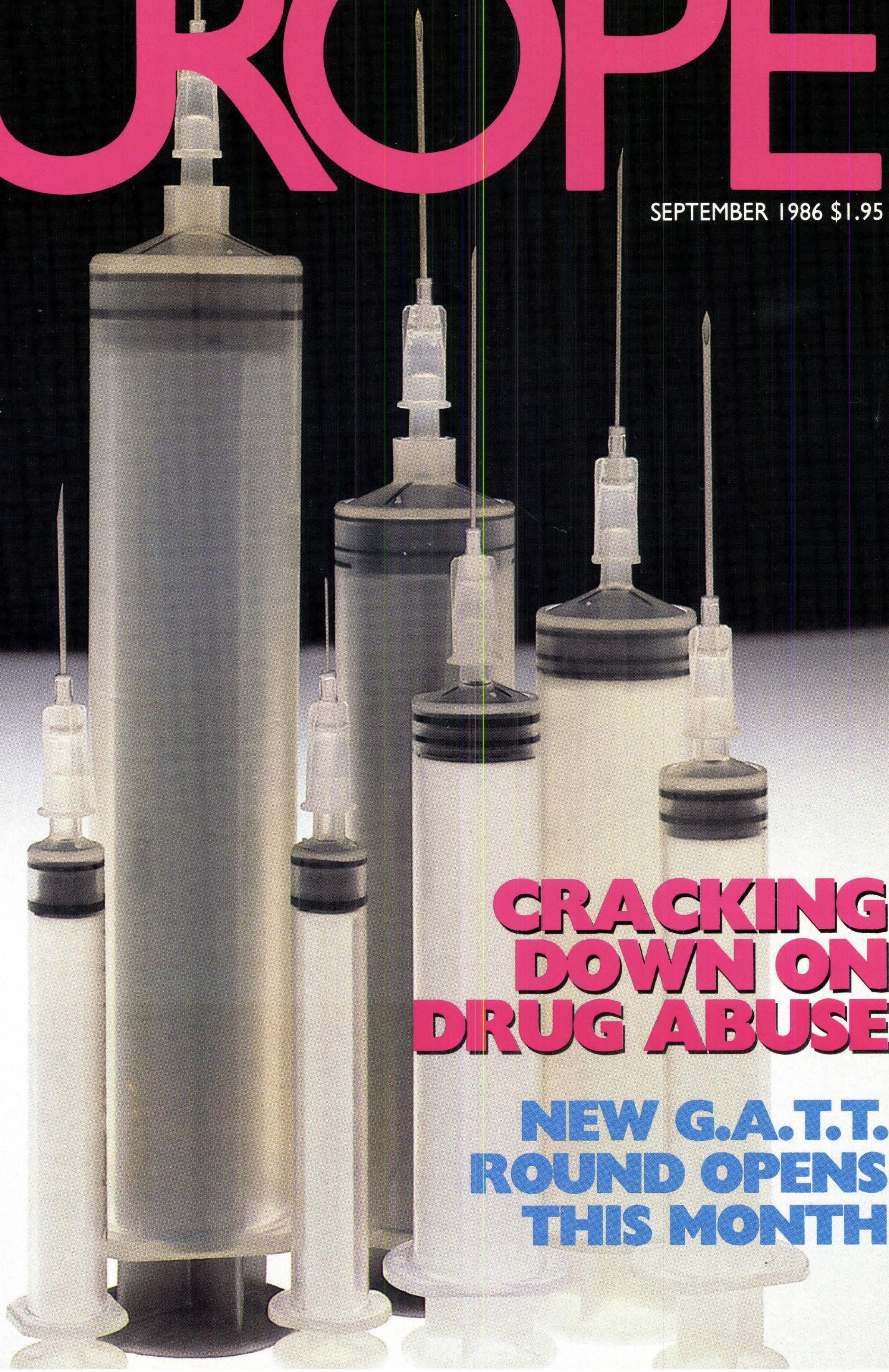
SOME EUROPEAN IDEAS ON TAX REFORM

EUROPE

SEPTEMBER 1986 $1.95



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EUROPE

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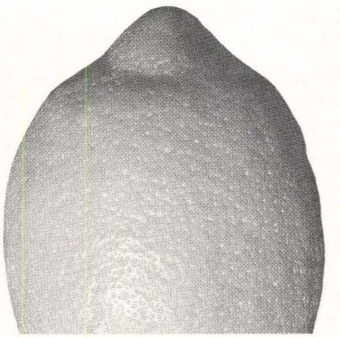

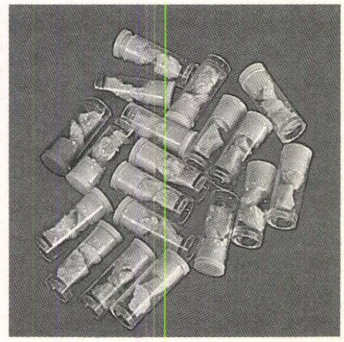

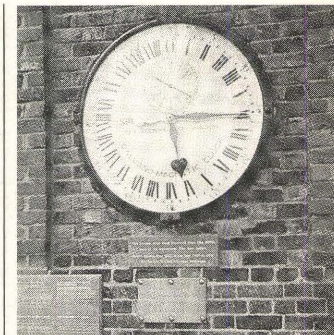

COVER: Drug abuse: A heroin epidemic is sweeping Europe (see page 30). ©Rick Brady/Uniphoto Picture Agency.

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PUBLISHER'S LETTER

This issue of *Europe* marks the end of my four and a half years as publisher. It has been an interesting time, both for U.S.-E.C. relations and for the magazine itself, which has grown year by year in size and readership. We have brought high-quality reporting on the ups and downs of trans-Atlantic trade, explored the changes taking place in the European economies and societies, and tried to explain to America what the European Community is all about.

Why a magazine devoted to U.S.-E.C. relations? The short answer is that trade between us amounts to over $120 billion annually, and that translates into a lot of prosperity and a lot of jobs on both sides of the Atlantic. And our relationship is a cornerstone not only of our own economies, but of the entire global trading system. Without it, the world would be a vastly different—and much poorer—place.

Trade is the most powerful tool we have to make the world economy work. But as the historian Macaulay wrote in 1824, "Free trade, one of the greatest blessings which a government can confer on a people, is in almost every country unpopular." It's a constant challenge to explain ourselves to each other, to understand each others positions and constraints, and to keep ourselves from retreating into protectionism. We've tried to make *Europe* a genuine and responsible free forum for discussion where both American and European writers can openly express their views, and where our readers can find articles that shed "more light and less heat" on the issues of the day.

In recent months we have seen some of the most contentious of these—from steel to citrus to wheat—successfully resolved; we hope that in contributing to the dialogue we played our own part, however small. For when all is said and done, we at *Europe* will be judged by the extent to which we improved the U.S.-E.C. relationship, and contributed to the mutual understanding and mutual respect between us.

Much of the credit for *Europe*'s success goes to its small but energetic staff, to whom I extend my thanks for their great efforts over the past four years to make the magazine a success. Under the leadership of my successor, Giancarlo Chevallard, who comes to Washington after heading the Community's Milan office, *Europe* will enter a new phase. I wish him and the magazine every success in the years to come.

AROUND THE CAPITALS

ATHENS

Mystery Over The Minoans

The ruins of the 4,500-year-old Minoan palace at Knossos on the island of Crete sprawl over a low hillside, surrounded by the remains of wealthy townhouses. Fortifications are noticeably lacking, as they are at other late Bronze Age palaces and country villas dotted around the island.

Sir Arthur Evans, the British archaeologist who unearthed Crete's prehistoric civilization at the turn of the century, presented the Minoans as a peace-loving, hedonistic people, who were fond of flowers, elaborate religious festivals and the sport of bull-leaping, and whose prosperity came from trade with their East Mediterranean neighbors.

According to Evans, they lived in luxurious homes designed in distinctive architectural style, decorated with frescoes in vivid colors, lit at night by elaborately carved stone lamps and equipped with advanced plumbing fixtures. Their finest pottery was egg-shell-thin and painted with elegant designs.

The periodic catastrophes that rocked the Minoan palaces in the second millennium B.C. were ascribed to earthquakes on the island, but not to warfare. Around 1400 B.C., after a series of disastrous fires caused by severe earthquakes—which were perhaps linked to a volcanic eruption on the island of Santorini several years earlier—the palaces and villas were eventually destroyed and abandoned.

This image of a sophisticated society living in perfect harmony on prehistoric Crete—until it was overtaken by natural disaster—was never seriously questioned, although some disquieting finds in recent years indicate that the Minoans also practiced human sacrifice, and, on one occasion at Knossos, ritual cannibalism.

A shrine excavated at Archanas near Knossos, dated around 1800 B.C., revealed the skeleton of a sacrificial victim and a ritual bronze knife. In another shrine in the town at Knossos, a child's bones were found scored with the marks of a butcher's knife.

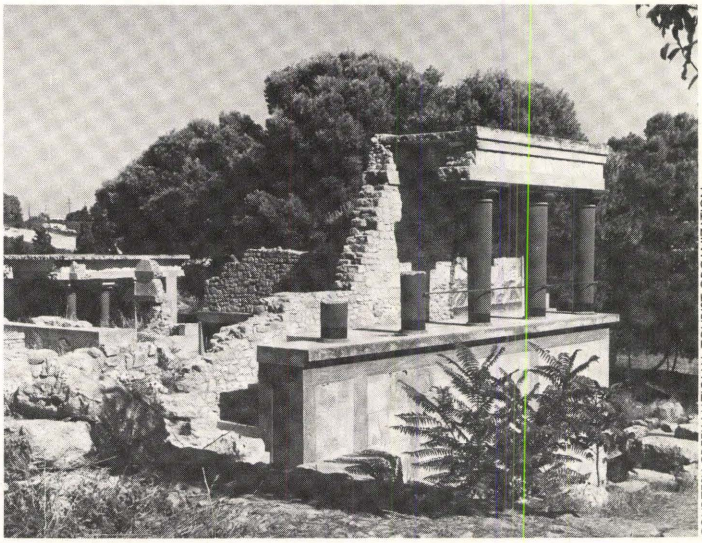
Another British archaeologist, Sinclair Hood, has come up with an iconoclastic theory that second millennium Crete was plagued by civil war among several independent states, before the ruler of Knossos imposed his authority over the island. In Hood's view, Minoan life was rough, barbarous and—by modern standards—unpleasant.

During the centenary celebrations for the British School of Archeology in Athens, he pointed out that new studies of pottery found by Evans at Knossos show the palace was unaffected by destruction in the surrounding town in the middle Bronze Age period around 1700 B.C., indicating that an enemy attack, not an earthquake, must have occurred.

Hood, who excavated at Knossos longer than any other archaeologist since Evans, also noted the discovery of stretches of fortification walls at several sites around Crete dating from the middle Minoan period.

Citing contemporary parallels in the Near East, he argued that the seaside mansions and country villas that flourished in Crete around 1600 B.C. were the homes of local governors who ruled with approval from Knossos. They may have been the chieftains of family clans, related to their followers but in control of the community's land and resources.

Crete, Hood argued, was becoming expansionist, setting up colonies on other Aegean islands. Greek mythology recounts that sons and relatives of King Midas, the legendary ruler of Knossos, settled elsewhere in the Aegean, a distinct hint of imperialism that could account for a sudden increase of Cretan influence in the late Bronze Age. At Trianta on the island of Rhodes to the east of Crete, for example, a vast late Bronze Age city lies under a popular tourist resort. Intermittent digging there has revealed all the hallmarks of Minoan architecture and religious beliefs, suggesting that a full-scale colony may have existed there.—KERIN HOPE



COURTESY GREEK NATIONAL TOURIST ORGANIZATION

Recent archaeological finds at and around Knossos on Crete have called into question earlier interpretations of the life of the Minoans. Pictured here are remains of the 4,500-year-old Minoan kings' palace.

LISBON

A Linguistic Problem

This year's hot Portuguese summer has been unexpectedly animated by a passionate debate over an unusual issue: the negotiation of a linguistic agreement with Brazil and Portugal's other former colonies. If approved, the agreement would call for the official recognition of Portuguese phraseology, as it has evolved in these areas, and their official introduction into the Portuguese language.

With extensive media coverage, an important part of the cultural community severely criticized the proposal as "a crime against the patrimony of the Portuguese language," and "a disgusting resignation to Brazil's economic interests." They point out that this attitude will only help to encourage Brazilian dominance over the Portuguese cultural scene in Africa, thereby establishing a sound basis for larger political and economic cooperation in that particular part of the world.

The negotiators and their

supporters, on the other hand, consider these statements as "primarily emotionally motivated." The agreement, they say, is needed to preserve a common structure of the language, which is now spoken by about 150 million people all over the world, and of whom only about 10 million are Portuguese citizens. They argue that with the constant evolution of the Portuguese language outside Portugal's borders, it can only be advantageous for the mother country to incorporate and acknowledge these changes than to lose the cultural grip completely.

There are, however, others among those against the agreement who have adopted a much more rational viewpoint, arguing that such arrangements are superfluous and will not bring about any significant, tangible results. They point out that the United Kingdom and the United States still are able to exert control over the English language despite all the changes and outside influences it has undergone as it has spread across the globe, and all that without the need for a linguistic agreement.

The dispute is far from over and will probably become a major political issue, since the arrangement must be legitimized by the Portuguese Government. The subsequent consequences in the orthography and phonetics of some words have already become a focal point for jokes and cynicism among the population.

Interestingly enough, the commission named to negotiate the agreement—including some of the best known Portuguese philologists—had been appointed by the Government long ago, and initial meetings in Rio de Janeiro with Brazilian and African counterparts went ahead without much attention from the public. It was only when the results were announced last May that a strong wave of criticism immediately swept the country, describing the agreement as an outrage to national interests and values.

But the problem is not that straightforward. With or without an agreement, it is a fact that Portuguese, mainly in its oral expression, is being strongly penetrated by the influence of Brazilian words and idiomatic phrases, very largely as a result of popular, imported television series, the so-called *telenovelas*. Further, the demographic and economic strength of Brazil is influencing the type of Portuguese that foreigners are being taught and that is used within the framework of international institutions and universities. Those who favor an agreement point to these developments to stress the necessity of evolution and change in a living language.

This cultural issue, and the heated debate to which it has since led on both sides, reflects clearly Portugal's problems in adapting its policies to the changes and new realities brought about by the decolonization process that started a decade ago and, to a lesser extent, by Portugal's accession to the European Community. It is significant to note that both sides agree that education and a well structured and coordinated cultural policy are the best and the only means of "protecting" a language. After all, they remember only too well that a previous linguistic agreement, signed in the 1940s, was never respected and adhered to by Brazil.—José Amaral

LUXEMBOURG

Building For Rent!

It is claimed that a hill just opposite the city of Luxembourg is the highest land point on a straight line drawn between the Carpathian Alps in southern Russia to the Atlantic Ocean 1,000 miles to the west. This may or may not be true—and in any case, surely means very little—but the idea does make it seem somehow fitting that the European Community's planners should have decided to establish a number of the E.C.'s institutions on this particular site. When looking out across Luxembourg's wooded hills and ravines from the 22d floor of the building for both the E.C.'s Council of Ministers and the European Parliament towering above the city, one does sometimes get a sense of being at the control center, as it were, of a kind of continental-sized spaceship.

Luxembourg authorities hope that the ultra-modern building originally intended to house the European Parliament's sessions will now attract business conferences.

Unhappily, this illusion is destroyed at the ground level. An inspection of the interior of the huge chamber put up for the European Parliament is an eerie experience on most days of the year. The place is kept brightly lit and spotlessly clean, but one can walk through it for ages without seeing a single other person. "It's like a spaceship that sails on indefinitely, long after the entire crew has been vaporized by aliens," said a cynical member of the European Parliament's Secretariat.

The truth is that the construction of this ultramodern and, in many ways agreeable, building was a bold gamble by the Luxembourg authorities that flopped badly. It was completed in 1979 at a cost of some $100 million in a bid to ensure that Luxembourg had the physical capacity to back up its legal claim as the joint seat of the European Parliament with Strasbourg, in France.

Unfortunately, Strasbourg had a building ready earlier and partly because of this, and partly because of the French city's lavish wooing of the Members of the European Parliament, the Members decided to hold all their sessions in Strasbourg. Luxembourg was furious and is still gamely pursuing a claim in the European Court of Justice, but few people in the Luxembourg Government are frankly optimistic that any sessions of the European Parliament will ever again be held in the Grand Duchy.

So what can one do with a building large enough to house the parliament of probably any but the very largest countries, equipped with the most modern fittings and served by a highly sophisticated communications network?

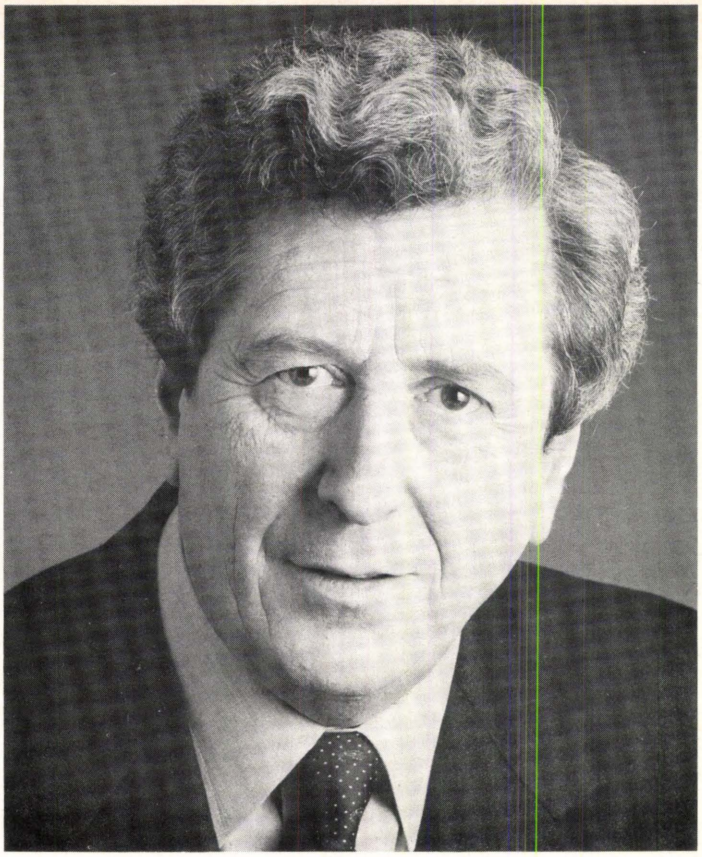
One tries to rent it out. A single tenant would be ideal, but scarcely a realistic proposition. But there are hundreds of trade and industry groups, international and multinational companies, educational and scientific organizations, as well as political groups and once-off summits and other conferences, all requiring a properly equipped meeting place for at least a few days per year.

It is an activity that largely sustains cities like Geneva, Helsinki and Vienna, and provides useful income for London, Paris, New York and Brussels. Luxembourg suffers two main constraints in competing in international conference business, however. It cannot aspire to neutrality over the question of East-West relations, and—on a more practical level—it is committed to reserving committee rooms, meeting chambers, press facilities, not to mention hotel accommodation, for some 30 to 40 days a year.

"But we don't really need to be in the major leagues to make a go of it," the manager of one of the city's largest and newest hotels told me. "If we can just get some of the seasonal slack taken up by increasing the flow of conference delegates in the off-peak tourist months, we can do very well indeed."

The remarkable surge of investment in deluxe hotel capacity in recent years is a striking testimony to the industry's faith in Luxembourg's ability to woo conference planners. Several major meetings have already been held here—one or two of them spinoffs from E.C. activity, but others springing directly from the city's drive to attract businessmen.

"The decision has more or less been forced on Luxembourg and these are early days yet, but a promising start certainly has been made," said an official in the Parliament's Secretariat. There is certainly more optimism now than at any time since the crushing decision by the European Parliament to choose Strasbourg was taken five years ago. This is, however, tempered by the anxiety that, having effectively lost its hold on the European Parliament's plenary sittings, Luxembourg could well come under pressure in the next few years to give up the Parliamentary Secretariat as well. That would certainly give the Grand Duchy a great deal more empty office space to rent.—
ALAN OSBORN



Irish Prime Minister Garret FitzGerald.

DUBLIN

A "No" To Divorce

The Government is still shaken by the extent of its defeat in the recent referendum to introduce divorce. And no wonder. The size of the majority against its proposal—63 percent to 36 percent—nearly equalled the majority in its favor, according to the opinion poll taken at the beginning of the campaign. It was the most dramatic swing in the electorate's intentions ever recorded.

Numerous reasons were put forward to explain the debacle. The Government parties' campaign was halfhearted; the anti-divorce lobby put up unanswerable arguments about the economic damage that divorce would mean for the "first family"; the Catholic Church, which had said it would not use the pulpits to campaign against divorce, did just that very effectively; and the main opposition party, Fianna Fail, which was supposed to be neutral, vigorously attacked the proposed legislation in the debate in parliament and generally showed hostility.

Some of the most articulate opponents of divorce were within the main Government party, Fine Gael, including the Minister for Education, Patrick Cooney. The divisions and the bitterness the referendum defeat opened up are not a good augury for the coalition Government's prospects in the general election which has to be held sometime within the coming 12 months.

Views are divided on the effects the rejection of divorce in the Republic have had on Northern Ireland, where it is permitted. Prime Minister Garret FitzGerald admitted that by rejecting divorce, the Republic had delivered a setback to aspirations for a united Ireland, a view shared by some commentators who saw the result as a clear manifestation of a "partitionist" mentality in the Republic, unwilling to make sacrifices for a united Ireland.

The highly respected leader of Northern Ireland's largely Catholic Social Democratic and Labor Party, John Hume, made an unprecedented intervention in Southern politics to urge a pro-divorce vote. His logic was clear: If Dublin sought the guarantee of minority rights for Northern nationalists, the non-Catholic minority in the South deserved similar treatment. All the Protestant churches in the South had expressed the desire to have divorce available for broken marriages where no other solution would suffice.

The victorious opponents of divorce naturally saw things in a different light. The result had shown that the Government had been overly influenced by an East Coast, liberal, anticlerical lobby and was clearly out of touch with the "real Ireland," a view shared by the leader of the opposition, Charles Haughey. The Dublin media were accused of running a biased campaign in favor of divorce, and although this was true of the national newspapers' editorials, the news columns reported both sides, while the national radio and television service was bound by its charter to be impartial.

The Catholic Church officially tried not to be "triumphalist" over the result while understandably delighted. But it is still saddled with the anomaly of remarrying Catholics in church, whose first marriages, still valid in the eyes of the state, were annulled under canon law.

The Government has started to draft new legislation to make some improvements in marital law short of actual divorce, which will make existing separation procedures more efficient. Meanwhile, the Court of Human Rights in Strasbourg is considering its verdict in a case where an Irish couple living together for nearly 20 years after the breakup of the husband's first marriage is claiming the right to remarry

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Two generations of Dutch royals. From left to right, Prince Johan Friso, currently a student in the United States; his brother, Crown Prince Willem Alexander, who is serving in the Netherlands Royal Navy; and their grandfather, Prince Bernhard.

legally. A verdict in favor of the couple would embarrass the Government, but come too late for it to do anything about it—at least for several years. For the people have spoken.—JOE CARROLL

AMSTERDAM

A Busy Royal Family

For the first time in the history of the Netherlands, a Prince of the House of Orange will study in the United States. In mid-August, 18-year-old Prince Johan Friso, second in line to the throne, left for California to study at the College of Engineering at the University of California at Berkeley.

Integration into the "normal" life, especially that of a busy, large and American university might take some getting used to for other royals. But not for Prince Friso—as he is generally called—who has been well prepared. He completed his high school education at a lyceum in The Hague last summer, and his classmates found him to be "an extremely nice boy, just like the rest of us."

While Prince Friso will spend his time milling around the university campus with his fellow students, his older brother, the Crown Prince Willem Alexander, now 19 years old, will serve in the Netherlands Royal Navy, where he pledged an oath recently as naval lieutenant. He is currently serving on a guided missile frigate, and will go on to participate in the naval exercises of the 1987 NATO maneuvers in the Atlantic on an antimarine frigate.

Although the two young princes may have stolen the limelight temporarily, their grandfather, Prince Bernhard, has held a special place in the affections of many Dutch people for a long time. German by birth, Prince Bernhard married then Crown Princess Juliana—who became Queen in 1937—and eventually became a naturalized citizen. He strongly opposed the German invasion of the Netherlands, took his family to safety in England and returned to the Netherlands to lead Dutch troops against the Germans. After the Dutch surrender in 1940, he served as liaison between the Dutch Government-in-exile and the British forces.

Thus his 75th birthday in June seemed a fitting occasion for some 3,000 members of the Netherlands resistance movement to pay Prince Bernhard their respects and to thank him for his services to the adopted country.

The current Queen, Beatrix, daughter of Prince Bernhard and the former Queen Juliana, has spent an eventful summer herself, and was probably the most busy of all the Dutch royal family, being caught up in the political wranglings caused by the general election last May. As Head of State, she is very much involved in the political process of the nation, and plays an active part in the formation of new Governments.—NEL SLIS

PARIS

An American In Paris

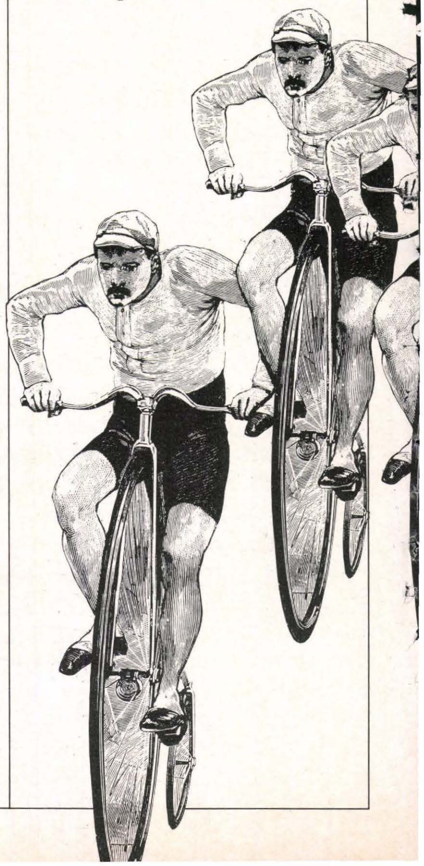
The Tour de France is—and always will be— the quintessential French event. But this year, the bicycle race that makes national heroes of top French cyclists, got an injection of internationalism. That, too, is likely here to stay.

For the first time in the 83-year history of the world's most important cycling race, an American won. Greg LeMond, a grinning 25-year-old from California, wore the coveted yellow jersey as overall leader after the traditional final six laps on the Champs Elysées. It was his reward for three grueling weeks attacking 2,500 miles, some of them over mountain roads so steep that they could not even be classified in the Tour system of rating difficulty.

LeMond's feat was all the more remarkable considering that his main competition was his own teammate—the idolized five-time Tour winner, Frenchman Bernard Hinault. Transforming the winner's podium to a round of victory *à l'américaine* was an achievement LeMond compared to the pride Neil Armstrong must have felt when he landed on the moon.

But Greg LeMond was not the only American to beat the French at their own game. Andrew Hampsten, fourth overall, was awarded the white jersey for the best performance of a newcomer to the Tour. For the first time, there was an "all-American" team, consisting of eight Americans, a Mexican and a Canadian. The Canadian on that team became the first North American ever to wear the yellow jersey by sprinting ahead on the first day to spend one short morning as the overall leader of the Tour.

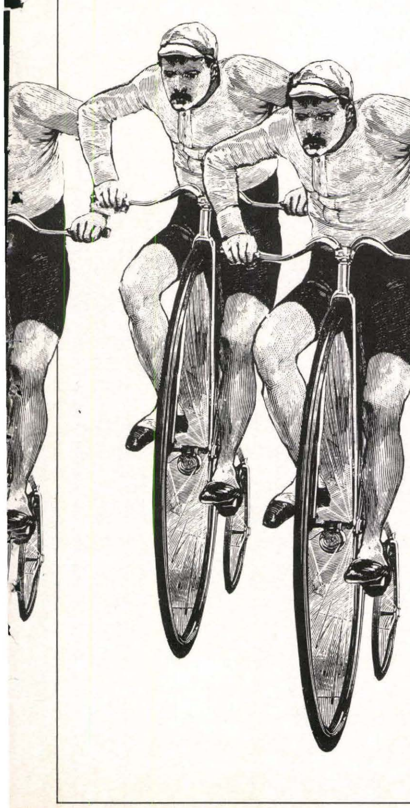
Hard on the heels of the foreign cyclists were legions of foreign journalists—a total of 1,330 journalists and technicians were accredited to cover the 132 cyclists who finished the Tour. American television developed a hitherto unknown interest in the event, with CBS strengthening its coverage dramatically, allotting 40 minutes each of five Sundays to the event. Japanese and Colombian crews also produced extensive programming of the Tour, and organizers estimate that a billion viewers around the world watched parts of the race.



All the publicity has already started new battles for sponsorships, a phenomenon that was epitomized in the switch two years ago from Perrier to Coca-Cola as the official Tour drink, with the Coke bid reportedly going up to $1.5 million. Increasingly, organizers see the sponsorships as becoming more expensive and the domain of multinationals.

The Tour organization—still run by the owners of the main French sports daily newspaper, *L'Equipe*—acknowledges that this high-price expansion will force some changes in the style of the Tour and who participates in it. As soon as this year's race was over, the French carmaker, Peugeot, announced that it had become too expensive to sponsor a team and that it was pulling out.

For the very first time, an observer from the Soviet Union traveled with the Tour this year, and it is expected that East Bloc countries will participate next year for the first time, thereby making it a truly international event. Organizers are even moving the Tour into other countries, so that in 1987, it will start in West Berlin and dip into the German Democratic Republic.



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Twenty-five-year-old Greg LeMond (left) was the first American ever to win the grueling 2,500-mile-long Tour de France.

And there are tentative longer-term plans to capitalize on the growing American interest in the sport by planning some stages of the Tour de France in the United States!

But for some purists, that may carry the internationalization of the Tour de France just a little too far. . . . —BRIGID JANSSEN

BRUSSELS

Limiting Sick Leave

By claiming a full year off from work as a result of accumulated sick leave, a Belgian civil servant has created quite a stir. Under the present rules, Belgian civil servants are entitled to 30 days a year off from work for sickness. If they report to their offices every day, the "sick" days remain as an entitlement year after year. Many government workers in their fifties are said to have built up an "illness capital" of more than 600 days!

The Government has decided to curtail this practice by setting a limit to the accumulation of sick leave days according to age. There is strong public support for such a move but, predictably, powerful opposition to it within the public-sector trade unions. The dispute comes at a bad time for the Government, which is engaged in a massive roll-back of the public sector in Belgian life and is, frankly, having a tough time in carrying its message to the population.

The center-right coalition, led by Prime Minister Wilfried Martens, won an unexpected new term in office from Belgian voters last October. The Government had made no secret of the fact that its future policies would continue the drive to cut the "fat" out of the Belgian economy in an effort to restore the growth and export successes associated with Belgium in the 1970s. Since 1982, the standard of living of the average Belgian actually has fallen—for the first in nearly 50 years.

Evidently, the Belgians were prepared to accept this as the price for regaining international competitiveness. But the Government's subsequent move to wind down the public sector has come as a real shock and has led to the impression of an Administration badly out of touch with the feelings of the public.

The blow landed in May when the Government announced budget changes that Martens described as "beyond any doubt among the most important our country has ever known." In broad terms, the plan was to cut the national budget by about $5 billion, or 10 percent. The main cuts are to fall on education and the social security system. There will be savage reductions in the employment of teachers and in university grants, and many schools will have to drop language courses. Major cuts are also proposed in the grants to families of unemployed workers and sweeping reductions are planned in government subsidies for coal-mining, the railways, older industries in Flanders and the regional development authorities.

The public outcry has been such that a number of the proposed cuts have already been withdrawn. As a result of powerful pressure from the Christian Democratic trade unions, the number of teachers to be sacked has been cut from 5 percent to 4 percent. The Government also has agreed to moderate the cuts it planned in unemployment pay and maternity benefits and is "reconsidering" its planned move to cut back medical services for those out of work.

The wave of public-sector strikes against the Government's moves has abated. There was a time earlier this year when garbage piled up in the streets and scarcely any mail was delivered. Things are now more or less back to normal and the general torpor that descends on Brussels in the middle of the year has taken its toll of tempers on both sides. There is a feeling that the Government has probably won its case and its cuts will go through, although this is certainly at great cost to its popularity.—ALAN OSBORN

Belgian Prime Minister Wilfried Martens.

BONN

Most Popular Professions

Every five years since 1966, the Federal Republic of Germany's largest public opinion poll taker, the Allensbach Institute for Demoscopics, has asked a representative group of German citizens which professions they most admired. The result has been that physicians—those whom Germans call "gods in white"—have won every time since the poll's initiation, and that by several lengths.

Nevertheless, the perceived image of doctors is no longer as virginal white as it once was. Whereas 84 percent of all respondents ranked physicians as the most respected professionals 20 years ago, this number has dropped to 76 percent in the latest poll. There may be a variety of reasons for this, such as the various allegations of malpractice and overcharging for services, or of charging for services never performed. Improved education may also play a role. The Allensbach Institute says that those who qualified for, or went to, university, hold physicians in much lower regard than do those who completed only 10 years of schooling.

Allensbach confronts those questioned with a list of 16 professions, asking them to name the four of five they most respect. From the beginning, in 1966, clergymen have always been the second most respected, although Allensbach makes no attempt to relate this high regard to the increasing numbers of people who have formally canceled their church memberships if only to avoid the payment of church taxes. Third most respected are university professors, followed by lawyers, diplomats and nuclear physicists, all of whom were ranked first by 30 percent of those interviewed.

It is curious to see this latter group among the top three professions, and that for several reasons. For one thing, the standing of nuclear physicists fell during the 1970s, but, as the poll seems to indicate, is once more on the rise. This is all the more surprising considering the current political climate and the attitudes toward nuclear energy in Germany.

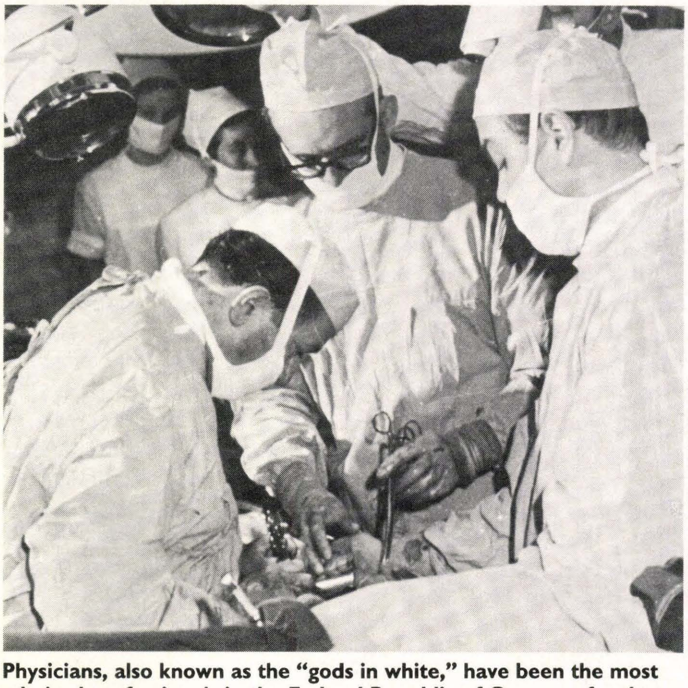
Allensbach admits that its poll was taken *before* the Chernobyl reactor explosion, which led to radioactive fallout over much of Germany, thus refueling the controversy over nuclear power. On the other hand, Allensbach reports that those who said they vote for the anti-nuclear, ecological Green Party, hold nuclear physicists in higher regard than do supporters of Chancellor Kohl's Christian Democratic Union, or of the leading opposition party, the Social Democrats, although it offers no explanation for this situation.

Engineers, apothecaries, corporate directors and company owners are followed on the respect list by television journalists. Here, Allensbach said it changed the rules a little from previous polls. Until 1981, this profession was listed as "newspaper journalists." After the change in the wording, the profession instantly jumped from 15th place on the list to 11th, proving that the blow-dried reporter seen asking a politician one question on camera is more respected than the scribbler who turns out a detailed daily report—that must then still be read!

Next come primary-school teachers, politicians—most respected by only 16 percent—secondary school teachers, military officers and booksellers.

Allensbach points out that no public opinion polls were ever conducted in the days when military officers may well have been almost as respected as physicians, pastors and professors. Those were the days when an officer rarely appeared in public out of uniform. Now, however, officers and soldiers alike change to civvies the minute they go off duty, a situation that has grown so bad, in fact, that service commanders have been urging officers to wear dress uniforms at least while attending the theater or a concert.

Here and there, a soldier has worn his uniform at his own wedding. But that is something that continues to remain controversial. A woman pastor triggered a national debate recently when she refused to begin a wedding ceremony until the soldier groom had replaced his uniform jacket with a sports coat borrowed from a guest.—WELLINGTON LONG



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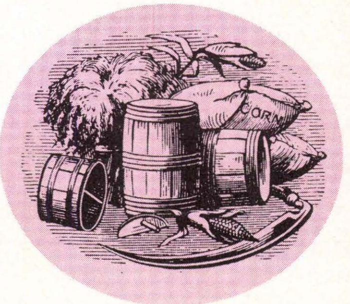
Physicians, also known as the "gods in white," have been the most admired professionals in the Federal Republic of Germany for the past 20 years.

COPENHAGEN

Cross-Border Buying Sprees



The Danes are happy consumers. Some say that the Danish definition of saving is to buy more goods cheaper, rather than not buying anything at all. German shopkeepers just south of the busy German-Danish border in Jutland would not disagree.

Selling to the Danes is the number-one growth industry in the otherwise depressed Schleswig-Holstein region of the Federal Republic of Germany. Danes by the thousands—sometimes by the tens of thousands—commute daily across the border to do their shopping, while others will drive 100 miles or more to buy cheaper gasoline, wine, cigarettes, audio equipment, sugar, beer and a large number of smaller items that are taxed less stringently in the Federal Republic than in Denmark.

Frequent tax hikes on consumer goods and energy—the latest occurring this last spring—have made the attractions of the border trade viable to a growing number of Danes. Some argue that about one Dane in three regularly shops in Germany. Turnover figures are hard to come by, but estimates vary from $500 million to $1 billion, easily the largest cross-border trade of its kind in the European Community.

Savings vary from 20 percent to 40 percent, depending on the item. On gas, which is very popular, the saving is about 40 percent; on the cheaper, popular wines about 25 percent. Many locals near the border buy no gas at all in Denmark, and combine trips to the gas station with visits to the German general stores, often buying a wide range of products with no, or even a negative price differential with Denmark, Danish storekeepers complain.

Camping sites near the border are filled with Danes making daily trips to Germany, buying supplies that are planned to last them months. The Danish police has even had to stop cars whose overloads were a safety hazard—these consisting, typically, of cases of beer, since alcohol is one of the most highly taxed items in Denmark.

E.C. rules limit private imports from one E.C. country to another to about $300, with the condition that the goods are for private consumption and not for further sale. The imports of beer from Germany took on such proportions that the Danish Government found itself compelled to limit the untaxed import of that commodity to a little more than two gallons per person. Many Danes had bought far more, some exploiting the limit dictated to the full.

But the E.C. Commission will not accept the Danish product-specific limit, and in late July informed the Danish Government that it will be brought before the European Court of Justice in Luxembourg. Beer fans are now hoping for "Eurojustice," while others note that in the long term E.C. plans to harmonize duties and value-added tax rates will force Denmark to lower many taxes.

Danish car and alcohol buyers would have the most to gain from such a decision. Under present tax laws in Denmark, a small car with an import price of $5,000 is taxed by a total of $10,000, thus giving it a retail price of $15,000, the second-highest rate paid by any driver from an E.C. country. A bottle of Danish *snaps*, selling at $15 in the shops, brings the Government $12. It is no wonder that Danish Governments find the proposed E.C. tax harmonization a thorny issue.—LEIF BECK FALLESEN

MADRID

A Grim Anniversary

The long shadow of the Spanish Civil War, which began 50 years ago—on July 18, 1936—is falling across Spain these days in spite of the fact that only one in three Spaniards today has any personal memories of it. It is a grim anniversary, which presumably will drag on until March 1989, the 50th anniversary of General Franco's final victory over the toppled Second Republic, and one that has not been publicly commemorated by Prime Minister Felipe Gonzalez' Socialist Government.

In trying to find the appropriate tone to commemorate this event, with all its risks of opening old wounds, the Socialist Government faced a major problem. "What would it commemorate—the Second Republic was a failure," comments professor Santos Juliá, one of Spain's leading young historians specializing in civil war history. Thus, on July 18, a day that evokes many memories for many Spaniards, the Government decided to only make a statement declaring that the anniversary of a military uprising against the liberal republic and legitimate government "was not the occasion for a public ceremony."

The Government did salute those Spaniards who had given their lives in the fight for democracy—many of whom were, of course, Socialists—but awkwardly coupled all this with an expression of "respect" for those who had died on the other side.

In the Basque country, however, the ruling Basque Nationalist Party adopted no such mealy-mouthed attitude. It was, after all, here that Picasso was led to immortalize the horrors of Franco's bombing of Guernica (an anniversary which falls next April), and one minute's silence for the Basque militiamen killed fighting Franco's forces was observed by its delegates at the party's national conference—even though other Basques fought on the winning side in that conflict.

But the Socialists' cautious approach in the name of national reconciliation, which has been going on ever since the dictator died in 1975, is undoubtedly shared by many ordinary Spaniards. The man in the street has shown little interest in reviving memories of half a century ago. And the Catholic Church, which, in the 1970s, asked pardon from Spaniards for its role in the war through an assembly of bishops and clergy, stayed silent on this occasion.

Reactions to the anniversary in Spanish intellectual circles have been strongly characterized according to the generations. Older figures, such as Pedro Lain Entralgo, president of Spain's prestigious Royal Academy of Letters, or professor Juan Marichal, of Harvard University, have emphasized the need to overcome the tragic past by facing fearlessly up to its full meaning. Those now in their forties—the generation of the Gonzalez Government—take a more pragmatic approach, simply

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because they do not have the sense of personal responsibility of the older generation.

The younger generation of Spanish historians highlight in their studies the blunders of the Second Republic, both in peace and in war. Several accuse the Anglo-Saxon historians of having cultivated, until now, a naive enthusiasm for the revolutionary heroics in their studies of the war, which, as we know, cost Spain so dearly.

In September, the war and its deep implications for Spanish history until Franco's death in 1975, will be studied in detail at a meeting of Spanish and foreign historians in Salamanca, the Castilian university town where Franco set up his nationalist headquarters during the early stages of the war. Here they will be able to visit the national Civil War archives kept in a former monastery in the city, fundamental for any proper research on the subject.


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General Francisco Franco won the Spanish Civil War and ruled Spain as dictator for nearly 40 years.

This conference will be followed by another academic event in Granada a month later.

At the moment, it seems as though the Civil War anniversary is remembered more solemnly abroad than in Spain itself. There is a good reason for this, as a member of the central committee of Spain's Communist Party recently observed. "We have overcome the past and are not going to use the anniversary to confront the left and the right again," he remarked. Significantly, it was to London he was going on July 18—for a reunion with surviving members of the International Brigades.

It will be interesting to see the reaction of extreme right-wingers in October, when will be marked the 50th anniversary of one of the most publicized events of the entire war—the relief by Nationalist forces of Toledo's El Alcazar, besieged by the Republican Army. They have named the Madrid daily, which is owned by the combatants' association on Franco's side, after this famous fortress. Will they let the day pass by in silence?—RICHARD WIGG

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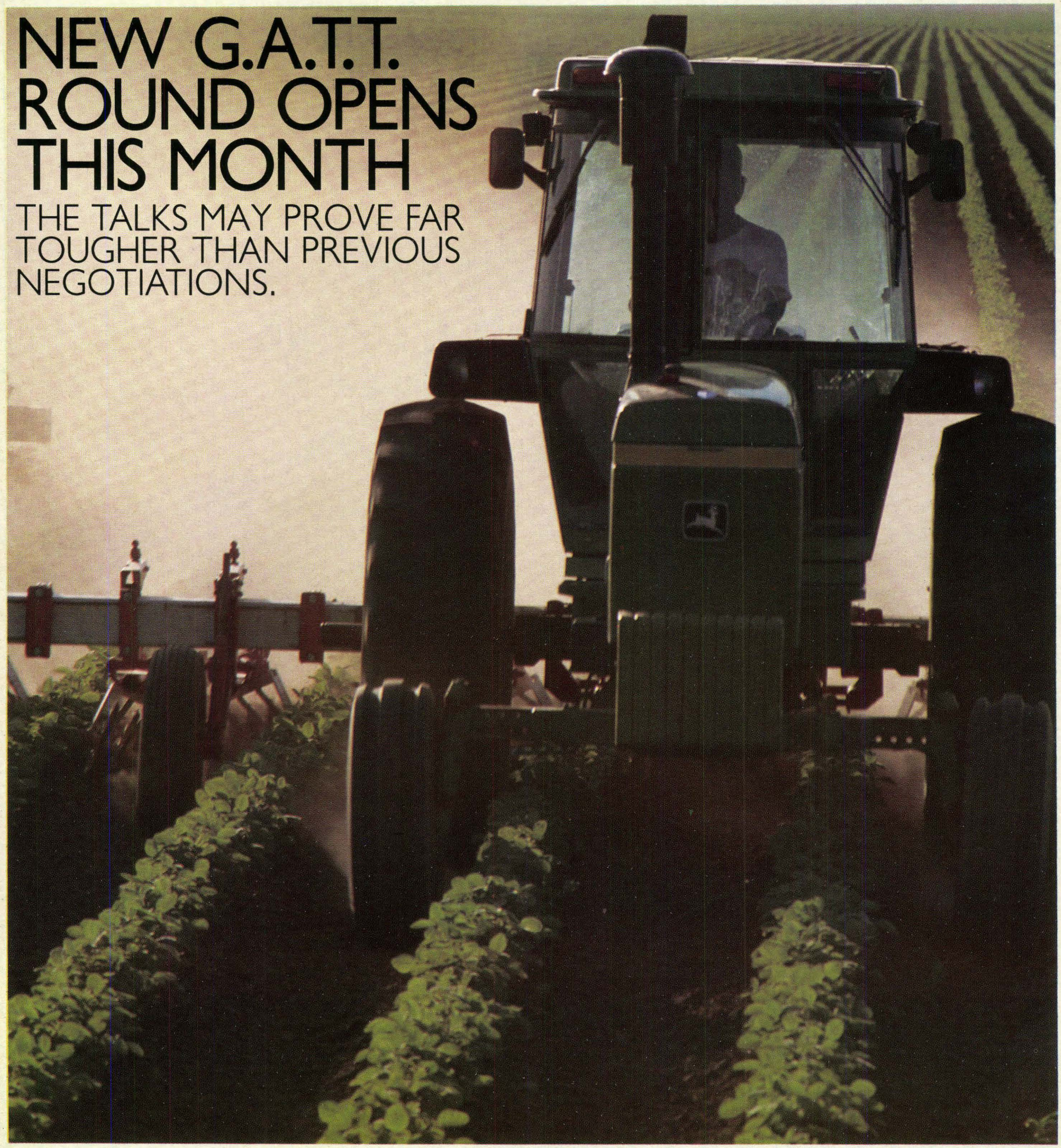
June 1986

NEW G.A.T.T. ROUND OPENS THIS MONTH

THE TALKS MAY PROVE FAR TOUGHER THAN PREVIOUS NEGOTIATIONS.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Massive world surpluses are threatening a global agricultural depression and some countries are pressing for new GATT rules on farm trade.

NANCY DUNNE

In Japan, they called it the "Nakasone Round." Around the same time, American officials dubbed it the "Reagan Round." Now, three years later, no one is quite certain which of the two leaders first suggested that new negotiations are vitally needed to prop up the free world's trading system, governed by the General Agreement on Tariffs and Trade (GATT).

But since Japan, the United States and the European Community—the world's three largest trading blocs—all agreed, most of the 91 GATT member nations will be represented on September 15 in Punta del Este, Uruguay, for the official launching of what is known simply as "the new GATT round."

The last GATT round of negotiations in Tokyo, lasting from 1973 to 1979, focused on reducing or eliminating non-tariff barriers and produced deep cuts in the developed countries' industrial tariffs. The previous talks, called the Kennedy Round, ran from 1964 to 1967. Other major tariffs were cut, and agreement was reached on an international code against dumping—the selling of goods in another country below the cost of production. This round, the eighth since the founding of GATT in 1947, follows the longest time lapse between talks, which perhaps partialy accounts for the crisis atmosphere surrounding the negotiations and the dissension about the agenda.

Some Third World countries, feeling they have more to lose than to gain, have been highly resistant to the talks. Most, however, have been pushed, threatened or cajoled into participation by the major industrial nations. The GATT, a contractual agreement among its signatories, rests on the theory that liberalized trade promotes general prosperity. Its rules are designed to provide stability so that businesses can plan and thrive.

However, to the United States, Japan and the Community, the GATT is sorely in need of modernization if it is to remain a significant force in world trade. According to President Ronald Reagan's Commission of Industrial Competitiveness, the GATT's rules and tariffs, which once covered 20 percent of world trade, now apply to less than 5 percent. GATT's membership has changed as well. Sixty-eight nations have joined since its inception. Just 20 years ago, the organization consisted mainly of industrialized countries. Now it includes the newly industrialized and the developing nations.

Trade was once the engine of economic growth, increasing twice as fast as the global economy. Now the number of disputes between nations has proliferated, trade is barely growing and global economic growth is doing little better. More and more, new trade crises—arising with the flood of cheap goods into the richer countries—are settled with arrangements misnamed "voluntary restraint agreements." Less and less are tariffs an important instrument of protection.

Many economists today believe that the GATT has been eroded to the point of collapse. Japanese Prime Minister Yasuhiro Nakasone warned last year: "The free world nations are at a crossroads, facing the crucial choice of continuing along the road of economic prosperity with free trade as its basis, or following the path to economic stagnation under protectionism."

To the Reagan Administration, a new GATT round has been the key argument against the protectionist impulses of a worried Congress. The United States has been importing the bulk of the goods of the debt-laden developing countries at a cost that has grown increasingly burdensome. The U.S. merchandise trade deficit is running about $170 billion a year. In August, the House of Representatives sustained President Reagan's veto of protectionist textile, apparel and shoe legislation by a bare eight votes. An override vote by two-thirds of both chambers could have brought about a Third World walkout from the GATT talks and wrecked the new round.

Colby Chandler, chairman of President Reagan's Export Council, recently complained that protectionism has become politically acceptable in the United States. "A perception has formed in the business community that the rest of the world trades unfairly," he said. "The problem is that "unfair" is in the eye of the beholder. The world sees our actions on steel, footwear, machine tools and a host of agricultural products . . . and wonders how we can speak so righteously from inside our glass house."

Still, if the richer countries are to keep absorbing the cheaper manufactured products of their less developed trading partners, then clearly they need something to sell back. That something, in the view of the United States, is high technology products and services, like banking, insurance, engineering, architecture and data processing. The United States also wants the talks to produce new rules protecting patents and trademarks and new rules against countries that harbor industrial counterfeiters.

Other countries have their own expectations from the new round:

- The Caribbean nations would like a rollback in protectionism and an end to the subsidies used by the industrial nations to protect their vulnerable industries. Particularly, they would like liberalized trade in textiles and garments.
- Brazil and India have led a group of Third World countries that are highly reluctant to include services in the negotiations. They want to develop their own services sectors and fear that they will be swamped by the more advanced service industries of the richer countries. Both Brazil and India want a liberalization of agricultural trade, and both have complained of the tighter controls placed on textiles and apparel in the recently concluded Multi-Fiber Arrangement (MFA).
- The French would like further definition of the GATT rules governing voluntary restraint agreements, counterfeiting, public procurement, subsidies and the safeguards each country is allowed to take against import surges. Since the bulk of the Community's annual grain exports comes from France and since that trade owes much of its success to export subsidies, the French have blocked an agreement within the E.C. to incorporate agricultural trade into the talks.
- Australia, like the United States, is insistent on new rules for farm trade. Massive world surpluses are threatening a world agricultural depression. Governments, under political pressures from their farmers, are providing subsidies and cutting prices in order to recover export markets they see as their own. To the Australians, Canadians, Argentineans and Americans a phase-out of agricultural export subsidies is a necessity.
- South Korea has suffered in recent years under a variety of quota systems and "voluntary restraints." The proportion of its exports subject to non-tariff barriers has risen from 24 percent in 1978 to 41 percent in 1984. The Koreans say they recognize the need for countries to protect themselves against import surges, but these measures ought to be temporary and compensation should be paid. Korea, like the United States, would like to see the slow, frustrating dispute-settlement mechanism of the GATT strengthened, with a panel given the authority to make binding decisions.

With all the different views about what a new round ought to accomplish, it was not surprising that preliminary talks in July ended indecisively. Three proposed agendas were forwarded to Punta del Este, where the trade ministers of each member nation will attempt to hammer out agreements that their subordinates could not get. The most likely proposal for the talks was submitted by Switzerland and Colombia with the support of the United States, the Community, Japan, the Association of South East Asian Nations, several Latin American nations and some African states.

The proposal is riddled with brackets offering alternative ways of handling the many controversial issues. It promises the developing countries that they will not be forced into trading off concessions on trade in services against access for their goods to the developed countries' markets. The draft also proposes that a trade negotiating committee be established by the end of October to set up and coordinate negotiating groups for the issues agreed upon in Uruguay. The committee would also supervise the compliance of each country's commitment to halt all new trade restrictions upon the start of the talks and to dismantle existing restrictions thatcontravene GATT rules.

The talks will be as tough—or much worse—as any previous negotiations of the kind, and it is not certain that the political will exists to preserve the world trading system. The alternative, at best, is a kind of cartelization of global trade into areas of bilateral or multilateral agreement. Or what may emerge in the end could be chaos. €

Nancy Dunne reports from Washington, D.C. for the *Financial Times*.

U.S., E.C. END CITRUS DISPUTE

SETTLEMENT DEFUSES "PASTA WAR," BUT TENSIONS WILL REMAIN.

JONATHAN CLAYTON

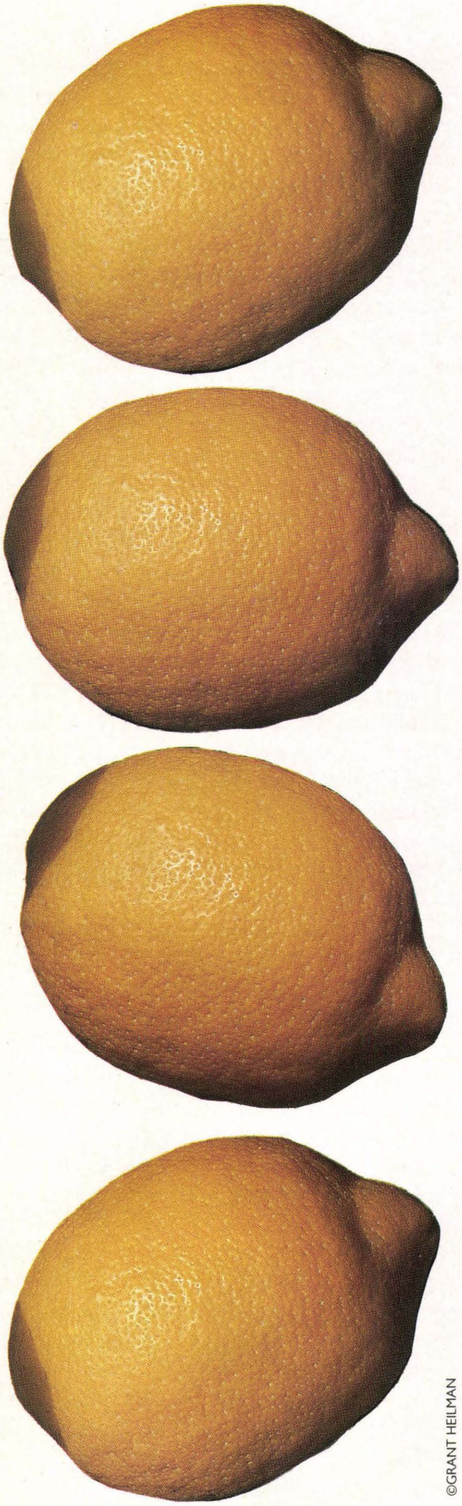
A draft settlement of a long-running U.S.-E.C. row over sales of citrus fruit, the latest in a long line of trans-Atlantic trade disputes, is unlikely to signal the start of a more harmonious relationship, according to Community-based officials.

They said Washington planned to maintain pressure on Brussels to make further concessions on a range of issues from pasta to wheat sales, while some E.C. member states were increasingly taking the view that too much ground had already been conceded. "There are a lot of people [here] who feel it is time we dug our heels in," one E.C. official said.

Spain and Greece have already indicated their unease about the latest deal, put together by senior officials during talks in Brussels in early August, saying that concessions granted to U.S. exporters could harm their own sales.

Under the draft agreement, the Community has undertaken to reduce tariffs on a range of U.S. citrus exports, including sweet oranges, grapefruits and lemons, to between 1.5 percent and 10 percent, and on a fixed quantity of 45,000 tons of almonds. In return, Washington would reduce tariffs on pasta imports between 25 percent and 40 percent, pending a final settlement, and allow some tariff-free imports of satsuma oranges, cheese, olives and olive oil.

Even if E.C. member Governments formally back the agreement, the two sides will almost immediately be embroiled in talks aimed at finding a final settlement of the dispute over sales of European pasta to the United States. Officials decided to separate the two issues after it became apparent that there was no hope of an overall agreement at the latest round of negotiations. "There is a pretty significant gap on pasta, and we decided we had better de-link the two," one U.S. diplomat said.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Behind the latest quarrel, which comes only months after settlement of a dispute on the effects of the Community's enlargement and rows on steel imports, lies a U.S. determination to force the Community to review its entire export strategy. Washington, facing intense domestic protectionist pressure and Congressional elections, wants the Community to put its export refund system on the negotiating table, U.S. diplomats say.

Brussels, which pays the refunds to exporters to bridge the gap between high internal and lower world market prices, refuses to consider any such move, but U.S. officials say a series of worrying disputes could force a change in attitudes. "Domestic pressure is by far the most important issue. There are definitely quite a number of issues out there, but behind them all is this central question of export subsidies," one U.S. official said.

The citrus dispute centered on complaints from Washington that its exports suffered unfair competition from goods from non-Community states in the Mediterranean region, on which smaller import tariffs are levied due to preferential trade accords with the Community. Brussels refused to grant any compensation or similar concessions unless Washington accepted the Community's right to conclude such accords under its development policy. Finally, the United States took action to restrict sales of European pasta and, in the so-called "pasta war" that followed, the Community hit back with countermeasures on exports of U.S. lemons and walnuts.

Both sides have undertaken to try to reach a prompt accord on the pasta issue, but they accept that the negotiations will be long and difficult. "I cannot see any real improvement in the climate for many months to come, and there is always the danger of fresh blowups if the Americans press too hard," one senior Community official was heard to comment. €

Jonathan Clayton is a correspondent for Reuters.

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GLOBAL TRADING OF STOCKS, BONDS RAISES QUESTIONS

SOME EXPERTS PROPOSE AN INTERNATIONAL REGULATORY ORGANIZATION.

JAMES DAVID SPELLMAN

As global trading of stocks, bonds and other securities expands into an unabating 24-hour stream of transactions, brokers, investors, banks and governments are raising questions about the need to narrow differences in national laws and develop international codes to curb abuses and ensure the integrity of financial markets. In redrawing the world's financial map, little thought or effort has gone into developing international rules of navigation.

Capital movements rather than trade in goods and services have become the "driving force" of the world economy, a Claremont professor, Peter Drucker, recently wrote. World trade in merchandise and "invisibles," meaning largely trade in services, together account for around $2.5 trillion to $3 trillion a year, according to him. In contrast, the value of all international equities (stocks that have an active, liquid market in at least one bourse outside of the issuer's one) at the end of 1984 exceeded $1 trillion, *Euromoney* reported. Foreign exchange transactions run about $150 billion a day or $35 trillion a year—roughly 12 times world trade in goods and services.

Total foreign investment in stocks and bonds rose from $34.8 billion in 1970 to $58.6 billion in 1978 to $182.9 billion in 1985. During the same period, American investment in foreign stocks increased from $6.6 billion, to $14.8 billion, to $40.7 billion, and U.S. investment in foreign bonds rose from $14.3 billion to $41.9 billion to $73.4 billion. By mid-1985, the United States was importing more capital than it was exporting.

In the European Community, there are similar patterns of growth. The Eurocurrency market was valued at $115 billion in 1970. In 1985, it was valued at $2.4 trillion. In the same 15-year period, the Eurobond market increased from $2.97 billion (bonds in dollars and other currencies) in 1970 to $136.8 billion last year. About 30 percent of the international equities are bought in European countries.

Technological progress, economic forces and changes in financial institutions explain the explosive growth. Vast improvements in telecommunications equipment and computers facilitated the internationalization of capital markets. Global production strategies, constantly adapting to shifts in costs to maximize profits, required accessible loan and foreign exchange services. Financial markets were gradually deregulated. Fixed exchange rates were abandoned in 1973. More and more companies, pension funds and others began thinking in international terms about how to raise and invest capital. U.S. commercial banks entered European markets to expand into underwriting, which American law restricts. Each of these factors created momentum for tightening the interdependence of national companies.

Accompanying the growth of the market's size is the proliferation of financial instruments being offered. Interest rate swaps, Euro-commercial paper, bonds in European Currency Units (ECU) and dual currency issues (issued in one currency with a coupon and/or repayment of principal at a fixed-rated in another currency) are some of the recent innovations.

The growth in international transactions and the attendant proliferation of investment products are not without problems. "There are few surveillance or enforcement mechanisms in place to safeguard the integrity of securities trading conducted simultaneously in multiple international markets," the U.S. Securities and Exchange Commission (SEC) observed last year. "As the global market becomes more developed, fraud or manipulation in multiply-listed securities may affect adversely the markets of those securities in the United States as well as other nations. Moreover, the efficacy of trading halts imposed by the Commission or a securities market could be impaired as more trading in U.S. stocks occurs abroad."

As John J. Phelan, Jr., chairman of the New York Stock Exchange, put it, "we all have to go from the wood-burning Tom Thumb to the Bullet Train in little more than the twinkling of an eye." Comments gathered from exchanges, banks and others by the SEC last year in its efforts to determine what policies the agency should pursue in the internationalization of the securities market raised the following concerns.

Global Rules

No single, worldwide body of regulations and penalties governs the purchase and sale of securities across national boundaries to guard against insider trading and other abuses. A country's laws only cover transactions within its borders and are often less stringent and sophisticated and more ambiguous and silent than U.S. laws.

Rules on international transactions of securities exist in agreements linking exchanges, such as the set of rules established by the Chicago Mercantile Exchange and the Singapore International Monetary Exchange. Bourses to varying degrees self-regulate their brokers and the issuers of securities and thereby affect international securities deals. The E.C. issued three directives to harmonize conditions on financial disclosure and bourse admission for companies quoted on stock exchanges within the Community.

Uniform Reporting of Market Transactions

A patchwork of data systems links international markets. Price quotations vary in meaning, impeding comparisons. London, for example, quotes a middle price while the French, Dutch, Spanish and Italian stock exchanges quote last-done prices.

An international consolidated reporting system in stocks traded actively and globally is needed, some argue, to provide up-to-the-minute information on prices, market volume and up or down trends. Such a system, Amsterdam's bourse director told the SEC, would increase participation by reducing investor risks in choosing ON which markets to buy and sell.

Until more markets adopt their own computer systems, and there is far more investor participation beyond the small group of market professionals now, the firm Merrill Lynch maintained, a global system is impractical. Others claimed that such a system would force greater integration of foreign and domestic markets, thereby eroding different states' capacities for surveillance and enforcement of regulations.

Last year, the E.C. set up the Interbourse Data System to provide, first, real time information on equity prices of securities of up to 150 companies that are officially listed on more than one exchange, and, second, quotes on up to 20 securities listed with only one exchange. Some European venture capital companies have proposed joining Europe's securities dealers together with a computer network by 1987 to trade stocks on the over-the-counter markets used by small companies to raise funds to start up or expand. The network would be modeled after that in the United States and be self-regulated by the dealers' own association. Stocks would be denominated in ECU.

Accounting and Disclosure Standards

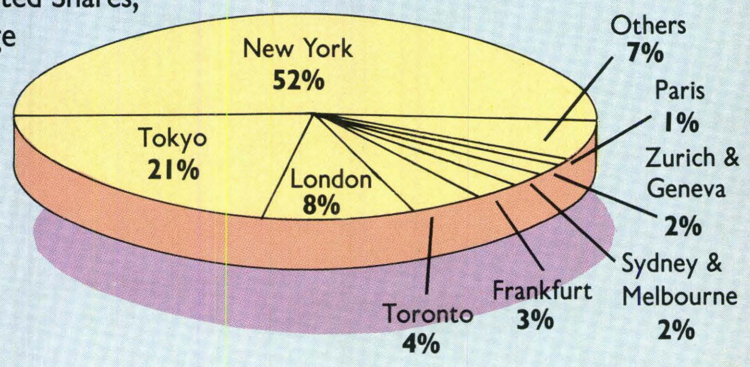
The methods used to assess a company's worth differ widely from country to country. For example, "German accounts, which are drawn up more for tax purposes than for shareholders," *Euromoney* reported, "tend to understate earnings in comparison with, for example, British accounts." Investors have to use different yardsticks to determine whether a stock in one country is a good buy relative to stocks in other states. Several international organizations, including the Organization for Economic Cooperation and Development, are exploring ways to harmonize accounting practices.

The SEC has proposed two arrangements: First, a reciprocal agreement in which all participating countries would accept those prospectuses, a statement of the company's assets and liabilities, meeting a single participating country's requirements; second, a uniform prospectus that would be filed simultaneously in each country.

Three E.C. directives attempt to harmonize bourse standards on financial reporting and presage erasing the Twelve's national boundaries by encouraging more transborder transactions. The first, approved in 1979, sets admission conditions for securities quoted on an E.C. member's exchange. The second, approved in 1980, defines what financial information should be disclosed for stocks. The third, adopted in 1982, deals with interim financial reports. A fourth was proposed in January 1986 by the E.C. Commission to clarify existing obligations under the three directives in informing the public of substantial transfers in ownership of shares.

Percent Share of World Equity Market

Value of Listed Shares, by Exchange



Source: Berss, Marcia. Tomorrow the World. Forbes, v. 134, July 2, 1984, p.106.

CHART ILLUSTRATION BY DALE GLASGOW

Transaction Clearing Procedures

There is no quick, efficient, global system to settle the sale and purchase of international equities. Transactions are difficult and incur delays in clearing, according to most who submitted comments to the SEC. Different procedures among bourses, currency conversion problems, and such a system's costs were cited as the main hurdles.

These problems could limit growth by undermining investors' confidence.

A Global or Incremental Approach?

Opinion is divided about the approach that should be followed. Some support an incremental, largely self-regulating approach, building on existing links between markets, banks and clearing and depository organizations. Others back establishing an international organization. A middle ground is advocated by still others.

Imposing worldwide regulations over international securities trading may limit the market's liability to operate efficiently and respond to changes in capital-raising and investor needs. Since the traders who dominate the market are a limited, sophisticated group, "the need for customer protection rules is not as acute as it would be for an exchange or other market with a significant retail participation," wrote Merrill Lynch in its comments to the SEC. The president of the National Association of Securities Dealers maintained, "during this evolutionary period of the international marketplace, concentration upon the control of foreign markets and the practices unique to each may tend to restrain rather than facilitate international cooperation and development of competitively motivated market interaction."

A former commissioner of the SEC disagrees, supporting an international organization structured like the General Agreement on Tariffs and Trade, the Bank for International Settlements (BIS) and the International Monetary Fund. These bodies "operate by consensus, not by fiat." That principle should be the force behind an organization governing international securities transactions. A subcommittee on the American Bar Association also stated that an informal body is needed. The BIS, they recommended, should be the center of such regulation; the Cooke Committee of the BIS (comprised of the representatives of the central banks and having neither legislative nor enforcement powers) should serve as the model.

One middle-ground proposal was advanced by the Toronto Exchange. They suggested that the Federation of International Stock Exchanges, set up in 1971, and the International Association of Securities Commissions and Similar Organizations, be utilized as an institutional forum for multilateral discussions to harmonize standards. The exchange also recommended adopting an international securities settlement convention to clarify obligations and liabilities.

A consensus is lacking among the industrialized countries. What is filling the void is an expanding framework of ad hoc, bilateral accords between exchanges and between governments. The expansion of international transactions will increasingly test this framework and may generate pressure for a more rigorous, comprehensive approach to govern global security flows. €

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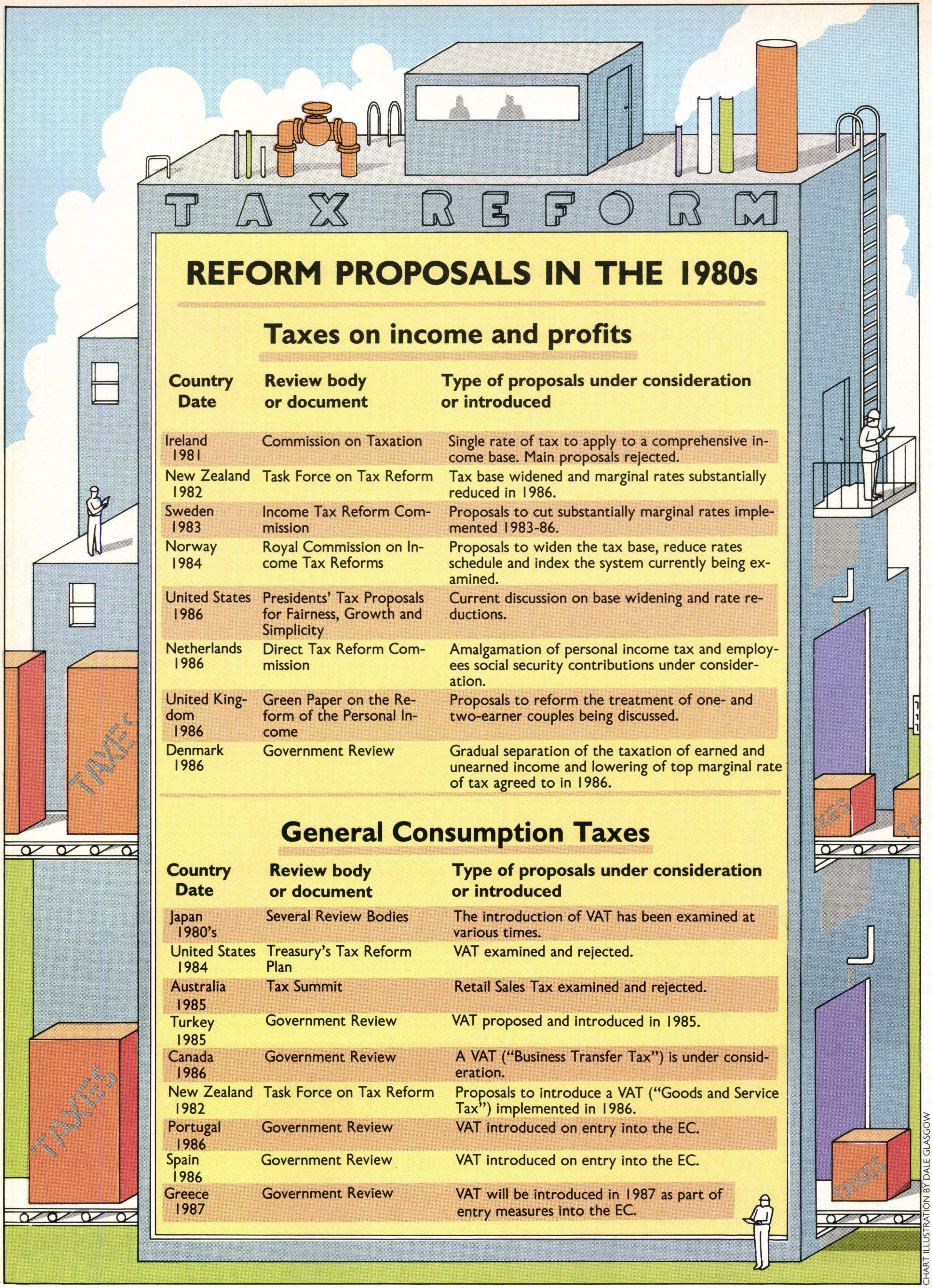

REFORM PROPOSALS IN THE 1980s

Taxes on income and profits

Country Date	Review body or document	Type of proposals under consideration or introduced
Ireland 1981	Commission on Taxation	Single rate of tax to apply to a comprehensive income base. Main proposals rejected.
New Zealand 1982	Task Force on Tax Reform	Tax base widened and marginal rates substantially reduced in 1986.
Sweden 1983	Income Tax Reform Commission	Proposals to cut substantially marginal rates implemented 1983-86.
Norway 1984	Royal Commission on Income Tax Reforms	Proposals to widen the tax base, reduce rates schedule and index the system currently being examined.
United States 1986	Presidents' Tax Proposals for Fairness, Growth and Simplicity	Current discussion on base widening and rate reductions.
Netherlands 1986	Direct Tax Reform Commission	Amalgamation of personal income tax and employees social security contributions under consideration.
United Kingdom 1986	Green Paper on the Reform of the Personal Income	Proposals to reform the treatment of one- and two-earner couples being discussed.
Denmark 1986	Government Review	Gradual separation of the taxation of earned and unearned income and lowering of top marginal rate of tax agreed to in 1986.

General Consumption Taxes

Country Date	Review body or document	Type of proposals under consideration or introduced
Japan 1980's	Several Review Bodies	The introduction of VAT has been examined at various times.
United States 1984	Treasury's Tax Reform Plan	VAT examined and rejected.
Australia 1985	Tax Summit	Retail Sales Tax examined and rejected.
Turkey 1985	Government Review	VAT proposed and introduced in 1985.
Canada 1986	Government Review	A VAT ("Business Transfer Tax") is under consideration.
New Zealand 1982	Task Force on Tax Reform	Proposals to introduce a VAT ("Goods and Service Tax") implemented in 1986.
Portugal 1986	Government Review	VAT introduced on entry into the EC.
Spain 1986	Government Review	VAT introduced on entry into the EC.
Greece 1987	Government Review	VAT will be introduced in 1987 as part of entry measures into the EC.

CHART ILLUSTRATION BY DALE GLASGOW

TAX REFORM: SOME EUROPEAN IDEAS

KEY FEATURE OF MOST IS INCREASED RELIANCE ON VALUE-ADDED TAX.

JEFFREY OWENS

Tax reform is now a major political issue in many countries. To date, however, radical restructurings of tax systems have proved difficult to implement. Indeed, it is easier to identify what is wrong with existing tax systems than to introduce new taxes or to reform old ones. Underlying the present debate are fundamental concerns about the ability of tax systems to finance government expenditures in an equitable and efficient manner.

This article compares the experience of the 24 member countries of the Organization for Economic Cooperation and Development (OECD) in implementing tax reforms. In so doing, it may help to provide an international perspective on tax reform in the United States. The main focus of the article is on personal and corporate income taxes since, in practice, these are the taxes that have been most discussed. Nevertheless, reference is made to proposals to introduce value-added taxes (VAT), particularly in the context of efforts to change the tax mix.

The Problems Addressed by Tax Reform

It is quite striking how similar are the problems addressed by tax reform commissions, even though countries' economic, social and tax structures are different. The common criticisms of present tax systems are:

- They are too complex for the taxpayers to understand and for the tax authorities to administer in an efficient way. This increases compliance and administrative costs and opens the way to sophisticated tax avoidance schemes.
- The distribution of the personal income tax burden is unfair. Individuals with similar tax capacity pay markedly different amounts of tax. This conflicts with the principle of horizontal equity, generates resentment on the part of taxpayers and undermines tax morality.
- High marginal rates of tax distort economic decisions. Taxpayers may be encouraged to work less or to enter the "black economy." Individual efforts to save may be impeded.
- Corporate tax structures encourage firms to undertake investments and to restructure their balance sheets for tax rather than economic reasons. The quality of capital formation may be adversely affected and scarce resources are misallocated.
- There is too heavy a reliance on direct taxes, which accentuates the distortions referred to above.

> Proponents of a value-added tax argue that, in comparison to an income tax, it is more neutral and thereby improves incentives to work and save, encounters less taxpayer resistance and is less easy to evade.

Most of these problems are not new (the 1966 Carter Commission in Canada had a similar list). But they have become more pressing because of the current economic situation and the greater emphasis now placed upon removing structural obstacles to a more efficient use of resources. Efforts to curtail the size of the public sector and the general feeling that tax rates are too high also account for the current interest in tax reform and some Governments appear determined to bring about a drop over the next few years in the total tax share as a share of gross domestic product (GDP).

The Solutions Proposed

The increasing criticisms of tax systems have led to a proliferation of tax reform commissions and proposals. The accompanying table shows that tax reform is on the political agenda in most OECD countries. In the Pacific countries—Australia, New Zealand, Japan—and in Canada, the debate has focused on the introduction of a broad base consumption tax (usually some form of VAT). In Canada and Japan, a new tax on consumption is seen as a way to reduce budget deficits, whereas in Australia and New Zealand taxes are advocated as the key to lowering rates of income tax (the "goods and services" tax), though there is a fair chance that Canada will introduce a "business transfer tax"—a form of VAT—during the next year. Canada is also examining lowering rates of corporate taxes, and Australia is committed to reducing discrimination against the taxation of dividends by partially integrating personal and corporate income tax systems.

In the Mediterranean countries—Greece, Portugal, Spain and Turkey—recent reforms have focused on the introduction of VAT—the indirect tax most favored by the E.C. Commission. In Greece, Portugal and Spain, VAT was an entry requirement of the European Community, and, in each of these countries, it is likely that VAT will become a major source of tax revenue. In Turkey, the decision to introduce a VAT was influenced by a desire to achieve a more balanced tax structure and, in particular, to reduce the relatively high reliance on personal income taxes.

The common scheme of tax reform proposals in the Scandinavian countries—Denmark, Sweden and Norway—is the need to reduce marginal rates of income tax. During recent years, each of these countries have either implemented or announced their intention of cutting the top schedule rates of income tax. In Denmark, the top marginal rate of tax will fall from 73 percent to 68 percent for personal income and net income from capital will be taxed at a flat rate of 48

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percent. The loss of revenue will be offset by restricting the present, almost unlimited tax deductibility of interest payments.

Similar proposals have been implemented in Sweden, where 80 percent of taxpayers now face maximum marginal tax rates of 50 percent (the combined central and local tax rates frequently exceeded 70 percent). In the case of Norway, the 1984 Tax Reform Commission proposed the elimination of a large number of tax privileges, the lowering of tax rates (the top rate would fall from 74 percent to 41 percent) and automatic inflation adjustments for individuals and companies. These proposals are currently being examined by the Government.

The tax reform debate in Ireland and the United Kingdom has focused on two issues: how to improve the neutrality of the personal and corporate income tax and how to change the tax mix in favor of indirect taxes. Though in each country tax reform commissions (the "Meade" Committee in the United Kingdom and the O'Brien Commission in Ireland) have advocated a consumption based income tax (a form of taxation that exempts saving from tax), in neither has this had any impact on the actual changes implemented. In the United Kingdom, the Chancellor of the Exchequer announced in his 1984 budget that many tax incentives provided to companies would be eliminated over a three-year period and that the rate of corporate tax would be cut from 52 percent to 35 percent. A recent discussion paper on the reform of the personal income tax has proposed a system of transferable tax allowances that would enable everybody, male or female, married or single, to have a tax allowance and a set of tax rate bands in his own right. This would provide a more even tax treatment of the one-earner and two-earner couples and would protect the privacy of married women. As regards the tax mix, both countries have increased the relative yield from VAT and Ireland has recently announced that the standard rate of VAT will increase from 25 percent to 30 percent (by far the highest rate in the OECD area).

A common theme of the reforms described above and the U.S. scheme, is the need for greater fiscal neutrality—the belief that a tax system should interfere as little as possible with economic behavior—and an understandable, but probably unrealistic, desire to reduce the complexity of tax systems. Most proposals suggest a widening of the income tax base accompanied by a lowering of the rates. Many are revenue neutral, though all involve a redistribution of the tax burden. Some suggest increasing the reliance on indirect taxes.

On the personal income tax, proposals for reform tend to include the following features:

- A widespread reduction or removal of tax reliefs, particularly those that are considered as tax privileges or shelters.
- A restructuring of the rate schedule, which usually involves a sharp reduction in the number of income tax brackets and a lower limit on the top schedule rate of tax.
- A more equal treatment of different sources of income (for example, as between earned and unearned and different sources of income from capital).

On corporate taxation, the common features of the reform proposals tend to be:

- The removal of tax incentives that bias investment decisions. In practice, proposals focus on the calculation of depreciation and try to move tax depreciation nearer to economic depreciation.
- This widening of the tax base is accompanied by proposals to lower the rate of tax.

> Critics of the value-added tax retort that it may involve heavy administrative costs for both the tax authorities and taxpayers and may produce a more regressive tax system.

- Measures to reduce the discrimination against distributed profits. These sometimes take the form of allowing companies to deduct from their taxable income part of the dividends paid out or by the allowing of a credit to the shareholder for all or part of the corporation tax paid.

As regards changing the tax mix, the key feature of most reforms is the introduction of, or an increased, reliance on VAT. It is argued that, in comparison to an income tax, a VAT is more neutral and thereby improves incentives to work and save, encounters less taxpayer resistance and is less easy to evade. Critics retort, however, that a VAT may involve heavy administrative costs for both the tax authorities and taxpayers and may produce a more regressive tax system.

Constraints on Implementing Tax Reform

During the last few years, there has been no shortage of tax reform proposals, some of them quite far-reaching. The United States may prove an exception but, to date, few countries have implemented major tax reforms though a significant move in the general direction of tax reform has occurred.

A number of reasons may account for this:

- There still remains disagreement over the precise economic and distributive effects of tax systems—for example, their effects on work incentives and investment decisions are still unclear.
- Tax systems are complex and to change them drastically and quickly inevitably arouses opposition from many groups concerned that their own special tax advantages may be withdrawn. Widening the tax base by the removal of tax expenditures tends to alienate well-organized groups of taxpayers (such as farmers, house owners, insurance companies), while the taxpayers who would benefit from such reforms tend to be less vocal.
- There are practical and administrative constraints on tax reform. Many tax reform commissions have, for example, favored a consumption based income tax, but the transitional and tax avoidance problems associated with this change have deterred all Governments from adopting such a proposal. The introduction of new taxes (such as VAT) may take a number of years and may require a large increase in tax officials.

Nevertheless, tax reform commissions and discussion papers are a useful way to encourage a general debate on the tax structures and succeed in putting tax reform on to the "political" agenda. They can also provide a useful frame of reference that sets the direction in which tax systems should gradually move and may thereby facilitate evaluation of ad hoc proposals to modify existing tax structures. At the present time, with widespread concern with slow economic growth in most countries, too-low levels of productive capital formation and high unemployment, the chances of reforms being implemented that will substantially modify certain aspects of present tax systems may nevertheless be greater than they have been for some years. €

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E.I.B. BOOSTS LOANS TO HIGH-TECH PROJECTS

NEARLY 1 BILLION EUROPEAN CURRENCY UNITS HAVE BEEN LENT SINCE 1984.

CEES POST

The abundance of catching acronyms and fetching labels on Europe's high-tech horizons almost obscures the fact that E.C. Commission President Jacques Delors' "European Technological Community" is actually coming on-stream. With a true internal market just around the corner, the Community's hopes of being able to keep up with its main competitors in world markets are high. Familiar Community programs are ESPRIT (information technology), RACE (telecommunications), COMETT (advanced training in development and application of new technologies), BRITE (advanced technology in support of traditional industry), FAST (science and technology) and COST (scientific and technical cooperation). Those bold epithets are complemented by a long list of lesser known Community bilateral and multilateral programs that range from biotechnology to the aircraft industry and the energy sector.

And, of course, there is Eureka. Much more encompassing in scope that the original French proposals for a European response to President Ronald Reagan's Strategic Defense Initiative (SDI), it is rapidly gaining momentum. Eureka is now supported by 19 European Governments and covers 72 joint development projects between European companies, involving total spending of about $2.1 billion. The projects are mostly in computers, semiconductors and telecommunications, but they also include ventures as varied as industrial ceramics and production of sunflower seeds.

Most of these programs were set up in the first half of the 1980s at a time when the need for Community action became compellingly clear. Without new initiatives, the future of Community industry, indeed of the European Community itself, would be endangered. Should the member states continue "this petty self-destructive game of every man to himself," Albert and Ball warned in a report presented to the European Parliament that fueled discussion on a far wider scale, the Community would become "nothing more than a poor old cripple."

Cees Post works in the information and public relations division of the European Investment Bank.

Industrial Modernization

The European Investment Bank (EIB), the Community's bank for long-term finance, has been active in the field of industrial modernization for many years. Created by the Treaty of Rome, the bank's tasks are defined by Article 130 of the Treaty and spelled out in the bank's statute and the directives and guidelines laid down by its board of governors. Among these are:

- regional development,
- modernization,
- conversion of industries
- the attainment of the Community's energy objectives and
- the improvement of communications between the member states.

Although most of these economic policy objectives were formulated close to 30 years ago, they each tie in with the efforts to complete the internal market and to boost the competitiveness of European industry.

One can only admire the foresight of the EIB's founding fathers: All of the EIB's lending, they stipulated, should be directed toward "the balanced and steady growth of the common market in the interest of the Community." But how would this common market affect regional development? Would extra growth be drawn to the already successful, dynamic regions, leaving those that had lagged behind in their development, for one reason or another, to slip back yet further? To counter such a trend, most of the EIB's lending has been for industrial and infrastructure investment in less favored regions. More difficult to foresee in 1958 was the fact that, in a global market, even the Community's most favored regions and their industries would need investment support. Said former EIB president, Yves Le Portz in 1984: "It seems now that the key to developing the poorer regions is not so much the indispensable specific efforts for these regions but a rebound of economic growth in the whole Community."

The scope of the EIB's financing for modernization and conversion of industries has also been widened. Obviously, in 1958, the perspective was on national industries. The creation of an extended home market for European industry would open up opportunities not possible in fragmented, national economies. The very process of achieving this—dismantling tariff walls, institution of free and intensive competition—would increase the pressure on old, worn-out industry to modernize or convert production. While this is an ongoing concern, extra-Community competition now provides an additional impetus. Transcending national borders, there is an urgent need to develop the E.C.'s high-tech potential in order to increase the competitiveness of the Community's industry at large.

Notwithstanding the recent drop in oil prices, the attainment of the Community's long-term energy objectives remains important. In many of the EIB-financed projects supporting the development of indigenous resources, import diversification and, particularly, rational use of energy, there is a significant technology component.

Infrastructure investment projects are the building blocks of the internal market. Part of the EIB's lending is focused on the arteries of integration: intra-Community transport and telecommunications. Breaking down "the barriers which divide Europe," loans have gone on road construction and a wide range of railway, shipping and aviation projects. In addition, the development of European telecommunications requires steady large-scale investment to take in the latest technological progress: satellite links, fiber optic cables and fully electronic exchanges.

EIB Says Eureka!

Acting on the basis of recommendations made by a working party of the EIB's board of directors, the board of governors, at its annual meeting in June 1984, endorsed specific guidelines for the EIB's lending in the field of high technology. To be eligible for EIB financing, advanced technology projects should involve the manufacture of high-tech projects not yet widely diffused throughout the Community, or they should bring about the development of new technology production processes. Particular attention, the bank's governors stipulated, should be given to industrial cooperation projects between firms in different member states, avoiding duplication and taking advantage of the economies of scale of the Common Market.

The intentions of these specific guidelines was to highlight the role of the new technology. True, the development and introduction of advanced technology already constituted an important element in many projects financed to support the above traditional policy objectives. The guidelines, however, make clear that, more than a component in projects supporting other Community objectives, investment in high-tech constitutes a basis for future economic growth.

Although pre-dating Eureka, the guidelines laid down by the EIB's board of governors resemble the priorities as progressively defined in that program. In particular, the indicative list of sectors and products in which the bank might finance projects, annexed to the guidelines, has a familiar ring to it. This list covers:

- office systems, data processing, telematics;
- electronic circuits, micro-processors, opto-electronics;
- advanced machine-tool industries (robotics, automation, and such);
- biological engineering;
- space technology;
- advanced energy technology;
- aeronautics;
- biomedical engineering;
- new materials, composite materials;
- equipment for environmental protection and recycling purposes;
- aquaculture.

An important aspect of Eureka is the emphasis on the development and eventual manufacture of marketable products. In this context, fully in line with the recent guidelines for EIB lending, the European Council recommended that the Community dimension should be exploited, *inter alia* by having recourse to the financing facilities of the European Investment Bank.

Sharp Rise in EIB Support in 1986

Recent years have seen a steady increase in EIB loans for advanced technology projects. The takeoff began in July 1983, when over 170 million European Currency Units (ECU) were lent in support of product and process innovation. In comparison, between 1976 and 1982, the total lending for high-technology projects

Continued on page 47.

An EIB loan is financing the construction and launching of telecommunications satellites.

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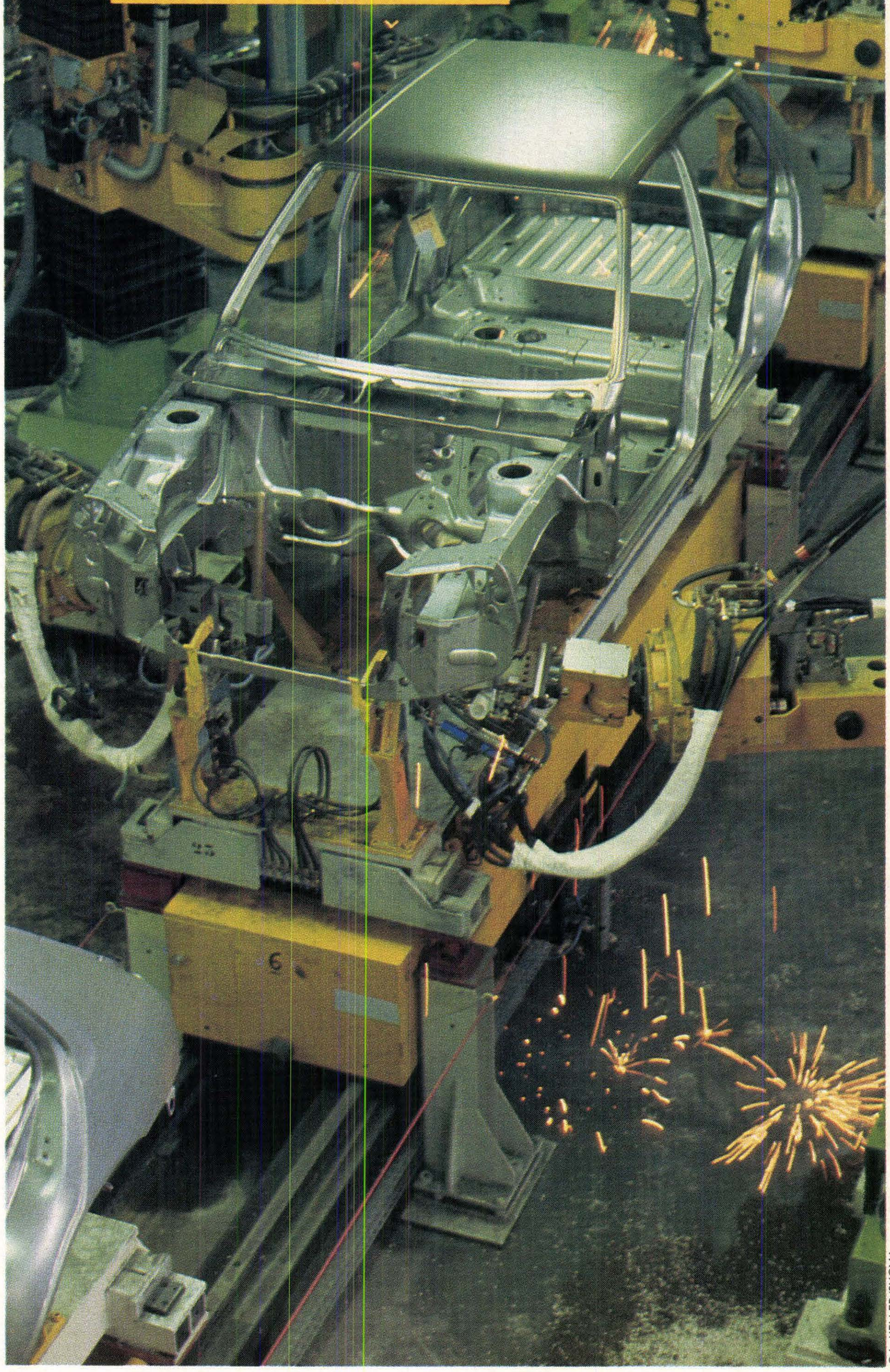

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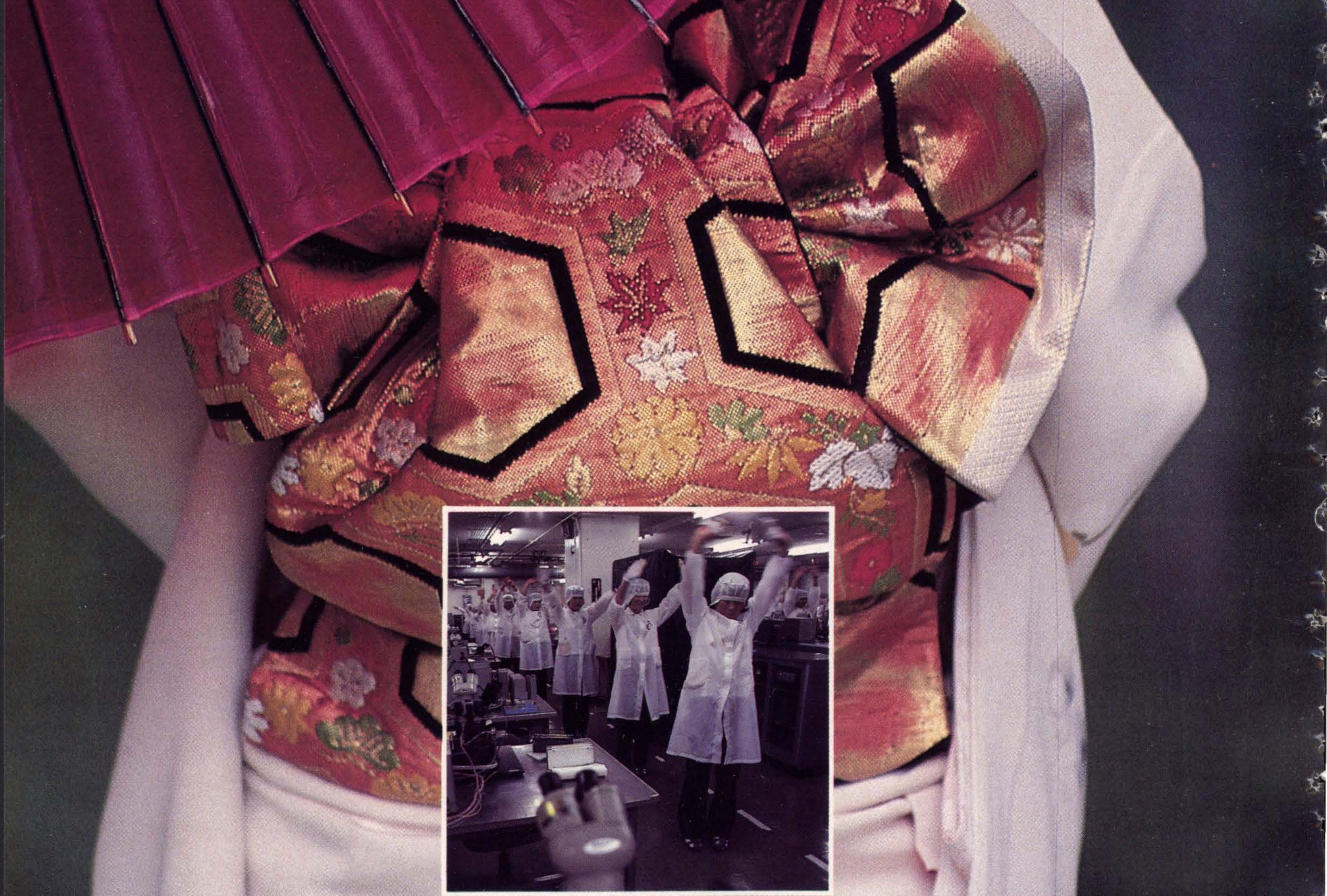
Among the advanced machine-tool industries on the EIB's priority list are robotics, which make possible automated assembly lines such as this Peugeot plant in Mulhouse, France

E.C. AND JAPAN SHOULD BE BETTER FRIENDS

A PERSONAL VIEW AFTER FOUR YEARS OF COVERING THE OFTEN STORMY RELATIONSHIP.



The generational change among Japanese businessmen and government officials may improve the nation's foreign relations.

MAIN PHOTO: ©MICHAEL S. YAMASHITA/WOODFIN CAMP. INSET: ©CHUCK O'REAR/WOODFIN CAMP

JUREK MARTIN

A couple of summers ago, I felt moved to write an opinion column in the *Financial Times* that argued that there were aspects of foreign pressure on Japan that went too far. Specifically I said that I did not think that Japan's well-being, and, by extension, that of its major trading partners and friends in the world, would necessarily be improved if the country were saddled with a plethora of supermarkets and with foreign lawyers cluttering up every courtroom.

Jan van Rij, the estimable number two in the European Community Delegation in Tokyo, wrote an elegant "Letter to the Editor" in reply, the thrust of which was that defending national customs was all very well up to a point, but that the forces of change were often irresistible and beneficial; and Japan, he said, could not blithely insulate itself from them forever, nor choose unilaterally which of them it wished to incorporate.

It was a thoughtful response, from a committed European knowledgeable about and, in some cases, sympathetic toward the Japanese "way" of doing things. It is often mirrored, in private conversations, by his counterparts in the Japanese public and private sectors, many of whom want a more coherent Europe, not simply because they feel it would make an easier market for their goods and services, but because they see such an entity as a force for needed stability in the world.

Yet the often acrimonious public record of E.C.-Japanese exchanges over the four years that I have covered them from the vantage point of Tokyo too often belies the genuine substance in the subcutaneous debate. Never has the official traffic between Japan and Europe been heavier, but hardly ever has it produced results other than the traditional round of complaint and countercomplaint, action and retaliation, suspicion and mistrust, all of them rooted in the warp and woof of commerce. The faults lie not in the analyses of the problems, which on both sides can be excellent, but somehow in the expectations and executions of the solutions.

Japan and the European Community ought to be better friends than they are. But Japan seems inhibited by the closeness of its relationship with the United States from pursuing fuller connections with Europe. Conversely, the Community still sees the Japan-U.S. axis as a potential threat to its own future (bilateral agreements, such as this summer's over semiconductors, reinforce this nervousness).

Over the last decade, the Community has pursued a more consistent policy toward Japan on trade issues than has the United States. Yet it has had to accept that the policy changes that Japan has enacted, in financial liberalization and in its several market-opening packages, have been more the result of American pressure, no matter that it has often been erratically applied, than anything the Community has brought to bear.

The imbalance in the triangular relationship shows up in innumerable ways. Political debate and exchange between Japan and Europe, which share many common interests, is circumscribed by the Japanese perception that it cannot be too far out of step with Washington. Yasuhiro Nakasone, the Japanese Prime Minister, and Jacques Delors, the E.C. Commission's President, appear to have established an excellent personal rapport, but it would be an illusion to think that this yet can serve as any form of counterweight to the Reagan-Nakasone friendship.

Moreover, Nakasone is an exceptional Japanese leader, determined to make Japan a more active partner in the affairs of the West, which certainly includes Europe. None of his likely successors at the helm has demonstrated anything like the same breadth of perception or the same capacities for taking control. The only possible exception is Kiichi Miyazawa, now the Finance Minister, who is both a relative economic liberal and who is suspected of harboring anti-American sentiments. But Miyazawa is probably the outsider in the field of heirs apparent.

It is often said, accurately, that the politicians do not really run Japan, but that policy is made by the bureaucrats and the businessmen. Nakasone has given the partial lie to this axiom, but he has not invalidated it. Therefore the future of Japanese-E.C. relations will still depend in good measure on what the civil service and the business community want to make of it.

In both, a generational change is occurring. As American and European negotiators can attest, their prototypical Japanese counterpart was an artist at stonewalling. Policy change tended to be incremental, and much was made of the "difficulties" in the way of change. Businessmen were conditioned to exporting—and averse to importing—and only really trusted their domestic manufacturing bases. Japan was an island mentally as well as geographically.

Today, there is growing international sophistication, not yet of Western standards, but moving inexorably in that direction. The bureaucrats who now are rising to the top are of more catholic experience and education than their insular predecessors; many, especially in finance, have been the architects of substantive changes in the Japanese system. Whether voluntarily or as a result of the appreciation of the Japanese yen, company executives are now thinking actively in terms of foreign investment and even of the technology transfers that they have traditionally been reluctant to grant.

Logically, this is a process that should improve external relationships, and, indeed, on balance it probably will. But familiarity with internationalization may also breed contempt for some of the phenomena that Japan observes overseas. In trade negotiations, for example, there is already a discernible Japanese reluctance to accept or simply deflect the thrust of foreign complaints. It is now commonplace to hear bureaucrats argue that the process of "market opening packages" and other assistance to importers has run its course, that Japan now constitutes at least a reasonably fair market and that it is now incumbent on foreign nations to demonstrate that they can actually sell their goods and services in Japan. At one time, the E.C. threat to take Japan to the General Agreement on Tariffs and Trade (GATT) under the famous Article 23(2) induced a measurable level of concern; now it is just as likely to result in a countersuit.

A similar resistance can be found in the Japanese reaction to external demands that it stimulate its economy more. The nub of foreign complaints was that Japan had to find a way of channeling its vast private savings into productive investment. The Japanese may accept, intellectually, that their investment climate is too slack, but they are increasingly less willing to buy the argument that there is something inherently wrong with thrift. Their observation of the American and European economies—of which the most successful, the Federal Republic of Germany, operates on principles familiar to Japan—does not naturally lead to the conclusion that the Japanese approach has been misguided. Thus it was instructive that in the summer election Nakasone scotched all earlier loose talk about ending the tax break on small savings. There will be more pressure on Japan for change, but it may not meet with the desired response.

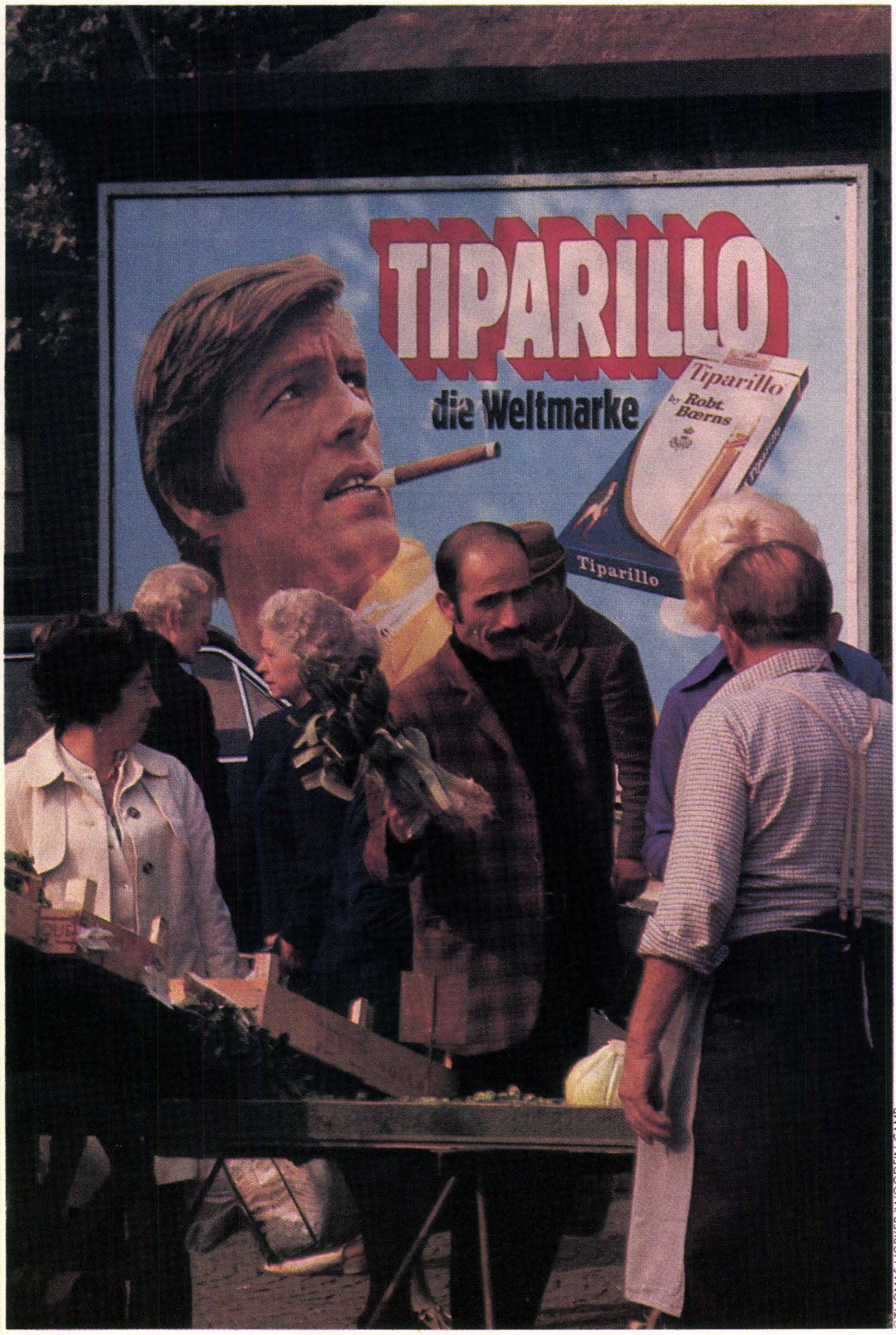
There are no easy answers to these disparate strands of dysfunction, not only between Japan and the European Community, but also with its other industrialized and developing trade partners. Laurens Jan Brinkhorst, the E.C. Head of Delegation in Tokyo, whose previous career was in Dutch politics, frequently talks of the need for more diffuse and diverse dialogues. Some such programs, like the one on executive exchange, do exist, but more are probably needed.

In the meantime, the future, like the past, promises more of the hard grind of sectorial negotiations between Japan and the E.C., both bilaterally and in wider fora. Japan will continue to run its surpluses, and the E.C. will indeed wonder why the high yen does not dent them; Japan may buy a few Airbuses, but it will purchase many more Boeings; the European consumer electronics industry will seek relief from Japanese competition, and will probably get some; and Suntory will continue to argue that there is nothing wrong with the Japanese whiskey tariff structure. Some things, indeed, will not seem to change; but it will be worthwhile looking under the surface (as well as in the letters column of the *Financial Times*). €

Jurek Martin, the foreign editor of the *Financial Times*, has just returned to London after four years as that newspaper's bureau chief in Tokyo.

MIGRANT WORKERS ARE CHANGING THE FACE OF EUROPE

THE E.C. FACES NEW CHALLENGES AS A SECOND GENERATION OF FOREIGNERS COMES OF AGE.



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Outdoor shopping in one of Europe's many immigrant communities; unemployment and a growing underground economy are parallel problems.

STEPHEN BROOKES

Every week, thousands more arrive. Armed with few skills and little money, they fly into Western Europe, overstay their tourist visas, take menial jobs and settle into one of the spreading ghettos of migrant workers that have become part of every major European city. Turks have come to the Federal Republic of Germany, Indians to the United Kingdom and North Africans to France, forming a chain of disadvantaged, uneducated and increasingly explosive "countries within countries." They face Europe with one of its most pressing social and economic crises: how to stabilize and assimilate a vast and permanent new part of its society.

With continuing economic stagnation and growing tension, the problem of restricting illegal immigration and improving the rights of legal migrants is becoming increasingly acute. "Large concentrations of migrant workers have created an explosive situation," a recent Council of Europe report warned—and with reason. Resentment toward foreign workers, who are often portrayed as stealing jobs from natives, contributing to crime and freeloading off the welfare system, has resulted in recurring waves of racism, violence and political invective. The management of race relations—once almost purely an American problem—now confronts Europe.

The roots of the current crisis lie in policies deliberately implemented in the 1950s and 1960s, when a critical shortage of labor prompted a number of European governments to encourage "temporary" labor migration, both from within Europe and from third countries. Workers were recruited on the assumption that they would return home when their contracts were completed. They came by the hundreds of thousands—whole towns emigrated en masse to parts of Germany and Switzerland. And when they came, they stayed. Once settled, workers were reluctant to leave, and employers were equally reluctant to lose the workers they had trained.

Importing labor obviously made good sense in the postwar economic landscape. It kept labor costs down and ensured that certain jobs got done. Foreign workers were more flexible than native workers—with no families and no political influence, it was relatively easy to move them to wherever labor was needed. Capital could thus be used more effectively,

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and the productivity of the entire economy rose as a result.

And while there were some economic drawbacks—hiring cheap foreign labor was an attractive alternative to investing in labor-saving machinery, for example, and acted as a disincentive to modernization—for the most part immigration enhanced productivity, relieved labor bottlenecks, and allowed Europe to undertake its own reconstruction.

In most cases, migration benefited the sending countries as well. By shipping its excess labor to the high-employment areas of Europe, a government could lower its ratio of labor to land and capital and thus raise productivity and create economic growth. This (according to theory, at any rate) would then create opportunities for workers when they returned. And the new skills they had acquired in the more advanced economies could then be plugged into the growing economies of their own countries, creating a mutually beneficial cycle. The only major drawback seemed to be that those who chose to migrate tended to be among the most energetic, resourceful and imaginative members of the labor force.

So when large-scale immigration into northern Europe began, it was with the blessing of both sending and receiving countries. Germany signed migration agreements with Turkey and other countries, and emigration was planned and implemented as policy by the Italian Government in the 1950s and early 1960s. Similarly, emigration was incorporated into Spain's economic stabilization plans from the 1960s to mid-1970s as a way of easing unemployment and acquiring much-needed foreign currency.

While Portugal, another important labor-exporting country, pursued a more restrictive emigration policy than Spain until 1971, the most intense economic activity in both countries corresponded with their heaviest periods of emigration. And the importance of migrants' remittances to the national economies should not be underestimated: by 1972, Spain had evolved from a country with a regular deficit in its balance of payments to one with the world's highest current surpluses in relation to GDP.

In short, migration played an extremely important role in Europe's entire postwar "economic miracle" and also substituted for the massive injections of capital into the sending countries that would have been necessary for them to have achieved comparable levels of growth. But migration had other ramifications beyond its purely economic effects, and by the late 1960s European leaders were beginning to realize they had a very complex and long-term problem on their hands.

For the truth was, as the Swiss author and social critic Max Frisch put it, "We called for workers and there came human beings." Migrant workers began putting down roots, and their families immigrated to join them. Children were born. Genuine communities began to form, with cultures, religions and patterns of behavior that were distinctly different from those of the host societies. The migrant workers who had once been rootless and easy to manipulate were becoming established, paying taxes, becoming more deeply integrated into the society and making more demands on it. And it was becoming increasingly clear that their presence could no longer be considered in any way temporary.

But even as the migrant communities grew and became increasingly permanent, the period of great economic growth of the 1950s and 60s that they developed in was coming to an end. The European economy, battered by the oil crisis of 1973 and the subsequent global recession, was entering a new phase of consolidation and retrenchment. Sectors that had been traditional users of migrant labor—steel, shipbuilding and automobile manufacturing, in particular—were cutting back. With an excess of labor and a burgeoning social problem on their hands, every affected European government had by 1974 taken measures to stop or severely curtail new immigration.

The barriers to new immigration effectively reduced the foreign worker population, but only for a short time. Within five years it had begun to rise again, and to many observers the implications were disturbing. The decades of high-volume immigration had wrought profound changes on the European labor markets, stamping them with levels of segmentation that were, for all practical purposes, irreversible. Migrants now held jobs that were economically necessary, but that natives would no longer accept.

This was an extremely important development, for two reasons. In the first place, it implied the existence of a foreign economic underclass doing undesirable jobs for low wages, kept from educational and advancement opportunities and denied political rights. To maintain such a permanent underclass would be to undermine the integrity of Europe's democratic societies; no matter how great its economic advantages, this was clearly unacceptable.

In the second place, it meant that native European workers had essentially abandoned an entire stratum of jobs to foreign workers during the period of economic expansion; whole sectors of the labor market had become, in effect, stigmatized. But when economic recession left native workers without jobs while migrants continued to work, social tension and even violence began to erupt.

These tensions worsened throughout the 1970s and early 1980s, as Europe slowly and painfully recovered from recession. Racial violence in Britain, Germany and France, widespread discrimination in employment and housing and the emergence of political parties calling for the expulsion of foreigners all became disturbing new elements of European society.

The increasing violence has, however, focused attention on the key long-term migration question: what to do about the 5 million members of the second and third generations, the children and grandchildren of migrants with few educational and employment opportunities in Europe and no ties to the countries of their parents. For those who have grown up in a European country, speaking its language and

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Turks at prayer in Germany; a broader variety of religious practices is becoming part of Europe's cultural landscape.

absorbing its customs, returning "home" amounts to emigration, and staying means living as an outcast. While unemployment for immigrants now runs at about 22 percent, it is as high as 60 percent for the second generation in some areas. And when the young do find jobs, discrimination, poor education and low skills mean they end up in the same sort of dead-end jobs as their parents.

For some politicians—like France's Jean-Marie Le Pen, whose right-wing National Front won 12 percent of the vote in legislative elections this March—the response has been a simple "Send them back!" But is repatriation any longer a real option? The answer is mixed. Many migrants say they would like to return, but limited employment opportunities in their homelands make this impossible. Moreover, the very size of the migrant population makes it to some degree self-sustaining. And voluntary repatriation programs, such as those in Germany and France (where workers have been offered as much as $10,000 to return), have met with only limited success.

> Europe is confronting an urgent crisis: how to assimilate a vast, permanent new part of its society.

And yet, in one notable case, workers have returned home. Italy, which supplied the bulk of Europe's migrant labor during the peak decades, saw some of the most astonishing postwar growth in Europe during the 1960s, and modernization and industrialization in its northern and central regions has effectively exhausted most reserves of rural labor. The result has been a vast migration home; since 1972, more workers have returned each year than have left, and about 90,000 are now returning annually.

The return has not been altogether smooth; the migrants brought home not only new savings and skills, but new "northern" attitudes and habits that set them apart from their non-migrant compatriots. Building garish homes (known in Sicily as "immigrant villas") and focusing their economic activity on each other or on foreign tourists, they have tended to form communities that, in an unfortunate way, mirror the ghettos they left behind.

So reassimilation of migrants creates its own problems, even in the few cases in which it is possible at all. And in most sending countries, economic conditions have not improved enough to attract more than a trickle of migrants home.

With the accession this year of Spain and Portugal to the European Community, moreover, emigration from those countries into the northern European countries is expected to rise. Continued economic contraction in much of the world and ongoing political repression in some areas have combined to create a new influx of illegal workers who present particular problems of their own. Lacking any legal rights and subject to expulsion, they are vulnerable to the worst kinds of exploitation and abuse. Their presence, together with increasing legal immigration and growing unemployment, have fostered the growth of an underground economy in Europe.

The problem is thus as complex as it is urgent: a growing legal and illegal foreign population with a necessary role in the economy; a second and third generation of low-skill migrants for whom Europe is permanently "home"; growing political, social and racial tension; further distortions in an already stagnant European economy; and very limited options for repatriating the workers Europe once needed so badly.

The task now facing European leaders is to stabilize and assimilate their countries' migrant populations, while promoting enough economic activity in the workers' home countries to eventually stop the flow and even reverse it. Whether this can actually be done remains to be seen. The process of assimilation alone is challenging enough. It demands, above all, political will; but many governments have shown attitudes toward assimilation that are ambiguous at best. Policies vary from country to country: While Britain, for example, grants citizenship to anyone born on British soil, Germany does not.

Any attempts at assimilation would also benefit from a fair amount of economic room for maneuver, but Europe's economy lacks steam and unemployment remains a significant problem. The postwar excess of capital to labor that was emigration's raison d'etre is a memory of the past, and many of the sectors in which migrants have traditionally worked continue to shrink under competition from the low-wage industries of the Third World. But if migrants learn new skills and move higher in the job market, competition with native workers will inevitably increase—and so will the racial backlash. The alternative, meanwhile, is the growth of an underground economy within the migrant communities, which would only exacerbate their isolation.

The social aspects of assimilation present particular problems for the nations of Europe, which for the most part have both strong national cultural identities and little of the "melting pot" tradition of the United States. Foreigners are easily identifiable, and differences of language, culture and religion set them visibly apart from populations that tend to be rather homogeneous. In times of economic recession, they make easy targets for scapegoatism—and for political opportunists.

The scope of the problem, its difficulties and its extraordinary importance for the future of European society have made the development of an overall assimilation policy a key concern of the Community. The E.C. Commission has called the establishment of migrant rights one of its "principal social objectives"; beginning with an action program developed in 1974, the Commission has addressed the problems of inadequate education, housing shortages, cultural assimilation, social tensions and competition on the labor market, and last year released a set of guidelines on migration policy aimed at coordinating a European response.

The thrust of the Commission's guidelines is clear: National policies must be geared toward giving migrants "genuine equality of treatment" vis-a-vis national workers in housing, working conditions, and social security provisions. Migrants' political rights also need to be established, and the guidelines call for "municipal consultation committees of migrant workers, access to legal aid and establishment of bodies to enforce legal rights" as crucial to the process of social and political integration.

The guidelines also stress the importance of making all return migration voluntary, and note that "it is essential that the member states keep open for a limited period the possibility for these young people to come back." They also suggest that Community action could complement bilateral arrangements undertaken by individual E.C. states to improve the conditions of return for migrants, especially in areas like job creation and vocational training.

In addition, the Community has provided foreign families with language and occupational skills training for some time, under the auspices of the European Social Fund. And in order to promote assimilation, it has also called for improvement of national policies on residence and work regulations, reuniting of families, naturalization, language and vocational training,

Continued on page 43.

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August, 1986

EUROPE PREPARES TO CRACK DOWN ON DRUG ABUSE

HEROIN AND COCAINE EPIDEMIC CONFRONTS LEGISLATORS.

ELGY GILLESPIE

Now that cocaine, and its lethal poor relation crack, are poised to rage throughout the youth of the European Community, the old European conviction that the many-headed monster of drug abuse is worse in the United States than in the E.C. is being directly challenged.

The comfortable assumption that more heroin is taken in Harlem than in Dublin, and more cannabis smoked in the Bronx than in the Kent countryside, is being rapidly revised. The smallest Italian or Irish village can now have the same drug problem as the big cities of the Federal Republic of Germany, France, the Netherlands and the United States.

So says Sir Jack Stewart-Clark, a Member of the European Parliament. The E.C. accession earlier this year of Spain and Portugal—with their many ports—and the no-tariff Europe planned for the 1990s will aggravate the task of police and customs officers. But the immediate threat is the surplus supply of cocaine in America, ready to cross the Atlantic where heroin has enjoyed an increasingly powerful grip for the last three or four years.

"I'm really very scared for Europe," said Sir Jack during a fact-finding mission to Washington, D.C., this summer. "The heroin problem is so serious; but things can, and will, get a lot worse. We are in a perilous situation. It is imperative that we do all we can to stop the arrival of crack in Europe—the freebased form of cocaine that is not only cheaper, but much more dangerous and addictive."

It was crack that was responsible for the deaths of two young American sports stars earlier this year, Len Bias and Don Rogers. The Conservative European Parliamentarian arrived in the United States at around the same time to meet with the Drug Enforcement Agency and customs and police officers for a crash course in the latest American drug control programs.

Elgy Gillespie is a freelance writer based in Washington, D.C.

As the head of the European Parliament's Committee of Investigation into Drug Abuse in the European Community, Sir Jack feels that the United States has found some answers to what appeared to be an insoluble solution. "It all happened to us so quickly over there, you see. . . . "

The findings of Sir Jack's committee and its 73-page report go to Strasbourg for debate at the first plenary session of the European Parliament this October. They cover the entire spectrum of drug control, from more and stiffer penalties for drug traffickers to crop substitution, with a heavy emphasis upon more educational programs for school children and parents. "All the recommendations deal with successive links in the chain from crops to user," said Sir Jack. "I feel very strongly that you have to deal with every link together, especially education, and even the thorny question of crop substitution, which many people say will cost too much, and may not be effectual." Sir Jack sees the European drug war as a massively expensive and complex Community-wide operation, which the committee is empowered only to recommend. "To eradicate the whole, you have to do the lot."

An immediate threat to Europe is the surplus supply of cocaine in America that is ready to cross the Atlantic in search of new markets.

Recent seizures in Europe of cocaine in large quantities show that it has already arrived, and is now trickling onto the street. Sir Jack lays the blame partially on drop in the American street price—nowadays, a "hit" good for one "high" can cost as little as $5, while a "line" has gone down from $200 to $40 during the last two or three years. Cocaine is now a ghetto drug, even a schoolyard drug. But the number of American users has remained a relatively stable 2 percent of the population, or just over 4 million, since 1980. Dealers need new markets fast.

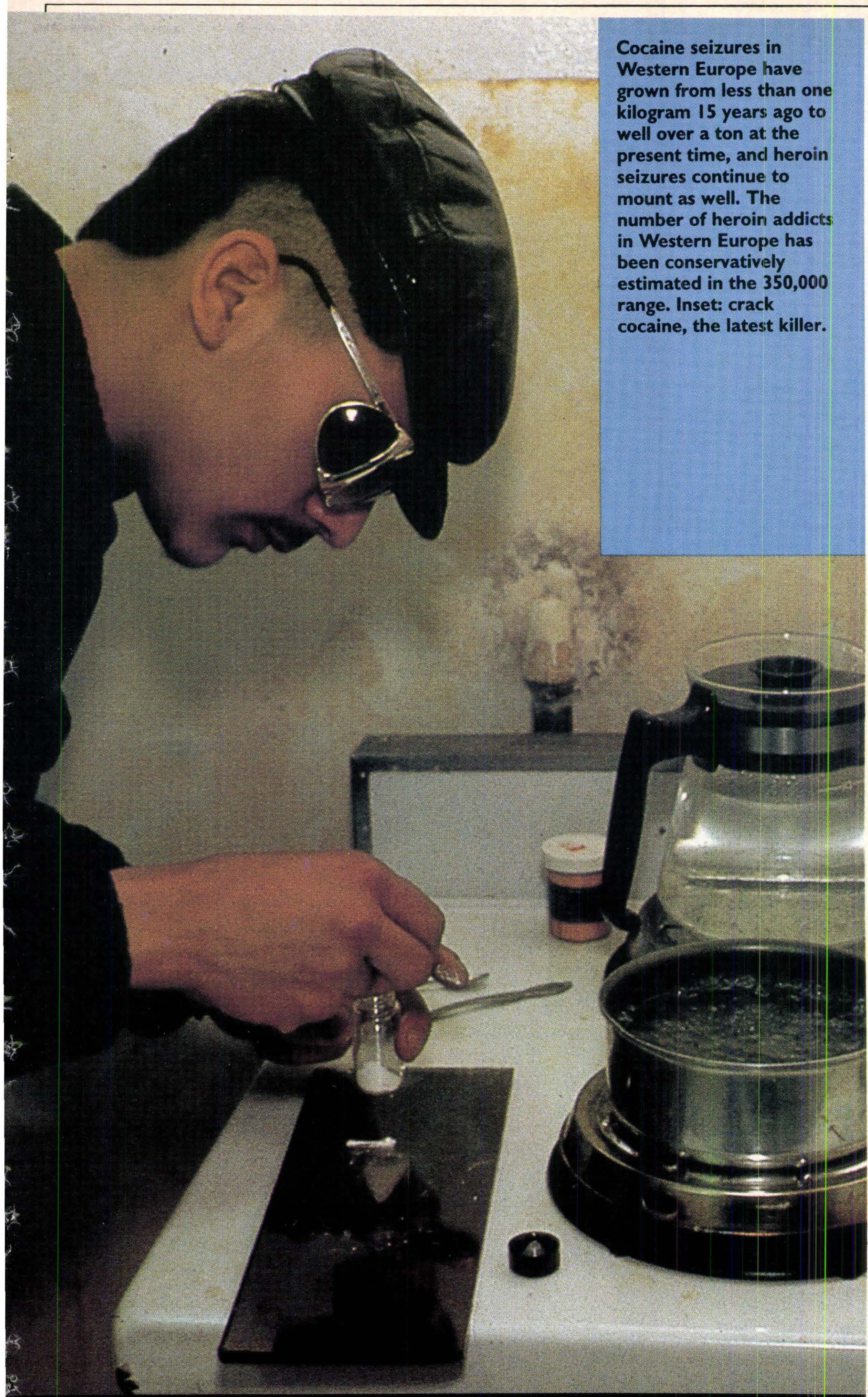
Many of the points on the Strasbourg committee's will be highly controversial. Even their figures for drug abuse—1.5 million users throughout the E.C.-10—will be hotly contested. The drug problem is not well documented yet in Europe, and reliable figures do not exist. Many people confuse the current heroin epidemic with the cannabis craze of the late 1960s—a cult that left an ineffectual clinic system behind.

While some 15 percent of male teenagers in a London borough called the Angel were said to have tried out heroin, according to a government report dated May, 1984, this figure has been variously exaggerated on the commercial broadcasting networks as "under 40 percent"—and even as "nearly half"! But the real figures are bad enough.

Exaggeration about the heroin effect has also taken a toll. The commonly-held myth that once taken, it instantly enslaves for life, is not accurate. Young people who discover this, when their curiosity gets the better of them, are in real danger—they judge heroin to be not so dangerous after all, and get trapped later.

A figure of 13 percent has been published for teenage girls and boys in Dublin's inner city schools. Ireland, with highest unemployment and highest youth figures for Europe, is most at risk. In 1983, a Home Office report for the United Kingdom, gave 10,235 registered and listed addicts—a 28-percent increase from the previous year. Heroin users as a percentage of all addicts rose from 73 percent to 82 percent.

At the same time, the average age of addicts was dropping. Nine hundred new addicts under 21 were listed in 1983 by the United Kingdom for the first time, compared to 200 in 1976 and 489 in 1982—and these figures represent a fraction of the real number, according to *The Economist.* A simultaneous rise in cocaine circulation is evident. But police seizures continue to be disappointingly low for what the British Social Services



Cocaine seizures in Western Europe have grown from less than one kilogram 15 years ago to well over a ton at the present time, and heroin seizures continue to mount as well. The number of heroin addicts in Western Europe has been conservatively estimated in the 350,000 range. Inset: crack cocaine, the latest killer.

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"Now that cocaine is poised to rage through the youth of Europe, the old European conviction that

drug abuse is worse in the United States than in the E.C. is being challenged."

Secretary, Norman Fowler, reckoned in 1982 must be at least 40,000 drug abusers ("Treatment and Rehabilitation," 1982, Her Majesty's Stationery Office, £3.95). The same report points out that only 201 kilograms were seized by the British Customs and Excise in 1983—the year when London's police force conjectured that 3,500 kilograms had entered Britain, accounting for a quarter of the total income of the traditional criminal community in Britain.

The legacy of the earlier drug craze had been a clinic system, where methadone was given on prescription. But all hospital-based treatments proved conspicuously ineffectual. A two-week National Health Service detoxification program could take an addict off the drug, but not keep him off. The failure rate of British clinics was at least 38 percent, according to a study taken in the 1970s by Stimson and Oppenheim, and few other countries in the E.C.-10 did better.

The customs office had its own problem. Although Prime Minister Margaret Thatcher has recently added another 60 officers to their ranks and has sent an officer to Pakistan and a policeman to Amsterdam to look at the source of the supply, less than 1 percent of heroin seized is taken at ports of entry—only 0.3 percent at peak travel hours. Ten years ago, the seizure rate was 90 percent. A cutback of 1,000 customs officers in the early 1980s had an immediate and drastic effect.

Police vigilance has also come under intense criticism throughout Europe and especially in Britain, where a Camden Town policeman has wagged a finger at his own colleagues. "To arrest a dealer is as easy as arresting an unregistered hot dog seller. Both have to be public and work in the market," said William Easy, formerly of the Hong Kong force.

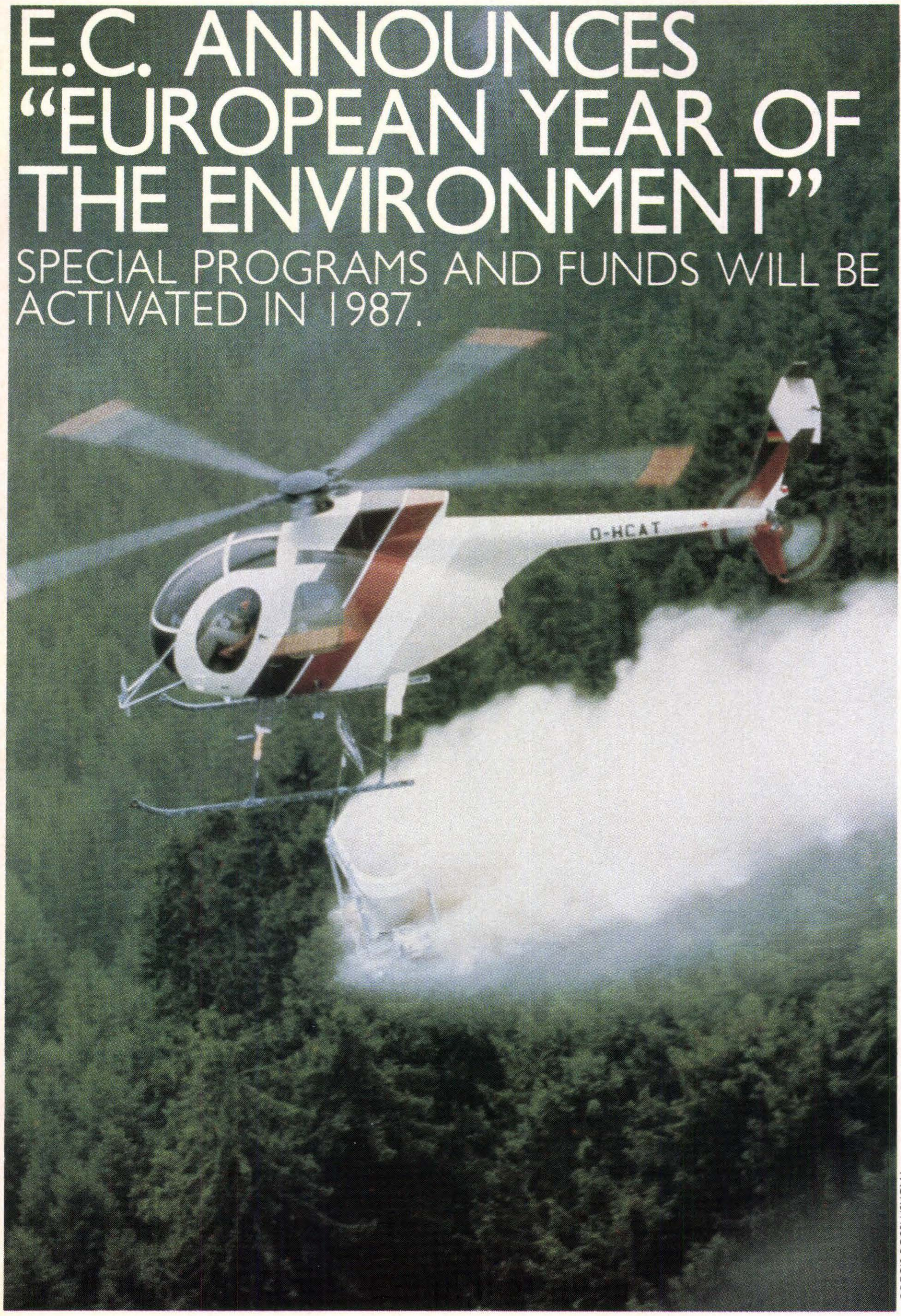
By contrast, the Netherlands announced a plan in 1983 for the Amsterdam City Council to distribute free heroin among its local addicts. Eight thousand are registered, of whom 1,500 are in a state described as advanced social and physical decay. In the liberal Dutch port, where penalties are few and mild and where cannabis is obtained so openly that its prices are advertised in bars and on the radio, addicts inevitably cluster.

Like meals-on-wheels wagons, the city narcotics vans deal out methadone to registered addicts. The Dutch idea is to take over the market situation, thus controlling it by eliminating the price mechanism. But it has proved to be politically divisive, splitting the Christian Democrats and the Liberals down the middle.

Continued on page 43.

E.C. ANNOUNCES "EUROPEAN YEAR OF THE ENVIRONMENT"

SPECIAL PROGRAMS AND FUNDS WILL BE ACTIVATED IN 1987.



A helicopter spreads lime in an attempt to neutralize the effects of acid rain, a trans-frontier problem that is becoming increasingly serious in Europe.

TIM DICKSON

After the appalling nuclear catastrophe at Chernobyl in April, it is perhaps appropriate that the European Community has designated 1987 European Year of the Environment (or EYE, to give it its catchy acronym). Such "events" can all too easily pass unnoticed—how many in Europe, for example, are aware that we are half way through the European Year of Road Safety? But on the basis that every cloud—even a radioactive cloud—has its silver lining, widespread public concern following the Soviet disaster could readily translate into an enthusiastic response to the program currently being drawn up in Brussels.

Chernobyl also provides the most vivid illustration of the Commission's contention that most environmental problems "transcend national boundaries and cannot be resolved at the purely national level." E.C. member states can hide less easily behind the cloak of "national sovereignty" now that it has been shown so unambiguously that a major accident at a nuclear power plant in one country threatens food supplies and human health in many others.

The E.C. Commission will no doubt use every opportunity during 1987—or to be more precise, between now and January 1988, when the various activities come to an end—to ram home its point that the E.C. provides an effective and indispensable framework for European environmental policy.

But as Stanley Clinton Davis, the E.C. Commissioner reponsible for environment policy and who dreamed up the idea of a "Year" points out: "It is people rather than Governments who provide the impetus to safeguarding and improving the environment." In a message explaining EYE's aims and objectives, which was delivered to journalists last month, he expressed the hope that the program of events "will stimulate new thinking and a new sense of priorities, so that people will insist that environmental considerations be given their proper importance in policy making."

"It has been seen, not as a one-off event, but as the launching pad for a long-term effort to ensure that our precious environmental heritage is safeguarded and, indeed, enhanced for the benefit of people throughout the world and of generations to come." That message will be disseminated partly at a European level but more importantly, and more extensively, through activities and initiatives organized and promoted in each of the 12 member states. Various national committees are currently drawing up individual programs. Common themes, however, will be that:

- respect for the environment and a rational use of resources are necessary for a sustained improvement in the quality of life;
- investing in effective environmental management will contribute to economic growth and employment;
- environmental concern must be part of every economic, industrial and social activity.

Young people are considered a particularly important target for the campaign, while radio and television are seen as the most important propaganda tools. Air pollution, the dangerous buildup of chemicals in the seas and rivers, the death of forests from acid rain, and urban decay are on any case meat and drink to program makers and British, German, Spanish and Portuguese television companies are among those with EYE projects already in mind.

Events pencilled in at Community level at this stage include the publication of a special European opinion poll, the issuing of a special postal slogan, a European birdwatching weekend and Operation Eyesore (a cleanest street competition), besides a more prosaic series of meetings and conferences.

The Commission, meanwhile, intends to support research that shows the job creation and economic growth potential of environmental policy. The Commission also plans to use European Regional, Social and Agricultural Guidance and Guarantee funds to back schemes that contribute to environmental protection and improvement, make a more economic use of raw materials and energy and lead to the development of "clean" technologies or "environmentally friendly" production processes. The Commission is also interested in projects aimed at monitoring the quality of the environment and the implementation of environment policy.

A combination of Community funds, national contributions and private donations are expected to finance EYE activities. Some 3 million European Currency Units (ECU)—about $3 million—have been set aside in the Community's 1986 Budget, while in its 1987 draft budget the Commission has asked the Council of Ministers and the European Parliament to release a total of 10 million ECU.

Budget restrictions, however, have inspired the organizers to turn to private fund rasing and sponsorship to supplement the E.C.'s "own resources"—the first time this is believed to have been attempted on a Community-wide scale. Such approaches to private business and public agencies are common practice in the United States and are gaining popularity in Europe at a time when Government funds are getting more scarce. The strength of the financial response to EYE will be a test not just of public interest in environment issues, but of the reputation of the Community at grassroots level. While the main stated objective of EYE is to win the hearts and minds of the individuals in the E.C., Brussels is also hoping that achieving this will indirectly put pressure on politicians in member states to code more power for environmental affairs to the Commission.

The Community's policy has certainly come a long way since the Paris summit of 1972, when E.C. leaders first recognized that significant action had to be taken at European level. More than 100 pieces of legislation have since been enacted, reflecting the three major objectives of protecting human health, safeguarding water, air climate and raw materials, and protecting the natural environment. Several directives, for example, are now in force dealing with the quality of water, both surface and underground, fresh and salt. Standards have been set for bathing beaches and drinking water, while rules are being introduced to control emissions into water of certain chemicals such as lindane, mercury and cadmium into water. DDT is already forbidden.

In many areas where the Community is trying to extend its scope, however, progress is slow because of the vested interests of its member states. Air pollution, for example, presents a major challenge. It is widely considered a significant cause of the deterioration of Europe's forests and a threat to many historic buildings, not to mention the danger to human health. Progress has been made in setting stricter standards for gasoline-engine cars, but only after months of wrangling. Even now, the draft directive still has not been adopted because Denmark, which wants to take an even tougher line, is withholding its acceptance. An independent study has suggested that it could be 1995 before there is a complete European conformity with the requirements of this piece of E.C. legislation.

Cutting down power-station emissions, however, is not proving easy for member states, but agreement is now close on reducing the sulphur content of some liquid fuels. Under Community law, lead-free gasoline will have to be available throughout the Community by October 1989.

Chemical products present a special problem since they are brought on to the market in such large numbers each year. A common procedure is now in force for notification, evaluation and control of all chemical substances before they are marketed, and dangerous substances have to be classified and labeled.

Attempts to devise a collective system for limiting sulphur-dioxide emissions from industrial plants have foundered on political concern about the costs in the United Kingdom, Portugal, Ireland and Italy. Tentative plans to set up a Community-wide nuclear inspectorate with some power vested in Brussels have run into opposition from France and the United Kingdom. The message of the following extract from EYE is clear: "Public opinion has an important role to play. Member states are not always as quick or as thorough as they should be in implementing environmental legislation. It is the citizen who suffers in consequence." €

Tim Dickson reports from Brussels for the *Financial Times.*

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A common E.C. procedure is now in force for notification, evaluation and control of all chemical substances before they are marketed, and dangerous substances have to be classified and labeled. Above, decontamination after the dioxin disaster at Seveso, Italy.

UNITED K

EXPECT SOME PAUSE IN THE THATCHER GOVERMENT'S PROGRAM OF SUPPLY-SIDE REFORMS AS THE GENERAL ELECTION NEARS.

SARAH HOGG

There has been no greater uncertainty about Britain's economic prospects at any time since 1981. Then, it was unclear whether the plummeting economy could right itself. Some 364 economists opined that it could not; the Thatcher Government insisted that it could. The two sides have continued to disagree as to which was vindicated when output rose, but unemployment continued to increase as well.

Today, the argument is focused on the opposite turning point in the economic cycle. The British economy has had an erratic year. Industry—as represented by those who fill in questionnaires supplied by the Confederation of British Industry—is jittery about its prospects. Have we experienced the beginnings of a new recession, or merely a pause induced by the sudden drop in oil prices—a reduction in costs that will in time actually strengthen the recovery?

The soothing theory of the "oil hiccup" is very plausible. In 1973-74, it likewise took some time for the pain of higher oil prices to cripple the world economy, which rolled on happily for several months before the anaesthetic wore off. In 1986, many of the initial effects of cheaper oil were perversely unhelpful. Interest rates did not fall quickly or universally. So lower inflation was not accompanied by a fall in the real cost of borrowing, which for a time rose higher than ever.

Yet by late summer, the effect of cheaper oil on purchasing power in all the main industrial countries had become apparent. Even in Britain, cheaper energy shifted the pattern of economic advantage back from a small, and capital-intensive, sector of the economy to the energy- and labor-intensive sectors that make up by far the larger part of national output. Industries as different as agriculture and services reported benefits.

Yet there remained strong undercurrents of unease. Worldwide, the economic tide appeared to have been ebbing, gently but relentlessly, since 1984. World output had continued to rise, and indeed to rise faster than forecast. But the rate of growth had slowed, and was teetering around the figure of 3 percent deemed to be the minimum to maintain the life support system of the world's biggest debtors. An uneasy, new kind of economic cooperation had developed between the largest industrial countries, born of anxiety.

If world incomes are to grow by an average 3 percent a year, it is obvious that some large economies must grow faster. To say this is not to subscribe to the "locomotive theories" of the 1970s—which annoyed the Germans by maintaining that it was the duty of a stable economy to pull the rest out of trouble—but to make a simple statistical point. In 1986, it became increasingly hard to see which large economies would achieve above-average growth, in order to balance the number that would inevitably fall below.

At a time of lower oil prices, it should naturally be those economies most dependent on imported energy that have the greatest scope for additional acceleration. This points the finger at two—Japan and the Federal Republic of Germany—on which so many previous arguments have focused.

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Prime Minister Margaret Thatcher's Government faces economic uncertainty.

The United States, architect of the 1984 boom, is constrained by twin deficits on its public and external accounts. Forecasts for 1986 have been confounded by a confusion of economic indicators, but it is clearly the most optimistic that now look the most foolish. So America has turned the heat on Japan. And for once, the Japanese Government's response has been real as well as rhetorical.

This is because most pressure has been exerted through exchange rates, where there is the least scope for diplomatic obfuscation. The Japanese have been obliged to accept a substantial revaluation of the yen, along with the usual annual surrender of a few more trade restrictions. Bit by bit, this may help to rebalance the pattern of world growth, engineering more sales for deficit-ridden America, fewer sales for surplus Japan. That, however, is not at all the same thing as increasing their combined growth rate.

If the United States manages to pull out of its present "growth recession" by defeating the Japanese export drive, the world balance of payments may look neater, but total world income may still fall short of the magic 3 percent.

This helps to explain both the international effort to bring about coordinated interest rate cuts, and why the Federal Republic of Germany has begun to attract increased criticism. For the simple answer to trade competition between the United States and Japan is that the Japanese should replace export-led growth with the domestic variety. Again, it must be admitted that this year Japan is doing something like its best. Apart from encouraging its citizens to love leisure and consumption (a tall order), the Japanese Government is still talking about budgetary expansion. And, most practically, it has been ready to lower interest rates.

KINGDOM

The ruined castle of Caernavon in Wales. Below, from left: Harlech in Wales, the Greenwich Mean Time clock and the white cliffs of Dover.

PHOTOS ©LEE SNIDER/PHOTO IMAGES

Of course, the Japanese have good reason to wish for lower interest rates, which serve to reduce the upward pressure on the yen. On occasion, indeed, they have moved too quickly for the Americans, who have wanted to stimulate world growth without altering exchange-rate pressures by ensuring that interest-rate cuts are coordinated by the major economies. However, in the world's good books, Japan has contrasted favorably with the Federal Republic of Germany, whose behavior has been markedly more individual.

Right through the 1980s, the United States—and the rest of Europe—have been waiting for Germany to "take up the torch of growth." With bitter memories of the 1978 reflation urged on it by its trading partners, Germany has resisted all persuasion. Admittedly, the German Government is implementing a package of tax cuts, but these do little more than return to the taxpayer the revenue taken from him by inflation since 1981.

By 1986, international persuasion has given way to complaint. The Federal Republic was running a record trade surplus—roughly $35 billion in the year to mid-1986. Prices were actually falling. And yet the German Government seemed content with a miserable growth rate. National output actually fell in the first few months of the year.

PHOTOS ©JACOB SUTTON/GAMMA LIAISON

If the U.K. is only temporarily held up by the oil shock, we should not hope for too much over the coming months, but expect better things by late 1987.

A textile factory at Bradford (top) and a steel works at Sheffield,, both in Yorkshire.

Germany's business became everyone else's as well when it came to economic diplomacy over interest rates. By all economic measures, it was Germany's job to lead each round of interest-rate cuts. On occasion, the Bundesbank could legitimately protest that it was constrained by the German mark's position in the European Monetary System. American impatience with these excuses, however, became steadily more apparent.

In this battle of economic wits, Britain has necessarily been something of a bystander. Among the "Group of 5," whose Finance Ministers have sought to coordinate exchange-rate and interest-rate management, Britain is not only the smallest economy: it is also the economy with the least to gain directly from cheaper oil. This does not mean Britain has nothing to gain, rather that much of the gain can be expected to come through exports, supplanting those national markets in which purchasing power has received a bigger boost.

Cheaper oil was expected to mean, for Britain, a weaker pound sterling. In fact, sterling seems to have become much less sensitive to the fortunes of the North Sea. The pound survived the plunge in oil prices with no more than a temporary hike in interest rates; and when the oil prices made their first rebound in August, the pound did not follow suit.

Nevertheless, it was through greater international competitiveness, helped by a lower exchange rate, that Britain could hope to reap its share of the economic benefits of cheaper oil. A short tour around its export markets makes it pretty clear where those benefits must be found. The Middle East, traditionally a good market for Britain, is obviously ruled out. The United States, with a falling dollar, is itself trying to recover competitive advantage. South African trade, still important to Britain in economic terms, is bound to be restricted. The necessary focus of British export efforts has to be on its European partners. If they are not expanding fast, Britain's opportunities are inevitably limited.

The German picture may not be as bleak as it appeared in early 1986. Then, the figures were depressed by a bad winter; more recently, industrial production and retail sales have shown signs of strength. Whenever this happened before during the past five years, the Germans have nipped things in the bud, draining a little more inflation out of the system. With no more inflation in the German system and only a dribble expected next year, the rest of Europe can perhaps hope for a change in behavior.

It is not, however, surprising that British industry should be uneasy. To this uncertainty about the role of Europe's leader is added a pile of other economic queries. Oil itself is showing great volatility, in turn complicating budgetary decisions. As in 1981, there are questions about the conduct of economic policy in uncertain times: To what extent will the Thatcher Government adjust?

These questions surround not only budgetary policy, in which the sums may be changed daily by the oil markets, but also monetary policy. The targets adapted by the Thatcher Government from its predecessor, but then elevated to strategic heights, have collapsed under the strain of financial innovation that has helped to confuse almost every money series.

The natural successor to a set of domestic monetary targets was the discipline provided by membership in the European Monetary System. Here again, however, there is uncertainty. The British Chancellor of the Exchquer, Nigel Lawson, has certainly not given up his internal battle to persuade his Prime Minister that "the time is ripe" for full British membership in the European system of linked exchange rates. Until he succeeds, British monetary policy will continue to be more of an embarrassment than a strength.

This weakness on one side of its economic strategy provides the Thatcher Government with little scope to loosen up on the budgetary side. Yet some flexibility to respond to fluctuating oil prices is clearly needed. Lawson managed to pull a remarkably successful budget out of the awkward circumstances of March 1986 and to maintain its targets through the difficult first half of the current financial year. But the new demands of his political colleagues, as a general election approaches, are not going to make the task any easier in 1987.

For Britain now faces a new uncertainty not present in 1981 or even at the general election—when Thatcher never seemed in real danger of losing power. The next election will be much harder fought, and a change of government would mean instant changes in economic policy. While there is room for dispute over the precise cost of Labor's election program, there is no room for doubt that it would entail a substantial increase in borrowing, or that Labor's proposed system of exchange control would have dramatic effects on financial markets.

As the political duel is played out in 1987—perhaps with the last act delayed until 1988—there will inevitably be doubt about the course of policy. At the same time, election years are traditionally a closed season for legislation, with Governments only offering the least controversial bills to their excitable parliaments. There will be a pause, at least, in the Thatcher Government's program of supply-side reforms, and time to review the consequences.

In industrial relations, social security and even the treatment of unemployment, the pattern has largely been drawn. The privatization program has by no means come to an end, but it does appear to be slowing a little. The revolution in the City of London—the "Big Bang" in the Stock Exchange—should be subsiding, though no doubt the casualty list will continue to lengthen. But the economic consequences of the Government's attempts to liberate market forces will not be easy to measure by election day.

The electorate is most likely to judge these consequences by the unemployment numbers. The trends are not encouraging. Although almost all economic forecasters, even some of the most pessimistic, foresaw a drop in adult unemployment in 1986, the underlying rate increased relentlessly through the first half of the year. The weakness in the economy has, it seems, precipitated a new labor shakeout in some industries, while the trend to part-time employment continues.

The most difficult question, politically and economically, is how the economic cycle will thread its way through these uncertainties. We are back at the original question: Is an economic pause nearly over, or is there a recession ahead? There need not, in reality, be much difference in severity between the two. The recovery since 1981 in Britain has been long, but never particularly strong; in the same fashion, the recession may be much less marked than in 1980. But there remains a critical question of timing. If we are slipping into a slow-motion recession, growth may tick over from this year, only to peter out in 1987 and damp down 1988. If, on the other hand, we are only temporarily held up by the oil shock, we should not hope for too much over the coming months, but expect better things by late 1987. I am doubtful about the present, hopeful about the future—which, I suppose, inclines me to the latter view. €

Sarah Hogg is the business and finance editor of the new London newspaper, *The Independent.*

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10th June, 1986

NEWS OF THE E.C.

SINGLE CUSTOMS DOCUMENT NEARS

The E.C. Commission moved closer this summer toward introducing a new customs document that will replace the dozens of forms currently needed to transport merchandise across borders within Europe.

The Commission adopted on July 22 three rulings that complete the legal and normative framework for putting the new Single Customs Document into effect beginning in 1988. Ridding border crossings of the delays and aggravations associated with the excessive number of documents now required is essential to the completion of the internal market, the Commission believes. There are currently about 70 different documents in use, and truckers in Europe often face a nightmare of complicated forms written in unfamiliar languages.

But the long backups of trucks at customs stations that have become familiar in recent years should become a thing of the past once the new document is introduced, Commission sources say. All the information required by the member states relative to statistics, tax, payment, transport and so on will be set in simple codes. Moreover, this information will be able to be plugged into a Community-wide electronic data bank, allowing information on trade flows within Europe to be collected and evaluated more effectively.

Another advantage of the new document is that it will be used for trade with third countries, as well as those within Europe, reducing costs and delays for European traders.

Easier border crossings are the aim of the E.C.'s Single Customs Document, due to come into effect in 1988.

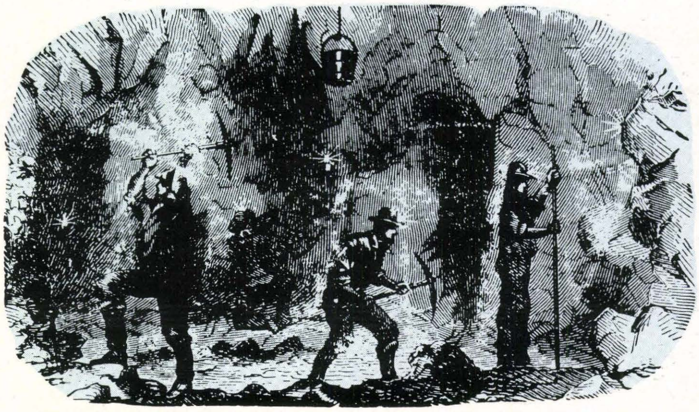
E.C. DECIDES ON NEW AID RULES FOR COAL

Government aids to the troubled European coal industry will continue for several more years—but with a different focus and on a more transparent basis than in the past, according to recent remarks by Nicolas Mosar, the E.C. Commissioner responsible for energy policy.

"I welcome this new agreement," Mosar said, "which proves once again that Europe is capable of reaching a political consensus on delicate issues and that the member states are joined in a spirit of solidarity."

With the worldwide decline in demand for coal, European producers have had to undertake substantial restructuring and reorganization in recent years. Although in the past the stress has been on adjusting production capacity, from now on the focus will be on improving competitiveness, creating new production capacities and solving the social and regional problems involved in developing the coal sector. Aids for cyclical and strategic coal stocks and recruitment will no longer be authorized, with the exception of a productivity bonus granted to underground workers by the German Government.

A worldwide decline in demand for coal has resulted in substantial restructuring of the European coal industry.



Under the new rules, the E.C. member states must notify the Commission in advance of any aid they plan to give, and they must declare the intentions and objectives for their coal industry. Both these requirements should make monitoring of state aids easier.

The new aid rules were adopted following months of discussion, and will apply from July 1 through December 31,1993. "I believe that the solution adopted meets the requirements of a coherent energy strategy and the need for greater competiveness, and takes account of the social and regional problems of the coal industry," said Mosar. "Prior notification is essential in my opinion. Previously, aids were notified to the Commision in retrospect, which did not exactly make the monitoring easier."

Member states have invested enormously over the last 20 years in order to maintain an adequate level of coal production, with over $9 billion in aid paid out in 1985 alone. Total coal output in the European Community in 1985 was 217 million tons (with consumption of 314 million tons), and the forecast for 1986 is for 230 million tons.

Unlike the steel industry, the Community produces considerably less coal than it consumes. Solid fuels (hard coal, coke and lignite) represent 23 percent of overall E.C. energy consumption (excluding Spain and Portugal), after oil (45 percent) but before natural gas (19 percent) and nuclear energy (12 percent), according to a Commission analysis of the solid fuels sector and its outlook for 1986.

Overall demand for coal is

expected to rise 3 percent in 1986, the Commission believes. Due to the deficit in supplies, intra-Community trade in coal is negligible, with most imports coming from the United States, South Africa, Poland and Australia.

E.C. SUMMIT AT THE HAGUE

The Heads of State or Government of the 12 E.C. member states met in The Hague June 26-27 for this year's first Community summit meeting, calling for an end to apartheid in South Africa and producing a final communiqué that Commission President Jacques Delors described as a "stimulating blueprint for Community action over the next six months."

"The European Council is gravely concerned about the rapid deterioration of the situation," the European leaders said in a statement on South Africa. "The reimposition of the State of Emergency and the indiscriminate arrest of thousands of South Africans can only further delay the start of a genuine national dialogue on South Africa's future.... The European Council believes that the present policies of the South African Government can only lead to increasing repression, polarization and bloodshed," the statement said.

The Council stressed its support for a concerted European program of assistance to the victims of apartheid, and noted that the E.C. has agreed on an increase in financial and material assistance to them. The Council also noted that "the commencement without delay of a national dialogue with the authentic leaders of the black population is essential to halt a further escalation of violence and allow negotiations leading to a truly democratic and non-racial South Africa."

The Council called on Pretoria to release Nelson Mandela, the imprisoned leader of the African National Congress (ANC), and to lift the ban on the ANC, the Pan Africanist Congress of Azania and other political parties. The Council also said that in the next three months, the E.C. would consult with other industrialized countries on further measures which that be needed, including a ban on new investments and on imports of coal, iron, steel and gold coins from South Africa.

Much of the discussion at The Hague focused on European economic and social conditions. Despite real progress in establishing stronger structural foundations for economic growth, the Council noted, "present levels of economic performance and investment are by themselves unlikely to bring about any reduction in unemployment." Additional micro- and macro-economic policies aimed at structural improvement are needed, as well as other efforts aimed directly at increasing employment, it advised.

The Council also noted that technological cooperation and innovation at the Community level will "make an indispensable contribution to the ability of European industry to survive in a ruthlessly competitive world," and called on the E.C. Commission and the Council of Ministers to complete their deliberations on the next multi-annual program for technological cooperation within the next few months.

Eliminating the remaining barriers to trade and unifying the internal market in Europe are, with the problem of unemployment, a central concern of the Community. The Council noted that "strengthening economic and social cohesion, in accordance with the Single European Act, is essential to ensure the correction of potential imbalances and the harmonious development of the Community as a whole," and called for speedier decision-making toward reaching this goal by 1992.

In the field of agriculture, the Council said it welcomed the decision of the Council of Ministers to adopt an overall approach for the forthcoming multilateral trade negotiations including agriculture, in accordance with the positions previously adopted in the General Agreement on Tariffs and Trade (GATT), the Organization for Economic Cooperation and Development (OECD) and at the Tokyo summit. It noted that the Community was thus well prepared to deal with the problems of agricultural policy on a balanced and mutually advantageous basis in the negotiations.

The Council also noted that the E.C. must continue to adapt its Common Agricultural Policy to the changing circumstances in world markets, and said that "preservation of the environment and the countryside should be an integral part of a more flexible agricultural policy, more dynamic and better adapted to the market." The Council said that it was in favor of international cooperation in agriculture "in order to facilitate the processes of adaptation and establishing new balances."

E.C., EFTA MINISTERS MEET

Willy De Clercq, the E.C. Commissioner responsible for external relations, met in Reykjavic on June 5 with ministers from the countries of the European Free Trade Association (EFTA) for a review of the progress made in E.C.-EFTA relations since the adoption of the "Luxembourg Declaration" of 1984.

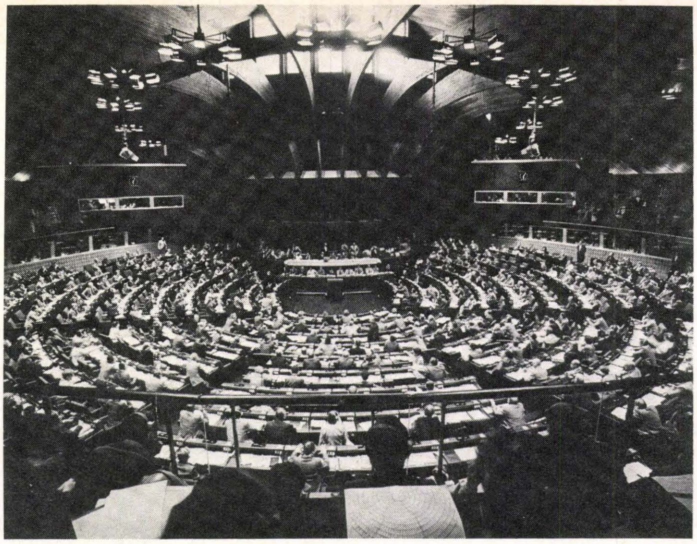
The Reykjavic meeting—the third of its kind—marked a "new important step" in meeting the Luxembourg Declaration's aim of a homogeneous

European leaders at the E.C. summit in The Hague June 26-27 expressed "grave concern" over the situation in South Africa.

and dynamic economic space in Western Europe, according to Commissioner De Clercq. The officials agreed on new measures to eliminate obstacles to trade, and they agreed to speed up their efforts to simplify rules of origin and to support the progress already made toward common standards in Europe.

Given the objectives of the Luxembourg Declaration, the E.C.'s goal of completing its internal market by 1992 has also created a new challenge for the EFTA countries. During the Iceland meeting, the participants underscored once again the necessity of further coordination between measures aimed at completing the E.C.'s internal market and the strengthening of E.C.-EFTA relations.

E.C.-EFTA cooperation in research and development has developed particularly rapidly since 1984, and bilateral R&D framework agreements have been agreed this year between the E.C. and most of the EFTA member countries. These agreements lay the foundation for a technology area in Western Europe, and the E.C. has negotiated EFTA participation in its high-technology programs such as ESPRIT (information technology), BRITE (industrial research), and RACE (telecommunications) to include firms and research institutions from EFTA countries.



The European Parliament voted in July to approve the 1986 E.C. budget: a "tremendous success" for Europe.

BRUSSELS, TOKYO HOLD HIGH-LEVEL TALKS

The E.C. Commission held its 26th session of high-level consultations with Japan in Brussels on July 7-9, focusing primarily on Japan's $17-billion trade surplus with Europe last year. The discussions ranged over a number of issues of current concern, including economics and finance, industrial and scientific cooperation, a new round of multilateral trade talks and relations with third countries.

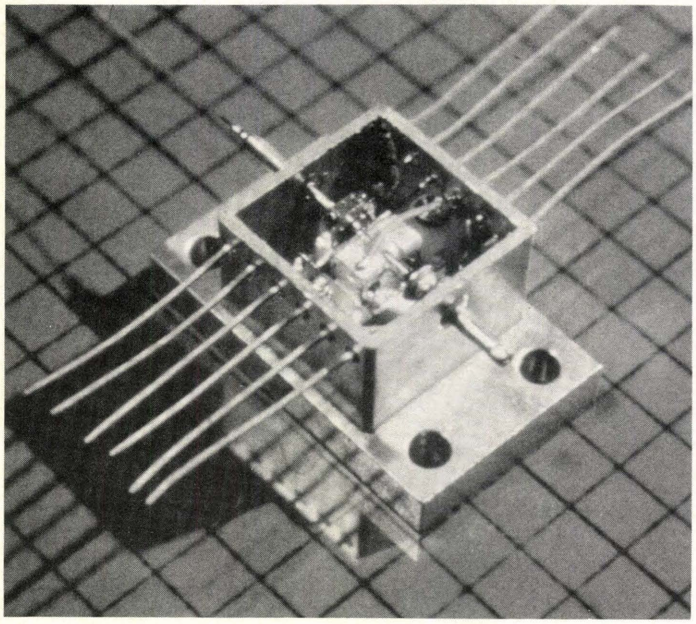
Concern over the Japanese trade surplus remains high in Europe, despite measures taken by Tokyo to open Japanese markets and the appreciation of the yen against the dollar and the European currencies. Fears of a further Japanese penetration of the European market have been exacerbated recently by the fact that other markets have become less attractive or have closed.

The Commission's delegation underscored the steady growth of the Japanese trade surplus with Europe, which has grown by about $2 billion per year since 1983, and which increased by 53 percent in the first five months of this year (as opposed to 23.5 percent growth toward the United States). The E.C. and Japan together account for about 40 percent of both gross world production and international trade.

The Japanese surplus is the result of a number of obstacles facing European exporters, Commission sources say, including non-tariff barriers, multiple controls, the Japanese distribution system, weak demand and the tightly integrated structure of Japanese industry.

In order to bring about greater trade balance, the Commission's delegation called for more stimulation of internal Japanese demand and a greater opening of the Japanese market. In the area of industrial cooperation, the delegation noted that Japanese investments in Europe are looked on favorably, but that close cooperation should be developed with European industry. European investment in Japan, it said, is not as strong as it should be.

High-tech development programs such as ESPRIT and BRITE are the building blocks of a "high-technology area" in Europe.



E.C. RESOLVES BUDGET CRISIS

The European Parliament voted on July 10 to approve a compromise version of the 1986 E.C. budget, ending a crisis that began earlier in the month when the European Court of Justice declared the budget already in effect to be illegal.

"I strongly welcome the compromise on the 1986 budget," said Commission Vice President Henning Christophersen, who is responsible for the budget. "Six months of insecurity on our financial situation have been a serious drag on Community action in the first year after enlargement."

The new budget calls for total spending of 35.1 billion European Currency Units (ECU), or about $34.5 billion—almost $2 billion more than the budget it replaces. The extra funding is earmarked for agricultural spending, social programs and development aid for the poorer regions of Europe.

In its July 3 ruling, the Court of Justice supported a claim by some E.C. member states that the Parliament had overstepped its authority last December, when it ratified a budget larger than that authorized by the Council of Ministers. The Parliament can propose modifications to the budget submitted to it by the Council, and can vote amendments to certain "non-obligatory" spending within a specified margin, but does not have the authority to adopt a budget without agreement from the Council.

Pierre Pflimlin, the President of the Parliament, called the 355 to 27 vote in favor of the new budget "a tremendous success for the European Community." Action toward approval of a budget for 1987 is now under way.

U.S.-E.C. FARM TRADE ACCORD

The United States and the European Community reached a temporary agreement on farm trade on July 2, in time to avert a potential trade war over the Community's recent enlargement to include Spain and Portugal.

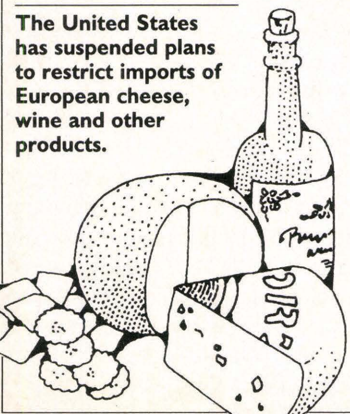
The agreement, hailed as "very satisfying" by Willy De Clercq, the E.C. Commissioner responsible for external relations, calls for the United States to suspend its plans to increase tariffs on European wine, cheese, brandy, gin, canned ham and other products, and for the Community to drop its planned countermeasures against American corn gluten feed, rice and wheat.

The Community also agreed to monitor U.S. exports to Spain of corn, sorghum, corn gluten feed, brewing residues and citrus pellets from July to December. If these exports fall below an average of 234,000 metric tons a month (the average monthly level during 1985), the Community will enable the shortfall to enter the Community market by reducing import levies.

Both sides stressed that the six-month agreement will give them time to negotiate a permanent solution to the issues raised by the E.C. enlargement, which resulted in Spain's import duty on corn and sorghum being replaced with the Community's variable levy. Commissioner De Clercq noted in remarks to the press following the agreement that, despite differences between the Community and the United States, the two powers always showed a willingness to resolve the problems. During the next six months, De Clercq said, the Community will use all the means at its disposal to bring negotiations to a successful conclusion.

The agreement, E.C. sources noted, does not call into question the provisions of the enlargement treaty or the principles of the Community's Common Agricultural Policy.

The United States has suspended plans to restrict imports of European cheese, wine and other products.



EURO-PESSIMISM ON THE WANE

Euro-optimism is on the rise throughout the European Community, according to the E.C. Commission's latest "Eurobarometer," an opinion poll conducted twice yearly to measure popular sentiment toward the European Community. The survey found that 62 percent of Europeans thought that membership in the E.C. was a "good thing," and that a vast majority—about 80 percent—were in favor of a united Europe.

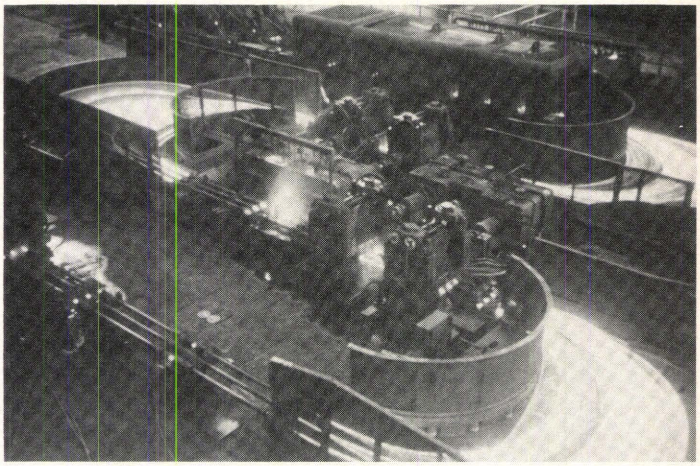
The survey interviewed 11,840 Europeans in March and April, with the findings divided into four major areas: the European "mood"; attitudes toward the Citizen's Europe; attitudes toward Europe and the E.C.; and attitudes toward the European Parliament.

Those who said they were "very much" in favor of a united Europe were found primarily in Portugal (51 percent), Luxembourg ((47 percent) and Germany (41 percent), while 61 percent of the Danes, 66 percent of the Irish, 33 percent of the British, 50 percent of the Greeks, 37 percent of the Portuguese and 9 percent of the Spaniards felt that their countries had drawn benefits from membership in the Community.

Most of the Europeans polled said they were in favor of a Europe without internal frontiers, and 58 percent said they thought the "Chunnel" project was "a good thing," despite the fact that 46 percent of the Britons polled did not share this opinion.

Half of those polled felt that the European Parliament's role in European affairs should be strengthened, and about the same number (ranging from 70 percent in Denmark to 40 percent in Greece, Germany and the United Kingdom) said they had read or heard something about the Parliament. Forty percent said they had a "generally favorable impression" of the Parliament, and 25 percent a "generally unfavorable impression." Seventy percent of the Italians polled were in favor of increasing the Parliament's role, as were 61 percent of the French, 57 percent of the Dutch and 56 percent of the Greeks.

New levels for imports of E.C. semifinished steel products into the United States were negotiated in July, ending a longstanding dispute.



U.S.-E.C. STEEL STRAINS SETTLED

The United States and the E.C. on July 15 resolved a longstanding dispute over European exports of semifinished steel to the United States, reaching an agreement establishing export quotas and agreeing to drop the unilateral measures and countermeasures imposed by both sides over the last seven months. The agreement, which has been signed by the Community, still has to be signed by the United States.

The new quotas will be included in the 1982 U.S.-E.C. Carbon Steel Arrangement, which was extended last year for four years and will run to September 30, 1989. For the remainder of this year, an export ceiling of 300,000 net tons of semifinished steel products has been set; 620,000 tons will be allowed in 1987, 640,000 tons in 1988 and 502,500 tons in the first nine months of 1989. In addition, the United States will allow British Steel Corporation to export 200,000 tons of semifinished steel a year to a steelmaking plant in Alabama.

The dispute over semifinished steel arose late last year, when a significant increase in European shipments to the United States prompted American officials to claim that a diversion of trade had occurred and that unilateral restrictions were justified. Under the 1982 agreement, semifinished steel was considered a "consultation product," with no set limits, but subject to discussion if necessary. E.C. exports of semifinished steel to the United States averaged over 800,000 net tons in 1984 and 1985.

The United States imposed an annual limit of 400,000 tons on the steel products, and after repeated attempts to find a satisfactory solution failed, the E.C. responded with countermeasures on American fertilizer, animal fats and coated paper. In February, the United States responded with new, more restrictive measures.

The new quotas will be distributed among European steel producers as follows: Federal Republic of Germany, 50 percent; France, 14.5 percent; the Netherlands, 15 percent; Belgium and Luxembourg, 13 percent; United Kingdom, 4.5 percent; Italy, 3 percent.

COMMISSION CALLS FOR AIRLINE DEREGULATION

The E.C. Commission announced in early July that it was sending letters to 10 European airlines asserting infringement of E.C. competition rules and requiring them to conform to the law. The letters—which were sent to Sabena, SAS, Lufthansa, Olympic Airways, Air France, Aer Lingus, Alitalia, KLM, British Airways, and British Caledonian—constitute the continuation of formal proceedings against thse airlines under Article 89 of the EEC Treaty.

Peter Sutherland, the Commissioner responsible for competition policy, and Stanley Clinton Davis, the Commissioner responsible for transport policy, issued a statement that said in part: "The Commission wants the European citizen to have access to a wide range of travel services at reasonable cost. If our industries are to take advantage of the Community's internal market, restrictive practices and the resulting high air transport costs cannot be allowed to hinder the expansion of Community trade in goods and services. The stimulus that would be provided by greater cost-competitiveness of air transport to tourism, to the aeronautical industry and to other important economic sectors is undeniable.

"The Commission has the duty to ensure that the right to fair competition granted under the Treaty to our citizens and enterprises must also extend to air travel. To this end, the Commission has decided to act under Article 89 of the Treaty of Rome."

The letters sent to the airlines set out the Commission's evidence of infringements of the competition rules, and request the airlines to present their comments and to inform the Commission within a two-month period of the measures that they envisage to eliminate restrictions on competition and bring the infringements to an end. If action is not taken, the Commission stressed, it will be obliged to authorize the E.C. member states to take measures to remedy the situation.

The E.C. Commission is fighting for fairer competition in the European airline business.

EUREKA PROGRAM EXPANDS

Ministers from the 18 participating countries of the Eureka high-technology development program met for their third ministerial-level conference in London on June 30. They approved 62 new collaborative projects, set up a permanent secretariat in Brussels and agreed to admit Iceland as the 19th member.

"The rapidly developing momentum of Eureka has been confirmed and increased," said Paul Channon, the British Secretary of State for Trade and Industry, who chaired the meeting.

The 62 new projects, which are in addition to 10 projects approved last November, will require spending of about $2 billion. All involve cooperation among European companies across a wide range of advanced technologies, and the vast majority are intended to develop products, processes or services having a worldwide market potential. While most are in telecommunications, semiconductors and computers, other projects are in fields as varied as water pollution, high-powered magnets, high-technology fishing boats, ceramics and robotics.

The Eureka program was originally proposed last year by France as a non-military response to American Strategic Defense Initiative research, and is becoming part of the E.C.'s efforts to build a "European Technology Community" that will put Europe on the cutting edge of high-technology R&D. France is involved in about two-thirds of the new projects, Britain in 29 and Germany in 15.

Eureka will benefit from a new, independent secretariat to be established in Brussels under the direction of Xavier Fels, a French official. France, Germany, the United Kingdom, Italy and the E.C. Commission will each contribute 13.7 percent of the costs of running the new secretariat, with the remaining costs shared among the other participants. The secretariat will strengthen the machinery for collecting and disseminating information on collaboration within the Eureka framework, will support meetings of Eureka ministers and will help businesses and institutes.

In their final communiqué, the ministers stressed the importance and urgency of action needed to create a single European market of the size necessary to enable European industry to compete effectively in world markets for advanced technology, and they drew particular attention to the contribution that cooperation stimulated by Eureka can make. They also welcomed other measures under way to encourage collaboration in high-technology projects, including the possible provision by the European Venture Capital Association of a Europe-wide clearing house for information on sources of venture capital for Eureka projects.

MIGRANT WORKERS

Continued from page 28.

education, cultural adaptation, housing and health.

Coordination of these policies will no doubt play a critical role in shaping the future of migrant societies over the rest of this century. But it would be naive to suppose that assimilation will come about smoothly; any society coming to grips with migration will have to confront the disturbing currents of racism, political extremism and social division that rise in societies—like the United States—when they try to rectify their social inequities.

Nevertheless, the tasks of fighting discrimination, educating migrants and broadening political rights, while necessary, do not address the equally important questions on the role migrant labor is to play in the evolving "post-industrial" European economy. Economic strategies shape societies at least as much as social ones, and with a migrant population of over 14 million that can either work or become dependent on the state, the stakes are high. Europe has had a tendency to downplay the enormous growth in American employment over the past decade, noting that many of the jobs created have been in low-skill, low-pay service occupations. But expanding low-skill job opportunities may actually be a more attractive option than expanding already bloated welfare systems.

Will assimilation succeed? European societies are becoming more heterogeneous under the influence of the postwar integration of Europe, and while migrants may have to endure a difficult period of assimilation, their place as full citizens of the European Community seems not only desirable but assured. The emergence of Europe's migrant population has paralleled in many ways the development of the institutions of the European Community, and its role in the postwar prosperity that has supported economic and political integration is undeniable. Racism and intolerance are, regrettably, inevitable side-effects when societies undergo change. But the values of cooperation and tolerance that have allowed the diverse countries of Europe to unify themselves will no doubt triumph in this case as well.

ROBERT D. HORMATS

Continued from page 48.

currency hedging or options strategy is needed to avoid turning a well thought out business decision into a financial disaster as the result of events in foreign exchange markets over which the company had no control.

The rapidly expanding internationalization of stock and bond markets can make available financing on terms and in currencies that better meet the needs of a corporation than if it were confined to raising equity and capital only on its home market. It will help to diversify risk. And, increasingly, international alliances among companies to do research, production and marketing can overcome currency and other international distortions.

An increasingly integrated world economy is creating an imperative for economic actors to work more closely together. This is happening in private business and finance. Governments have begun to catch up. But they still have a long way to go. Perhaps the follow-up to Tokyo will move them further along. €

DRUGS IN EUROPE

Continued from page 31.

Only in Dublin and in Italy, it seems, has the rapid spread of drugs been curtailed. In Italy, Projetto Uomo, involving small community and environmental jobs in Italian and also Spanish villages, has been deemed a great success. A quite different cure has been found in the Dublin working-class housing projects. Groups of concerned parents—who vehemently deny being vigilantes—march on the houses of well-known pushers. Sometimes, alas, they accuse the wrong person. In the same way, the Black Muslims of Detroit were also unquestionably effective in the drugs war.

Sir Jack acknowledges that the problem goes a long way beyond the capabilities of his committee, which has no executive authority, and whose members are still arguing over some points. The inclusion of cannabis and amphetamines as addictive drugs is opposed by some members.

"Personally, I make a big distinction between cannabis and the hard stuff," says Sir Jack, "because it's the hard stuff we're really going after. Cannabis is either not addictive, or only mildly addictive. I do not oppose legalization of cannabis. I just don't believe cannabis should be punished with a prison sentence."

But other members of the committee—Marco Panella of the Italian Partito Radicale, for one—argue that cannabis should be legalized to give the E.C. member states some kind of control over its consumption. Irish Euro-Parliamentarian Mary Banotti disagrees.

"In one sense, this is a deep area," says Banotti, an expert on drugs in the workplace as a Dublin social worker for many years. "But cannabis is a gateway drug, and I have come to believe in the tough approach. Where there is risk to others, you just cannot play around—that is why I support the American policy of drug-testing at work." Banotti does go on to say, however, that "any tough policy must be allied to a strong rehabilitation program. I would break my back to help an addict before I would fire him or her."

Perhaps the arguing all comes back to the question of whether addiction is a personal choice, or loss of that choice. "There is a strong element of personal responsibility," Banotti believes. But whether or not addiction is a choice in the earlier stage, there is a link in the drug chain that Members of the European Parliament will find difficult to change: the user's environment.

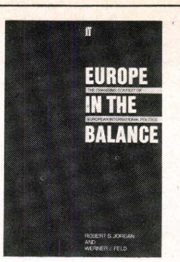
"In the inner cities," writer Jock Young said in the *New Statesman,* "there is a whole generation who may never find regular employment." This is true of England, Ireland and Scotland—where jobs for school leavers are the exception rather than the rule in this decade—and to a lesser extent in France, Belgium and the Federal Republic of Germany. The days are long, tedious, poverty-stricken and pointless. Drugs are exciting and enjoyable, and hustling for them lends an illusion of purpose and a disposable income. And most junkies are recruited by older ones, who are themselves users and small-time pushers.... not by the big dealers, who often are not addicts.

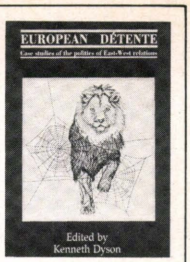
During the Vietnam War, as many as half of the American soldiers were thought to be addicted—yet only one-fifth considered themselves to be so. When they got home, 7 percent remained addicted, but only 1 percent said they were. The G.I.'s felt they had come back from what had been their own idea of hell. The young addicts of Europe cannot change their surroundings, or their future. For some, there is precious little reason to live.

The availability of the drugs and the vulnerability of the young population have coincided—disastrously. "Heroin could not have happened at a worse time for British youth," wrote Kenneth Leech, Field Officer of the Church of England's Board for Social Responsibility. He might as well have written Irish or French or German or Dutch youth—for high unemployment and a big youth population are everywhere in Europe. "Heroin is classically the drug of despair," says Leech.

Sir Jack's parliamentary committee will have its work cut out for it this October. €

BOOKS IN REVIEW





Europe in the Balance. By Robert S. Jordan and Werner J. Feld. Faber and Faber; Boston; 1986; 338 pp.; $45.00.
European Détente. Edited by Kenneth Dyson. St. Martin's Press; New York; 1986; 279 pp.; $35.00.

JAMES DAVID SPELLMAN

The integration of Europe's states into two opposing blocs and the détente phase of U.S.-Soviet relations are pivotal events in international relations after World War II. Examining the two experiences yields a deeper understanding of contemporary states' instincts, agendas, sources of power and compelling constraints and why states retreat from their singular, national pursuits to cooperate collectively.

The dynamics of economic, political and military integration and how these changes have affected European states is the focus of **Europe in the Balance.** This is an introductory survey narrating the division of Europe from World War I, through the Yalta and Potsdam settlements, to the post-détente, quiescent status quo. The authors explain how each bloc wields power over its members, and they assess the sources of cooperation and conflict both within and between the East and West.

The North Atlantic Treaty Organization (NATO) and the Warsaw Treaty Organization (WTO), the European Community and the Council for Mutual Economic Assistance (Comecon)—all are "subregional," reactive and subservient, in the view of Jordan and Feld, to the omnivorous demands of U.S.-Soviet relations, the center of gravity within the international society of states.

Both blocs have developed extensive, cumbersome bureaucracies to strengthen military alliances, expand trade within their regions, and reinforce the political and strategic perspectives, first, of seeing the other side as hostile and, second, of the need for a collective defense. Each bloc's members act in unison when national interests coalesce. And the experiences of regional organization have exacted costs, sharply questioning the millennium that theorists of functional integration argued would result as states merge telecommunications, financial integration and other activities into collective responsibility.

The authors repeatedly stress that states' priorities determine the pace and extent of integration. "Few, if any, incentives exist in either Western or Eastern Europe to formulate national external or domestic policies designed to transform the current system of nation-states into a political, regional or sub-regional unit either through a quantum jump in integration or a gradual step-by-step approach. National and bureaucratic-organizational motivations feed strong desires for the retention, and in some cases (Eastern Europe) increases in political and economic autonomy of most E.C. and Comecon member states."

What these regional organizations do satisfy are economic needs, the authors maintain. They provide expertise and capital development funds, and they "serve as political alibis for the member governments in the event of economic failures."

As the excerpts above illustrate, the analyses offered and the conclusions reached are somewhat simplistic and crystalline, failing to appreciate the subtleties, complexities and paradoxes. The authors are also caught up in political science jargon: causal factors, external actors, holistic dimension, system change and attitudinal integration are some examples.

One interesting section to the book is the chapter summarizing opinion surveys of how Western and Eastern Europeans view their bloc's integration and promise. From 1973 to 1982, the Euro-barometer polls showed that the ideal of a united Western Europe had wide support. In the Federal Republic of Germany, however, "strong support" for this ideal declined from 49 percent in 1973 to 28 percent in October 1982. Even though West Europeans recognize the growth of interdependence, this phenomenon is not viewed as strengthening the E.C. institutions or promoting the political unification of Western Europe. Between 1978 and 1982, more and more Europeans perceived that the benefits of integration were less to their state than for other E.C. member states—from 30 percent in 1978 to 40 percent in 1982.

The few polls there are of Eastern Europeans show that in 1975 and 1976 the Czechs, Hungarians and Poles surveyed had the highest preference for a Social-Democratic form of government comparable to that in Austria and Sweden. Czechs, Hungarians and Poles scored the Russians high on "backwardness," "conceit," "domineering behavior" and other negative characteristics.

European Détente, in contrast, is a far more challenging work, examining the contradictions, ambiguities and nuances of the diplomatic initiatives between the West and the East called détente, meaning a relaxation of tensions between states. A series of case studies are presented—negotiations before and after the Helsinki Final Act; American, Soviet and European views and policies on détente; and the division of Germany. This collection of essays resulted from a conference last year at the University of Bradford.

As the editor, Kenneth Dyson, sets out in his introduction, détente must be seen in the context of its historical antecedents. One key event is the post-World War II settlement of a divided Germany. How the two Germanies navigate on the edge of the border dividing the superpowers' spheres of influence determines partly the mood and the rhythm of Moscow-Washington relations and vice versa.

What emerges from these essays is a view of détente as inevitably complex, ambiguous and Janus-faced. It is often a wearying process of ameliorating the competing initiatives between "civilizing" and "politicizing" relations, between advancing national interests and achieving some degree of cooperation among states. Interludes of deception, posturing and pragmatism alternate.

Détente lumbers as much under the weight of ideological burdens as under the weight of strategic calculations. Democracy and political pluralism struggle against Marxism-Leninism. Efforts to secure constraints on nuclear arms and to achieve stability vie against technological improvements in nuclear weapons development, which destabilize the rough parity of the superpowers' nuclear arsenals. "The actors in this process have the experience of walking through a hall of mirrors, deceived by their own illusions as well as those of others," as Dyson puts it.

The opening essay by Dyson is a good synopsis of how the problem of Germany evolved in Europe's history from the Thirty Years' War in the 16th century to the settlement after World War II. The Soviets, in solidifying control over the German Democratic Republic during the 1950s and early 1960s, proved to the West the Soviet Union's expansionist ambitions and the need to be "tough" in negotiations. Moscow saw it as essential that territorial barriers be established against the aggressive West. The Soviets were seen as duplicitous, coercive and totalitarian by the West. The West was perceived as imperialistic and intransigent in refusing to recognize the Soviet sphere's borders. Each succeeding Government donned these perceptions almost out of habit.

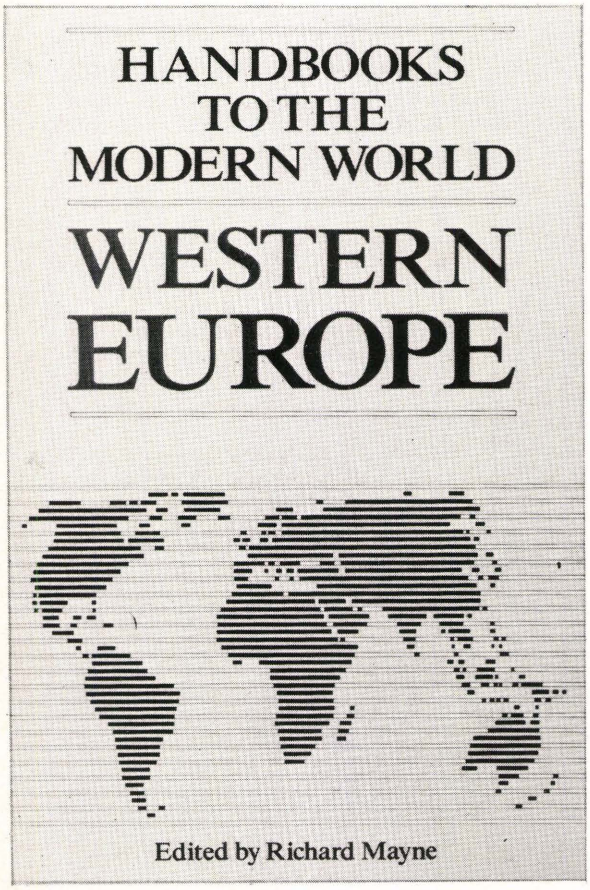
Détente's mixture of cross purposes and indecision are shown, for example, in the negotiations before and after the Final Act of the Conference on Security and Cooperation in Europe, the Helsinki accords. This agreement addresses, among other issues, the security of Europe, recognizes the territorial integrity of European states and seeks to gain progress in protecting human rights. Throughout the Helsinki process, an intense conflict occurred between keeping the game alive and verifying détente's limits.

Where the book disappoints is in the distillation of how East-West relations could be better managed. Dyson suggests that a chess game of rhetoric must be abandoned. Unity within the Atlantic alliance must remain. The Soviets must be assured that their Socialist solidarity in the East is not being undermined.

After reading both books, one is left better appreciating the paradox expressed by juxtaposing the two quotes prefacing **European Détente**. "When spider webs unite, they can tie up a lion," goes an Ethiopian proverb. "There are only two forces that unite men—fear and interest. . . . A man will fight harder for his interests than his rights," is the observation from Napoleon I's **Maxims**. €

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

If you have to know Europe inside out...



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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.*

Europe and the New Technologies. Margaret Sharp, ed. Cornell University Press, New York, 1986. 312 pp. $32.50.

Closely examines six European industrial sectors undergoing rapid changes; namely computer aided design, advanced machine tools, telecommunications, videotex, biotechnology and offshore supplies industry. In a series of case studies, the authors paint a picture of innovation and change with enormous implications for policy-making and the role of government in the market and firms' business strategies. The concluding chapter reviews some of the basic themes and assesses Europe's capacity to compete in this expanding field.

Partners and Rivals in Western Europe: Britain, France and Germany. Roger Morgan, Caroline Bray, eds. Gower Publishers, Brookfield, VT., 1986. $47.50.

Analyzes the relations between these three major powers in Western Europe. Going beyond high level state-state relations, the authors comment on the importance of historical ties, economic development, the civil service and culture in forging this triangular relationship. Emphasis is put on examining the bilateral ties between these countries in order to compare the policies and attitudes among them. Very interesting essays on the many facets of the complex and changing relations among these countries.

Law and its Limitations in the GATT Multilateral Trade System. Oliver Long. Martinus Nijhoff Publishers, Boston, 1985. 145 pp.

This English adaptation of a series of lectures delivered at the Hague Academy of International Law throws light on the functions and aims of the GATT, weighing the relationship between law and policy in the international system. While it outlines the basic rules of the GATT system and its function as a forum for negotiations and as an international organization, it also reviews the decision-making process and the importance of the safeguard clause. The final chapters examine the supervision of its operations, treaty enforcement and dispute settlement procedures as well as its role in promoting economic development. Succinct, enlightening look at this important institution.

European Détente: Case Studies of the Politics of East-West Relations. Kenneth Dyson, ed. St. Martin's Press, New York, 1986. 270 pp.

Focuses on the role of the German question and its relationship to the Helsinki Process in answering questions associated with detente policies in Europe. The contributions of the British, Soviet and American governments to European cooperation are compared. The book stresses the importance of understanding political relationships in Europe, rather than relying on arms control initiatives as a vehicle for promoting European cooperation.

Atlas of United States Foreign Relations. Harry F. Young. U.S. Department of State. Bureau of Public Affairs, Washington, D.C., 1985. 98 pp. $5.00.

Updated in December 1985, this atlas provides basic information about U.S. foreign relations for easy reference. Sections deal with foreign relations institutions and administration, outlining diplomatic and consular representation as well as the organization of a U.S. mission abroad. Also includes information about U.S. broadcasts and periodicals distributed abroad. Other sections describe international organizations, document trade and investment figures and outline development assistance programs and national security operations around the world. Informative and useful resource.

A Socialist Policy for Europe. Geoff Harris, Richard Corbett. Labour Movement in Europe, 1985. 23 pp. 1.50 pounds.

Published by the Labour Movement in Europe in order to stimulate discussion on Socialist policy in preparation for the 1989 European elections. The authors argue that the European Community is too closely aligned with the United States defense policies, expressing fears that Europe could one day become a nuclear battlefield. Seriously considers the prospects for an independent European defense, and in the meantime advocates a stronger European role vis-à-vis the two superpowers. The essay concludes with an outline of the political and institutional make-up of a Socialist Europe.

Mediterranean Policy of the European Community—A Study of Discrimination in Trade. Richard Pomfret. MacMillan, London, 1986. 128 pp.

This study argues that the European Communities' Mediterranean policy goes against the letter and the spirit of the GATT in granting trade preferences to this region. Based on the assumption that free trade best ensures the general welfare of all, he argues that E.C. policy skews Mediterranean exports, discourages trading of 'sensitive products', although it may have some beneficial effects as well. Analyzes the effect on foreign direct investment and its impact on the Mediterranean countries outside the E.C. Thoughtful and careful analysis of this controversial subject.

European Marketing Data and Statistics 1986/87. Euromonitor Publications distributed by Gale Research Co., Detroit, MI, 1986. 355 pp.

Now in its 22nd edition, this annual publication provides much useful information about the European market. Pan-European profiles provide basic statistics such as total population, currency, head of state, regions and main towns for 30 European countries. Further demographic information is also included along with production, consumption and trade statistics for various products ranging from livestock to home furnishings and personal goods. Documents trends in trade, the economic outlook, standard of living, and market sizes. Chapters on retailing, consumer expenditure, communications and more. International edition is also available.

Allen's International Directory of English-Speaking Attorneys. 1986 edition. National Legal Directory Publishing, Inc., New York, 1986.

This guide to English-speaking attorneys throughout the world provides names, addresses, telephone and telex numbers for attorneys in virtually every country of the world. When available, also provides information on the attorney's specialty. The guide does not claim to endorse any of the attorneys, however. It acts only as a reference to a sample group of English- speaking lawyers in each country. Also lists foreign embassies in the United States as well as U.S. embassies, consulates and bar associations throughout the world.

Eurépargne—Revue économique europèenne. 1986-4, April 1986. Banque Federative du Credit Mutuel. Luxembourg. Subscription: 260 FFR.

Monthly magazine of European investment and banking. Articles in this issue cover the prospects of economic unity for the enlarged Community as well as information on legislation and regulations related to international banking. Also features an article on British merchant banks. Book reviews and financial updates are regular features of this publication. Published in French.

European Research Centres: A Directory of Organizations in Science, Technology, Agriculture, and Medicine. Sixth Edition. Longman Group. Distributed by Gale Research Co., Detroit, 1986. 2,453 pp. $410.00.

Covering 31 countries of eastern and western Europe, this two volume set contains profiles of more than 30,000 research organizations controlling more than 20,000 laboratories and departments. Listings include major industrial research laboratories, research-funding organizations, university research institutes and departments and more. Entries provide research project details as well as address, telephone number, annual expenditure, activities and so on. Contains extensive subject index and alphabetical index of establishments.

European Company Law—A Guide to Community and Member State Legislation. Belmont European Community Law Office. Financial Times Business Information Ltd., London, 1986. 215 pp. $203.00.

This new Management Report outlines E.C. attempts to solve many problems in company law. Documents Community legislation including proposals and unpublished draft working papers. Provides highlights of individual member state laws and regulations for both public and private companies. Outlines laws concerning transfer of shares, auditors, dissolution, shareholders meetings, etc. Also carries synopses of relevant decisions of the Court of Justice as well as tax, competition and stock exchange legislation. Major summary table provides the current status of E.C. documents with Official Journal references and dates.

European Union—The European Community in Search of a Future. Juliet Lodge, ed. St. Martin's Press, New York, 1986. 239 pp. $27.50.

The proposal of the draft treaty establishing the European Union by the European Parliament in 1984 marked a bold initiative towards a true European Community. These essays by noted scholars take a serious look at the proposal, its implications for Community policy and institutions and its prospects for the future. Examines such themes as the institutional provisions, the economic union among member states, legal problems of the draft treaty as well as the role played by Altiero Spinelli in advancing it to the forefront of public debate. Appendix includes the full text of the treaty.

Multilateral Development Diplomacy in UNCTAD. Thomas G. Weiss. St. Martin's Press, New York, 1986. 187 pp. $30.00.

Critical analysis of the negotiating strategies and effectiveness of the Group of 77. Argues for more pragmatic approaches to bargaining such as working through small problems rather than continually debating global themes and issues. Examines the accomplishments of group negotiations and the impact of groups on negotiating strategies. Also reviews the performance of the UNCTAD Secretariat and provides some suggestions for alternative paths for multilateral development diplomacy.

Portugal in the 1980's—Dilemmas of Democratic Consolidation. Kenneth Maxwell, ed. Greenwood Press, Westport, CT, 1986. 254 pp. $39.95.

This authoritative study provides a comprehensive analysis of the current political, economic and social situation in the newest Western democracy. Explores the political upheavals of 1974-1975 that resulted in Portugal's emergence as a democracy and ended her colonial power in Africa. Discusses benefits and disadvantages of Portugal's entry into the E.C., the process of developing democratic institutions and the constraints and difficulties on the Portuguese economy. Also includes a chapter on the social crisis and the state as well as insight into the functioning of the political system.

PUBLISHED FOR THE COMMISSION

Third Party Financing Opportunities for Energy Efficiency in the European Community. *EUR 10525.* Ian Brown. Kogan Page Ltd., London, 1986. 152 pp.

Prepared by the Association for the Conservation of Energy, London. Examines in detail the concept of third party financing as well as the various approaches that can be used, investigating the potential of this idea in the European Community countries.

Organic Micropollutants in the Aquatic Environment. *EUR 10388.* A. Bjorseth, G. Angeletti, eds. D. Reidel Publishing Co., Boston, 1986. 512 pp. $96.50.

Proceedings of a symposium organized by the Commission of the European Communities, Directorate-General Science, Research and Development, Environment Research Programme, held in Vienna, Austria, 22-24 October 1985.

EIB INCREASES LENDING

Continued from page 23.

was 115 million ECU. The lending total, then, jumped to 311 million ECU in 1985. And, proof of the ever-growing momentum, in July this year 350 million ECU had already been taken up in new loans for high-tech investments.

The list of the EIB's larger borrowers reads like a "Who's Who in Europe's Industry." Among them, in 1986, are Philips, Olivetti, Pirelli, Eutelsat and Peugeot.

In March of this year, Philips took up a loan equivalent to 80 million ECU to part-finance its development of a "megachip." Philips' large-scale investment program is directed toward the mastering of submicron technology, i.e., the technology to be used for the production of the next generation of integrated circuits. The first type of integrated circuits of this generation will be a semiconductor static memory with a storage capacity of one megabit (one million bits) per chip.

The investments in research and development are being made jointly by Philips and Siemens. The mega-project is to play a decisive role in strengthening the competitiveness of European industry as Philips and Siemens aim to improve their position on the international chip market. The market share of the European semiconductor industry fell from 13.9 percent in 1979 to 8.5 percent in 1984. The engineering samples of the 1-Megabit static memory will be presented in 1988 and Philips is to start volume production by 1989 at the latest.

Olivetti's investments in factory automation and computer integrated manufacturing at their professional personal computers plant in Scarmagno, near Turin, for which the EIB loaned 86 million ECU in April, will enhance the competitive capacity of European data-processing equipment. The principle behind factory automation is high flexibility to allow for the simultaneous production of a number of different models and future generations of personal computers.

The concept of "computer integrated manufacturing," developed by Olivetti, is one of the first industrial-scale applications of this technology. Through the installation of peripheral terminals on the production line for constant feedback on rates of output, stock levels and quality control, it enables optimal, continual use of the production cycle within the plant. All data will be processed through a mainframe computer and constantly collated and reprocessed against external information, especially on sales. At the same time, Olivetti is widening its product range to include more up-scale products, such as professional personal computers and work-stations, and self-service banking terminals.

As with many investments in high-technology, the effects will be felt well beyond the sectors immediately involved. They will make for increased Community exports of advanced-technology products on world markets. In addition, the technology involved in the development of the megachip and in computer integrated manufacturing—surface-mounting of electronic components, for instance—is likely to find its way to other European industries. And, to the extent that the high-tech products are taken up by European companies, they will result in a rise in productivity on a wide scale.

In May, Pirelli, the world's fifth-largest producer of tires, received 13.5 million ECU in EIB loans for investment in process and product innovation at its plant in Turin. The fruit of five years' research and testing, Pirelli has developed a new kind of low-profile tire, destined to replace most of the existing product range, and a highly automated production process for its manufacture. The new tire allows for a more uniform load distribution on the tread, *inter alia* permitting higher mileage, lower rolling resistance, improved stability and better fuel economy. High-tech features of the production process include advanced automation of each manufacturing step supported by a computer information system, and fully automated product handling.

A loan of 75 million ECU to the European Telecommunications Satellite Organization, Eutelsat, followed in June. Satellite telecommunication systems offer users in all sectors of the economy improved operating efficiency and a competitive edge. Providing high-capacity digital facilities, these systems, in addition to telephone communication, will also meet demands with regard to teleprocessing, electronic mail and videoconferencing.

The EIB loan is to be used to finance the construction and placing into orbit of Eutelsat's second generation of satellites. The Eutelsat organization, which has its headquarters in Paris, was set up in provisional form in 1977; it became an intergovernmental organization in 1985. Today, it has 26 European member countries, all the countries of Western Europe plus Yugoslavia. Its purpose is the design, establishment and operation of the space segment of regional telecommunications satellite systems to meet the requirements of its members.

Eutelsat's present satellites—two have been in service since 1983 and 1984, and two others are due to be placed in orbit over the next few years—will come to the end of their useful lifetime between 1990 and 1994. In order to assure the continuity of the services provided by these satellites and to allow for expansion, the EIB-financed satellites will have a higher performance and capacity. The antenna design ensures optimum coverage for all European countries.

The most recent EIB loan for investment in advanced technology was to Peugeot, the French automobile manufacturer. In June, 45 million ECU went to a new layout of Peugeot's vehicle paint shop at Socheux in France. The facility, scheduled for completion in 1989, will operate as a "laboratory paint shop." To an extent without precedent in the European automobile industry, it is designed to take in every single advanced technological development in its field. Enhancing Peugeot's ability to compete in the up-market segment, the top-of-the-range line assembled at Socheux will be given a higher-quality and more durable finish. Working conditions at the plant also will be improved.

But large firms do not have a monopoly on EIB finance. On the contrary, the larger part of the bank's lending in industry is for small and medium-sized investments. Consequently, investments of a moderate size—but in no way moderately important for the position of the Community's industry—also predominate in the field of advanced technology. To cast its net as widely as possible, the EIB has provided global loans in France and Italy specifically for small-scale, high-tech investments. Basically, global loans are lines of credit opened to banks or other financial intermediaries, which lend on the funds in smaller amounts. In this way, the EIB's financial resources as an international body are combined with the local expertise of the intermediary to benefit smaller-scale investment. Pioneered in 1985, these global loans for high-tech investment have met an eager reception.

Said Ernst-Günther Bröder, the EIB's president, at the 1986 annual meeting of the bank's governors: "Increasing the competitiveness of European industry by developing its high technology potential has become vital for the future of the Community. The bank must devote a larger share of its financing to this end." In the meantime, close to 1 billion ECU in EIB loans for the development and introduction of advanced technology have already been taken up since 1984. Moreover, not fully captured in the EIB's statistics, the high technology element in projects financed for other economic policy objectives keeps growing. €

COORDINATING ECONOMIC POLICY

The Tokyo economic summit underscored the need to better harmonize economic policies among the nations of Western Europe, North America and Japan. Indicators are to be selected that, like buoys in the ocean, are designed to keep economies moving in compatible directions and determine whether economic policies are on course. When a country's performance deviates from its course, consultations are to take place to determine why, and how it can get back on course.

The approach agreed upon at Tokyo is the latest, and the most comprehensive, of a series of attempts made over the last few years to see if somehow the world's industrialized democracies can avoid the sorts of incompatible policies that contribute to the exchange rate misalignments and trade distortions that have too often plagued economic relations among them.

There are strong arguments for making another try at this goal. Exchange rate misalignments recently have badly distorted trade and investment. Corporations that have painfully improved productivity and cut waste in order to improve profitability have seen their hard work wiped out in a matter of days by sharp movements in currencies.

These movements—which in the past reacted to trade balances—are today largely the result of capital flows. These in turn are highly sensitive to existing, or anticipated, shifts in national policies and performance. Changes or expected changes in inflation rates, interest rates, returns on investment and political stability are factors that directly lead to day-to-day movements in exchange rates. Sustained misalignments of currencies reflect both these considerations and differences among countries with respect to gaps between savings and investment. Such gaps lead to capital flows that profoundly influence exchange rates. They contribute to currency alignments that, although understandable in financial terms, can be highly distortive to trade.

To the extent that major differences among economies can be reduced, the probability increases that exchange rate volatility and misalignments can likewise be attenuated. The European Monetary System (EMS) has demonstrated that intense efforts to harmonize policy can achieve positive results. But Europeans have come to recognize over the years that because their economies depend so heavily on one another and because exchange rate volatility is so disruptive, they have little choice but to "trim their economic sails" from time to time to avoid major policy incompatibilities. Most Americans and Japanese have not yet come to this conclusion—although it is fast dawning on both. And Europeans are more used to internal cooperation than to implementing similar practices with the United States and Japan.

Still, however, even if the industrialized democracies wanted to participate enthusiastically in a global process similar to that which occurs within Europe, there are difficulties. Capital is highly mobile and will shift among Europe, Japan and North America even when policies are relatively stable. Second, Parliaments, Congresses and Diets are inclined to influence policies in ways that run counter to orderly economic plans, and changes in Governments can throw off even the best policy projections. Third, the internationalization of corporate alliances and of finance make national borders less relevant; therefore, many economic and financial judgments by the private sector will take place for reasons which have little to do with day-to-day government policies.

It is therefore all well and good for Governments to seek to reduce their policy incompatibility and currency misalignment. The Tokyo initiative is to be commended. But to make it work, Governments and voters must recognize in fact as well as on paper that from time to time national policies that for the moment may seem right in purely domestic terms must change to promote better world equilibrium, or they will ultimately hurt the nation that pursued them. The U.S. current-account imbalance today, for instance, is patently unsustainable. Yet neither Europe nor Japan appears willing to see a significant reduction in its trade position to narrow that imbalance. Yet, unless a common strategy can be agreed upon, the U.S. overseas debt will amount to $500 billion by the end of this decade. That will precipitate major currency volatility and risk a collapse of the dollar far greater than the incremental declines that have recently caused European and Japanese companies alike to worry about their competitiveness.

Likewise, the U.S. Government's mega-deficit means that we in the United States are distorting world capital flows and creating an imbalance that will hurt our economy in years to come. Yet we have not come to grips with that either.

And prolongation of the Third World debt problem creates a drag on all of our economies. Because so much of their earnings must be used to service old debt rather than to buy new products, the major growth factor in the world economy in the 1970s is now the major drag on it. Unless we can promote stronger growth in these countries, the economies of the West are likely to remain weak. Despite the best of intentions, however, resources needed to improve growth in those countries are not forthcoming in anything close to adequate amounts.

Recognizing that policy harmonization and efforts to improve global equilibrium are for the moment a distant goal, and that some currency instability is likely to occur in the future even with the best attempts to achieve policy harmonization, individuals and corporations will have to reconcile themselves for the time being to the probability that the world economy will often experience turbulence.

Today, currency volatility represents the single greatest risk in international and domestic business. New techniques can avert much of this risk. Before every investment or commercial transaction, a

Continued on page 43.

Robert D. Hormats, vice president for international corporate finance at Goldman Sachs & Co. in New York, was Assistant Secretary of State for Economic and Business Affairs and also served as Deputy U.S. Trade Representative.

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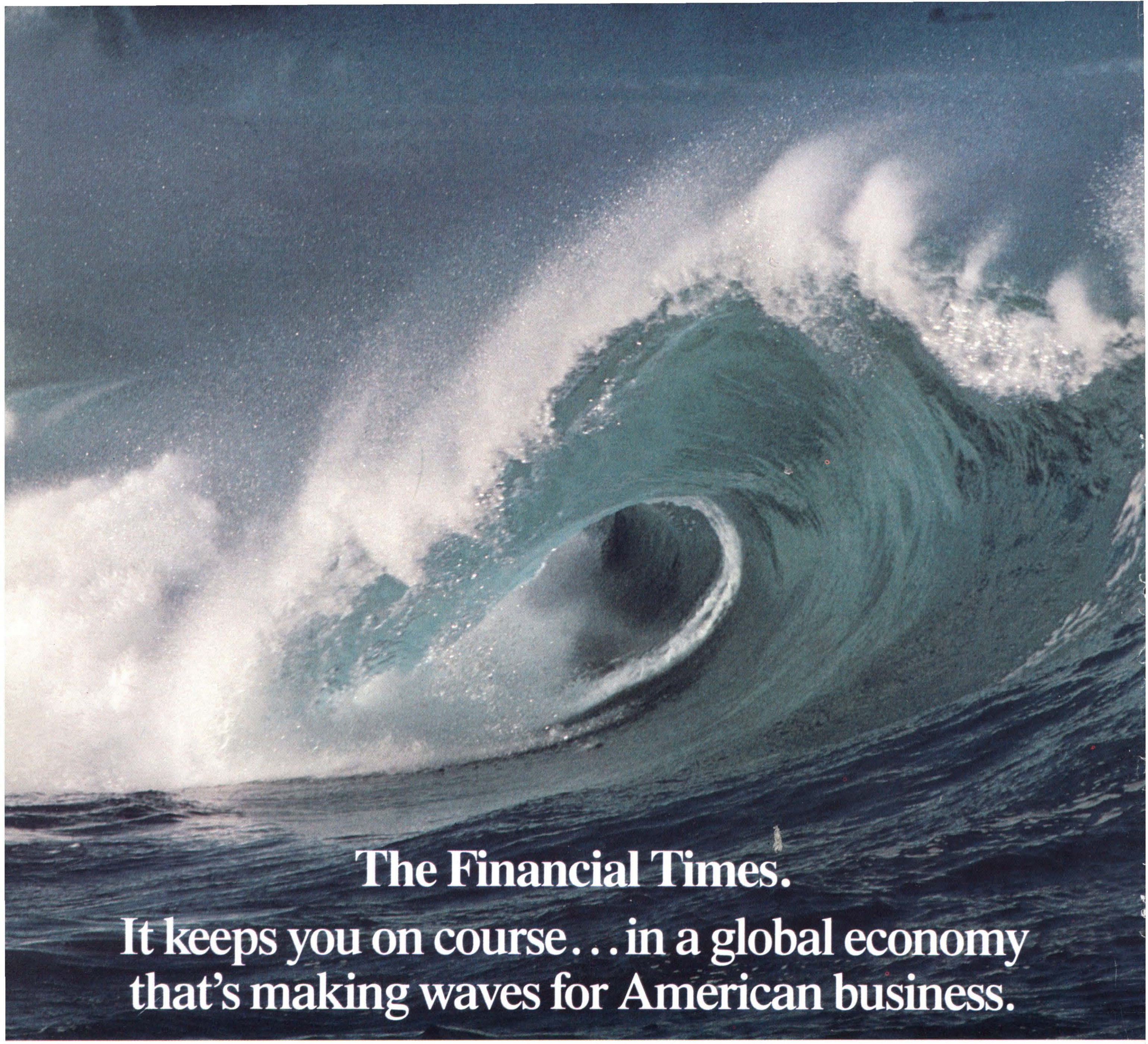

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