendas.

Since the multinational peace force entered Lebanon in 1982, state sponsorship seems to have broadened to include operational control over terrorist groups. Then, in 1985, Libyan leader Muammar el-Qaddafi began to gloat over his "glittering victories." A new form of war was declared in which the sponsor claimed the right to shoot at targets of his choosing, while evading retribution by the threat of further violence. The innocent, in effect, were held hostage to restraint by their governments.

It would seem that the United States recognized this new form of terrorism, or was at least willing to acknowledge its existence, earlier than some West European nations. Moreover, much of this state-sponsored violence was directed at American targets. From the viewpoint of the Europeans, it seemed to differ little from the *old terror*. And indeed the old terror continued in many of these countries alongside the new, and often the two were indistinguishable.

Experience suggests that a period of time must elapse before a new idea takes hold of the mind. Partly because Europeans were not prime targets, partly because they, more than Americans, were

the innocent hostages whose lives seemed to depend upon Western restraint and partly because the implications of the new terrorism had not sunk in, West Europeans tended not to see the Libyan challenge in the same light as Americans. They wanted the problem solved within the old operational code—legally, quietly. The United Kingdom, or rather Prime Minister Margaret Thatcher's Government, saw it differently. Grateful for American support in the Falklands War, angered by Qaddafi's assistance to the IRA, and anxious lest the North Atlantic Treaty Organization (NATO) alliance suffer irreparable damage, London supported the bombing attack and permitted missions to be flown from British bases.

The debate that followed the U.S. air strikes was distinguished more for its emotional content and inconsistencies than for constructive criticism. The use of force offended cherished anti-terrorist principles. But few acknowledged that perhaps these principles were in need of revision in the face of new terrorism. The deaths of innocent people troubled consciences, as one might expect of civilized nations. The question might have been: "How can this be avoided in the future?" Instead, the trend was toward a moralizing condemnation.

Few wished to contemplate the probable immorality of collective inactivity in the face of barbarous attacks. The real issue, largely unaddressed, was how to fill a legal, operational, intellectual and ethical vacuum created by a novel change to international order. What international forums exist or are needed? What ground rules between nations? What response to

those who transgress?

The radical left, especially but not exclusively in Western Europe, seemed to abandon the caution that had characterized their earlier attitude to international terrorism. The ideological attacks on America's response, and on the Thatcher Government's support of it, may have begun a metamorphosis in which the left will increasingly side with terror international, the terrorists being judged as "peace fighters."

Friction between Western Europe and America on this subject has increased considerably in the months since the Libyan raids. Having stood on the sidelines while the outcome was in doubt, leaders and publics alike are muting earlier criticism now that Qaddafi has been denied support by the Arab block, even by Syria.

It is noteworthy that the Soviet Union has not come to his aid. Indeed it was quick to distance itself officially from Libya even before the U.S. raid. It is too soon to judge the effect of the raids on the Libyan leadership's future conduct. The air-power model of response to state-sponsored terrorism is far from ideal.

It would be as mistaken for the United States to assume it has "the answer" as it would be for critics to condemn it out of hand. Searches for answers to this problem ought to be multinational. They should take account of such factors as impact, value judgments and cost-gain calculations, and they must integrate responses to new terrorism into the ongoing fight against small group terror of the traditional type. Insofar as the discussion can be open to public hearing and input, it could inform trans-Atlantic audiences and diminish recent divisions. €

A EUROPEAN IN AMERICA

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me one day just to tell me how much she had enjoyed an essay that my daughter had written.

The black spot on the educational system is of course drugs, which, it appears, are much more widely available in the United States. It emerged in a recent poll that over 30 percent of high school students in Lexington had used drugs during the past year. At the European School in Brussels attended by my children, only a very small minority experiment. My 17-year-old daughter believes that American liquor laws push young people toward drug taking. If 18- to 21-year-olds cannot even have beer at a party, then they get a "kick" by other means.

It saddens me to see young people here exposed to drugs as they are so impressive and likeable. Their politeness puts

comparable Europeans to shame, indeed Americans in general have better manners. All right, Europeans joke about such expressions as "Have a good day" or "You're welcome" as being redundant and insincere, but for me a smile and expression of goodwill, however broadly tendered, creates a friendly climate for daily converse. On the other hand, while I am all for the use of first names among friends, acquaintances and colleagues, like the woman who recently complained in *The New York Times*, I do not appreciate their use in purely business dealings.

An extremely important aspect of American politeness is road behavior. After living for 20 years in France and Belgium, I am amazed to see people drive cars without murderous intent. There is the odd maniac here and there and we all get above 55 miles per hour on highways, but the permanently aggressive comportment of so many in Europe is absent—

the figures for road accidents substantiate my personal observation. On the other hand, with such a civilized attitude toward the automobile, I simply cannot understand American attitudes against gun control. Apart from the increasing homicidal risks because of armed criminals, one reads constantly about tragic accidents involving firearms.

I could be spending this summer vacation in Europe, but I have chosen to remain in the United States and continue my research. I need another year to complete the work upon which I have embarked. The trouble is that no one seems to believe me when I say I want to stay on for virtuous reasons—everyone knows how much I have been enjoying myself. Still, if the wonderful first impressions from ocean liners are no longer possible, the other side of the coin is that, thanks to air travel, America and my friends are only a few hours away. €

IRELAND

Continued from page 40.

Ireland purchased Irish £1.6 billion worth of goods from the United States, compared with U.S. purchases of Irish goods worth Irish £953 million. Not just farmers, but also producers of creamliqueurs, manufacturers of Irish fashion clothing and tweed, and chemicals and electronics subsidiaries are anxious about the possibility of being caught at the wrong end of a trade dispute.

After its dramatic growth in 1985, tourism is expected to suffer an adverse reaction this year. Due to both the decline of the dollar and security fears, American visitors to Europe will be considerably fewer than before. Even if Ireland manages to increase its share of the total, it is likely that American visitors to the Emerald Isle will also be down in numbers. Some travel agents have spoken of a 30- to 40-percent reduction in business. Since American visitors tend to be more liberal spenders than the Continentals, the comparative scarcity of the American tourist this summer will be noted with regret.

Given the limited possibilities for really rapid growth, the objective of the Irish Government must be to make the prospective growth rate of 3 percent more employment-intensive. This, in turn, will require a much greater degree of labor-market flexibility, meaning by this wage moderation, careful calibration of incentives away from capital and toward labor, removal or limitation of disincentives to hiring labor, integration of social welfare and the tax system and so on.

Labor-market flexibility is, of course, very much a buzz-word in the Community these days, rather like "planning" in the 1960s, but it is not particularly congenial to the Irish ethos. So much of Irish history stresses the role of solidarity and cooperative resistance as a way to improving standards of living. Irish farmers did not become landowners through hard work and saving, but through political activism and the Land Acts. A strong trade-union culture in industry and services also stresses the role of solidarity ahead of personal endeavor.

This may make for security—and happiness—but hardly for high levels of employment. Efforts by the Government to secure wage moderation in the public sector have been only partially successful—a bruising teachers' strike this spring resulted in a phased award of a 10-percent increase in pay on top of the 7 percent that is on offer to the public sector (see *EUROPE*, May 1986). Given that the 7-percent offer is judged exces-

sive in the context of the public finance deficit and the latest inflation trends, the authorities have an uphill task in achieving labor market flexibility.

A medium-term forecast published recently by the Economic and Social Research Institute foresees, realistically if not cheerfully, a continuation of high unemployment in Ireland through 1990. Yet for those fortunate enough to find jobs, the outlook is much better—for a steady if undramatic increase in living standards and a gradual if slow return to order in the public finances.

The Government's electoral prospects will not, however, be determined exclusively by economic factors, important though they undoubtedly are. At the time of writing, Irish minds are focused more on the divorce referendum than on their after-tax wages. Following on progressive legislation on contraceptives—which will further solidify the dramatic, and from an economic point of view welcome, trends toward smaller Irish family sizes—and a divisive referendum on abortion—which approved an absolute prohibition on abortion being inserted in the constitution—the present proposal envisages the replacement of the constitutional ban on divorce with an article that would permit it under certain circumstances (see *EUROPE*, June 1986). The polls indicate a narrow victory for the amendment but the outcome is still uncertain. If carried, the referendum will strengthen FitzGerald's image as a social reformer and will consolidate his appeal to the young. At the same time, he may lose the support of many older and more conservative voters in his own Fine Gael party.

No doubt the coalition hopes that any such losses might be recovered if the Anglo-Irish Agreement on Northern Ireland proves a success. A reduction in the level of violence would help the Republic by making it easier to attract industrialists and tourists and by diverting security forces to more productive uses within the country. Whereas in the North the massive expansion of the security industry is paid for by the taxpayer in Britain, in the Republic additional law and order requirements have to be paid by the local taxpayer. In the absence of a fairy godmother in the shape of the British Exchequer, it is possible that the Republic has suffered more in strict economic terms from the Troubles than the citizens of Northern Ireland. €

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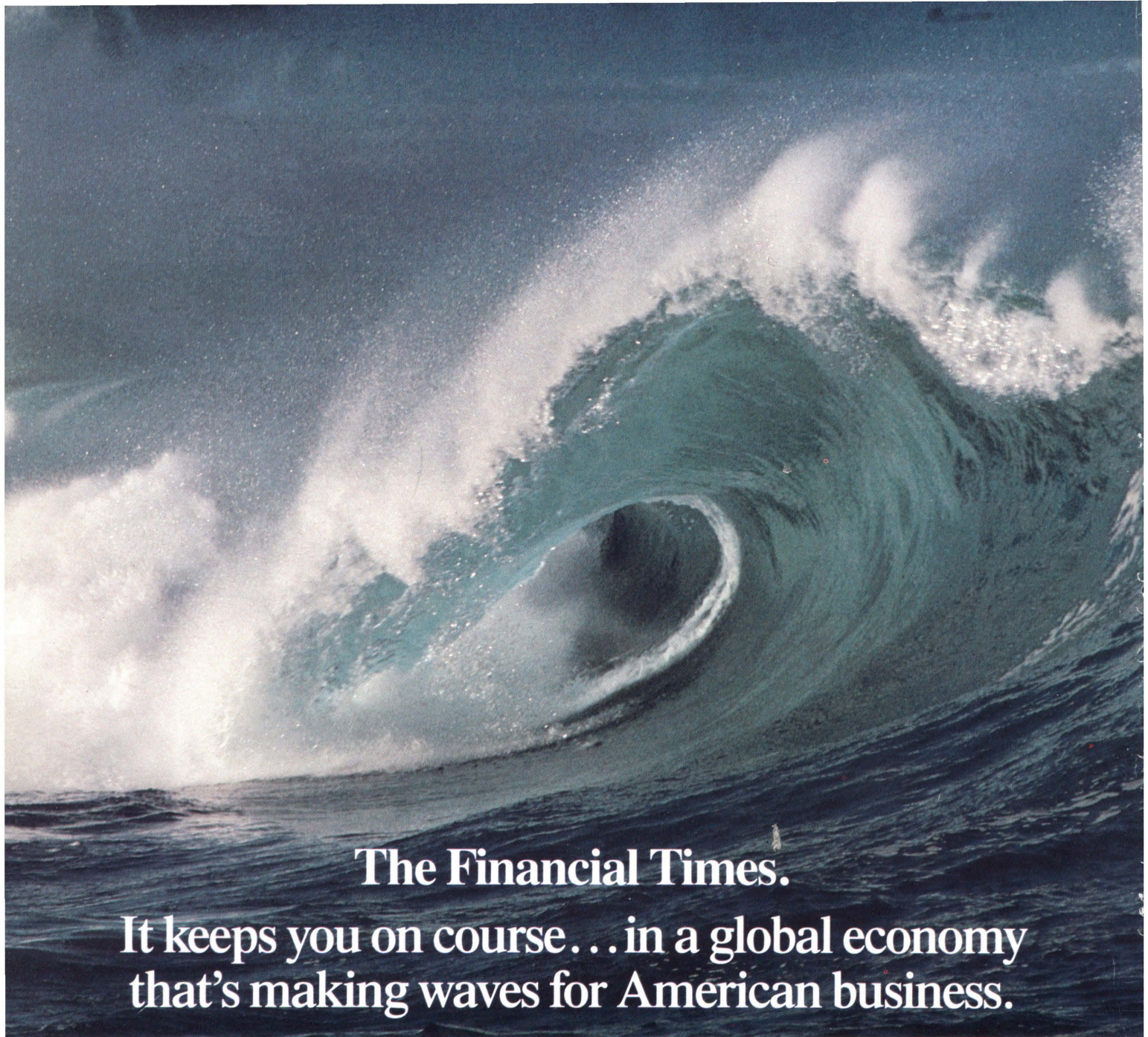
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