FRANCE MOVES ON "PRIVATIZATION"

# EUROPE

OCTOBER 1986 $1.95

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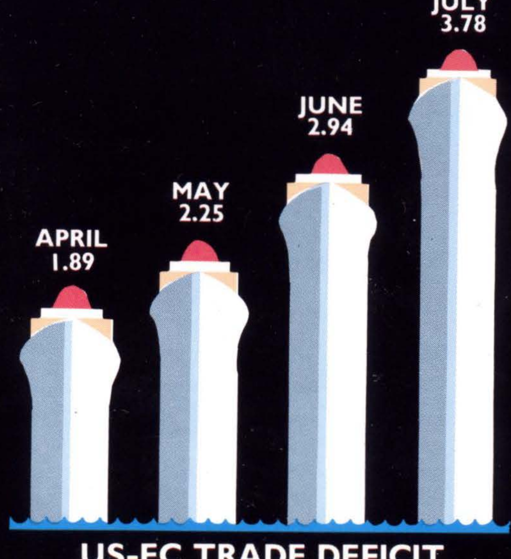
SOARING DEFICIT STRAINS U.S.-E.C. TIES

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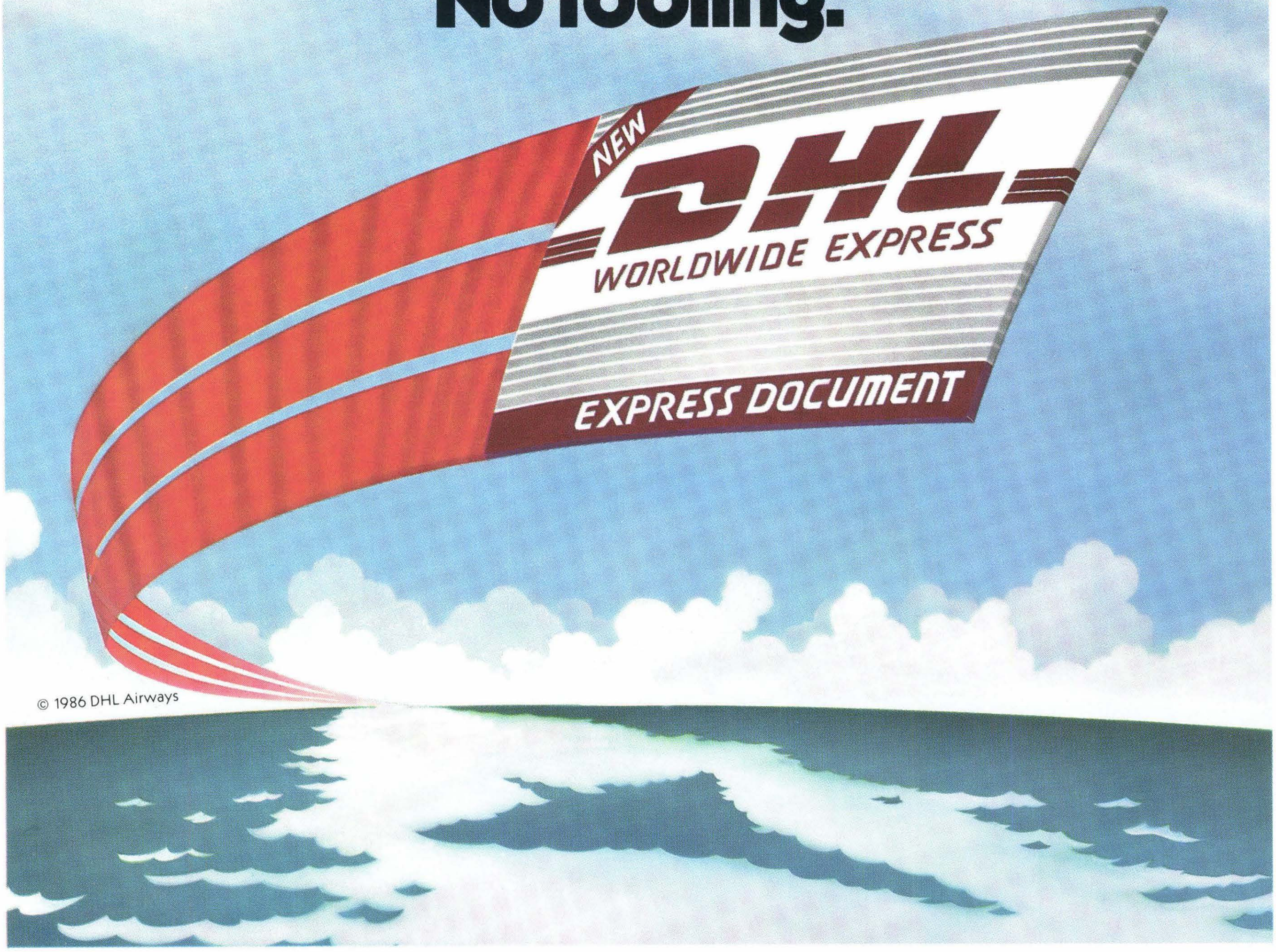


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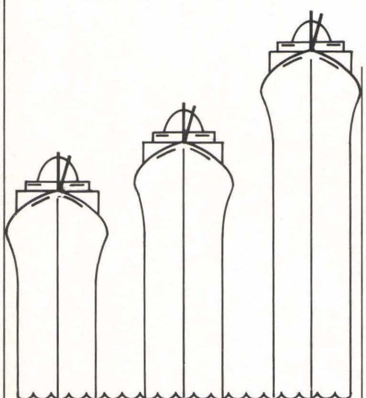
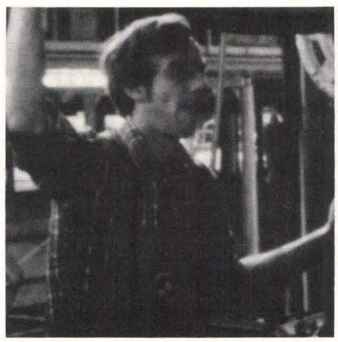
# EUROPE

MAGAZINE OF THE EUROPEAN COMMUNITY













**COVER:** U.S.-E.C. trade: The deficit is growing at an alarming rate (see page 12). © Dick Durrance II/Woodfin Camp.

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**Design** Dual Impressions

**EUROPE,** *Magazine of the European Community,* (ISSN 0191-4545), is published by the Delegation of the Commission of the European Communities, 2100 M Street, NW, Suite 707, Washington, DC 20037. The Commission of the European Communities, 1986. The magazine encourages reproduction of its contents, but any such reproduction without permission is prohibited. **EUROPE,** published 10 times per year, is available by subscription for $19.50 per year; $39.00 per 2 years; $58.00 per three years. **Editorial, permissions, and circulation offices:** 2100 M Street, NW, Suite 707, Washington, DC 20037; telephone (202) 862-9555; telex 64215 EURCOM UW. Available in microform from: UMI, 300 N. Zeeb Rd., Ann Arbor, MI 48106; (313) 761 4700.

Second class postage paid at Washington, DC.

**Postmaster:** Please send change of address forms to EUROPE, PO Box 995, Farmingdale, NY 11737-0001

**The magazine is a forum for discussion, and therefore its contents do not necessarily reflect the views of European Community institutions or of the member states.**

# PUBLISHER'S LETTER

Denis Corboy, who was *Europe*'s publisher for the last four years, is going back to the old Continent, leaving behind him a considerably improved magazine: more attractive presentation, increased frequency, more subscribers and more readers since *Europe* is now sold on newsstands across the country.

Our next step toward delivering a better product will be to improve the dialogue between you, the reader, and your magazine. We will soon conduct a reader survey to get a better understanding of who you are and what you expect from *Europe*. We will also open a readers' column starting with the December issue. Please help us by filling in the questionnaire that you will receive in the mail and by writing to us with your comments, opinions, complaints and suggestions on the magazine.

Not surprisingly, trade is once again our central topic. The increasing trade deficit of the United States with the European Community is the subject of a cover story by *Europe*'s contributing editor Stephen Brookes following the successful ministerial meeting of the General Agreement on Tariffs and Trade (GATT) at Punta del Este, Uruguay. James Spellman examines another element of the U.S.-E.C. relationship in the GATT: the dispute-settlement mechanism. Since this will be an essential part of the "Uruguay Round"—as the press has already nicknamed this new round of trade negotiations kicked off at Punta del Este—Spellman's analysis of the two sides' diverging views is very useful in understanding the issues at stake.

In a thought-provoking article, former U.S. Ambassador to the E.C. J. Robert Schaetzel writes on the lack of interest among Europe's younger generation in the construction of a united Europe. Recalling the postwar enthusiasm of the "founding fathers" of Europe and also the close collaboration between Jean Monnet and the aides to Presidents Franklin Delano Roosevelt and Harry S Truman, Amb. Schaetzel laments the poor quality of relations between representatives of older generations in official contacts between the United States and the Community. It is true that the image of U.S.-E.C. relations is too often one of dull bureaucrats arguing endlessly over tariff levels on imported turkey breasts, durum wheat pasta or steel pipes. This is not exactly an exciting image for the younger generations.

Fortunately, there is more to Europe than that. Improving the standard of living—particularly working conditions in industry—is one of the Commission's most important concerns. Penelope Smith reports on a seminar where North American and European industrialists compared notes and reached similar conclusions. New approaches to management, a better integration of the work force in the decision-making process and a more humane working environment are some of the necessary ingredients of a modern economy.

Finally, John Wyles reports from Rome on the brighter outlook for Italy's political and economic life. This member state report happens to coincide with the appointment of Giancarlo Chevallard to replace Denis Corboy as director of press and information/public affairs at the E.C. Commission's Delegation to the United States. Let it be our way of welcoming him to Washington, D.C.

# AROUND THE CAPITALS

## PARIS

## Advertising Controversy

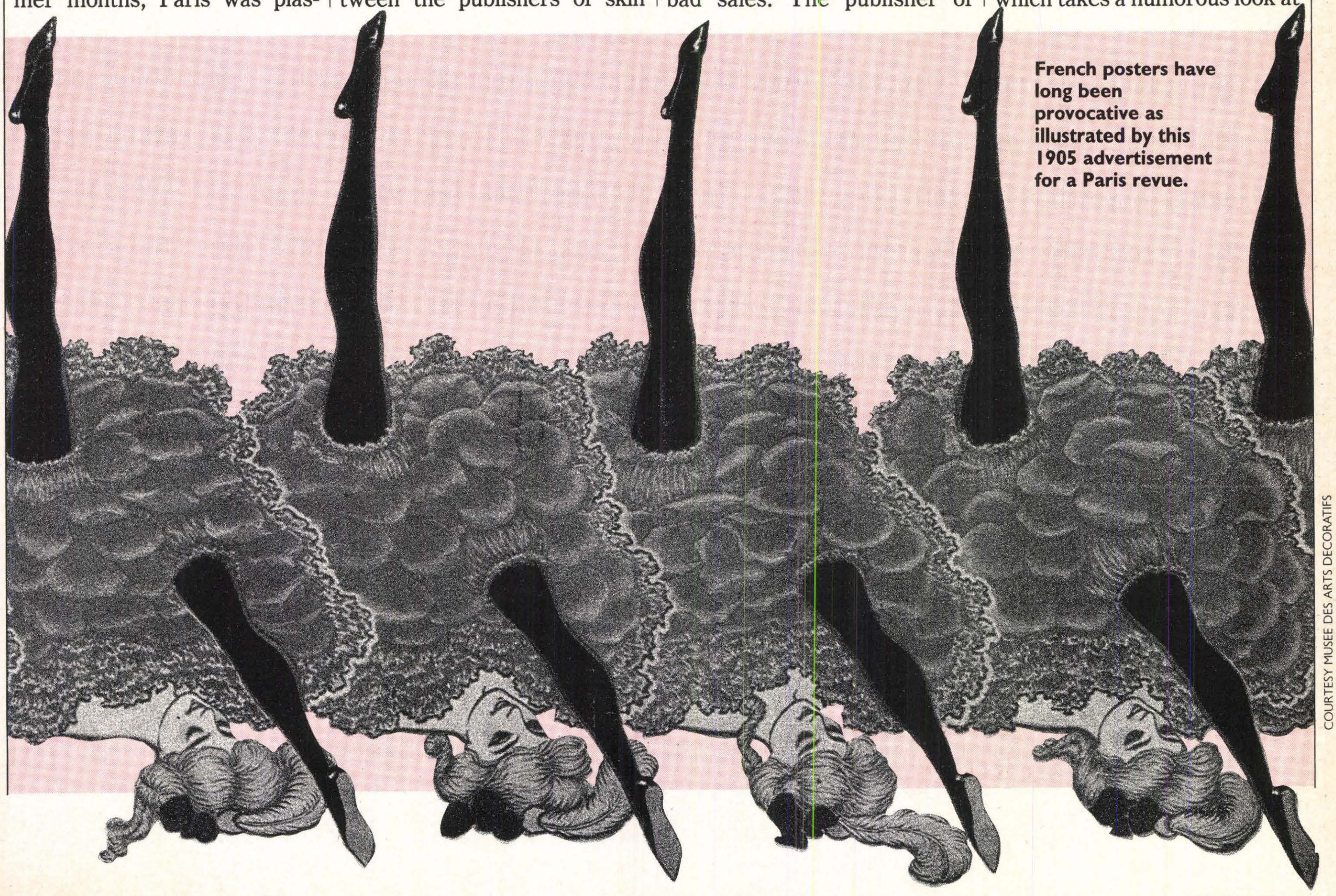
Mark Twain once said that France had neither summer nor winter nor morals. This sunny summer has proved him wrong about the weather, but some are wondering if he might not have been right about the rest. Over the summer months, Paris was plastered with posters that bordered on the pornographic and exposed a sizzling display of skin and sex.

It was all sparked by a daring advertisement for the skin magazine *Newlook* that carried a poster portraying two bronzed, bare women in a suggestive pose. The cover was reproduced as a huge advertising poster that was pinned up on kiosks across the city. This subsequently set off a war between the publishers of skin magazines that was fought with wilder and ever more perverse advertising posters, portraying full frontal pictures of nude women, suggestions of violence with a poster that showed a knife slipped in the top of a fishnet stocking, as well as blunt lesbianism. It was enough to prompt complaints to the police and the whole "war" was called off under threat of court action. The skin publishers voluntarily removed the offending posters and returned to the more coquettish covers the French have long accepted.

The incident was a graphic illustration, though, of the difference between the French approach to sexual displays and the recent North American concern with pornography in public. In France, nudity on public posters is accepted until it crosses the bounds of good taste. That limit is determined—not by legislators or lawyers—but by the public, which will transmit the most extreme signals that the bounds have been crossed in bad sales. The publisher of *Newlook* says the issue that sparked the battle this summer was "a disaster" on the newsstands, noting that he would abandon extreme eroticism on his magazine covers in the future, since it is the bottom line that counts. The other skin kings of France are likely to follow that example.

This backlash against public pornography does not represent a conservative swing in France—or the arrival of an American-style Moral Majority sentiment. France is still a country of topless bathers on the beaches and a society that readily accepts generous amounts of nudity in advertising for even the most mundane products.

General circulation newspapers and magazines have become very open about discussions of sex, and several have run major articles on ***nouvel érotisme***—the trend in France to accept sex as an everyday part of life. The highlight of French summer television was the beginning of a new monthly program called "Sexy Folies," which takes a humorous look at



**French posters have long been provocative as illustrated by this 1905 advertisement for a Paris revue.**

COURTESY MUSEE DES ARTS DECORATIFS

every aspect of people's sex lives. Its ratings have been among the highest for any series ever shown on French television. And surveys show the French to be a very liberal society when it comes to sexual attitudes: More than half the male population and over 40 percent of women say they have seen a pornographic book, magazine or movie recently. Sociologists note that the French have also lost their reticence to talk about sex, and that, unlike a few years ago, they now talk about sex the way they talk about politics.

But they know when it goes too far. The French are certainly more permissive than many other countries. But they are no more willing than anyone else to see an excess of permissiveness. They will never ban *Playboy* or *Penthouse*—or, for that matter, *Newlook*. But it will be a long time before the porn publishers again test the French public with the sizzlers they tried this summer. The morals Mark Twain found absent in France perhaps are just camouflaged behind different means of expression and sanction.—BRIGID JANSSEN

**MADRID**

## More Rights For Women

"Spain is not really going to change until a woman becomes Defense Minister," a woman novelist declared indignantly when she learned that even in the second Government of Socialist Prime Minister Felipe González the 17-*man* Cabinet remained just that.

The news probably left many Spanish women wondering why they had voted for a political party whose main campaign slogan had been "change" and whose leader had promised to include a woman in his new Cabinet.

When the new Cabinet again consisted solely of men, which, as González explained, was due to the fact that there had been "no appropriate" women available, Spain's feminist community exploded and one woman columnist—none of Spain's innumerable male commentators thought the matter even worth a mention—launched a major attack.

She noted that if the Prime Minister was not man enough to impose one woman on his other ministers, one could get a good idea of how few changes the Socialist Government would push through in the face of the entrenched conservative forces in Spanish society, all of which, such as the Catholic Church, the armed forces and the seven big private banks, were male-dominated.

When González revealed his Cabinet team to the Socialist Party executive, Carmen Garcia Bloise, one of the most dedicated behind-the-scenes organizers of the party's repeated electoral successes, protested vigorously, even though she was not in the running for a post herself. Nevertheless, she had an excellent point: In the Socialists' first shadow Cabinet after General Franco's death, she had occupied the portfolio of women's affairs.

In almost 10 years of democracy, Spain has changed many of the old laws that blatantly discriminated against women. "What differentiates us now from other industrialized nations are not our laws, but the social conditions and behavior patterns that often impede exercising those rights under the new laws," says Carlota Bustelo, head of Spain's Institute for Female Affairs, which was set up by none other than the Socialists.

To a large extent, this observation is true. Divorce, abolished under Franco, was again legalized in 1981, but far less use has been made of it than had been anticipated at first—largely because of the still disadvantageous position of women in Spanish society.

Nevertheless, women do still face a large number of social restrictions, something that is particularly true of the law to legalize abortion in Spain. When first introduced, it unleashed strong opposition from Spain's highly conservative medical profession, in which the opinions of a few women gynecologists and social workers went virtually unheard.

A year later, the law is still so restrictive—it does not allow for the termination of a pregnancy, when, in the doctor's view, a woman's socio-economic condition makes it advisable—that only some 200 legal operations have been performed in Spain, and 114 of these in Madrid, the capital city, with some 3 million inhabitants. Last year, according to the Institute's figures, about 90,000 Spanish women went abroad for their abortions. Minority feminist groups do protest from time to time in the streets, demanding a less restrictive law and adequate family planning facilities, but the demonstrations often symbolically end before a barrier of burly Spanish policemen.

The proportion of women in Spain's active population has risen steadily since 1975, but their representation among the working population is still very low and selective. They are still mainly employed in those positions considered traditionally female, such as secretaries, receptionists and cleaners. The proportion of women in the professions, such as law and medicine, is still far lower than in other European countries.

But feminist groups continue to batter away at the cause: In the Asturian coal-mining district, women apply, as is their perfect right under the 1978 democratic constitution, for jobs at the coal mines, only to be turned down. "They must be mad to really want that," was the comment one middle-class woman made.

Female unemployment is five times greater than that among males, and many women—the Government has no exact statistics—who do get jobs in industry often find themselves working on the black economy, notably in the textile and shoe-making industries, where firms have decided to go "underground" either because they cannot afford, or will not pay, social security contributions or to avoid tax obligations. The results, the trade unions say, are precarious and unhealthy job conditions that discriminate against women.

While much of the Spanish media has battled for modernization and equal rights, Spain's so called *prense del corazon*—literally the "press of the heart," the illustrated weeklies largely written for and read by women—have been successful in recent years, revealing just how far the popular mentality lags behind the feminist groups. They, in turn, regularly inveigh against the exploitation and—in their eyes—the degradation of women by the advertising industry.

But if Spain remains stubbornly a largely male-dominated society, a female Member of Parliament of any political party has yet to make her reputation as a tough fighter for women's rights, because the Institute for Female Affairs still seems to lack the needed "teeth." Indeed, many Spanish professional women are only vaguely aware it even exists. . . . —RICHARD WIGG

**LONDON**

## Football Crazy!

American football has started to become a growth sport in Britain. Over 12 million people watched last season's Superbowl on British television, 180 teams are now playing the "gridiron" game in the United Kingdom, and when the National Football League (NFL) champions, the Chicago Bears, played a pre-season demonstration game against the Dallas Cowboys at London's Wembley Stadium, the 82,000 tickets were sold out within a couple of days.

American troops based in Britain have tried to raise interest in the game since their arrival here in World War II, but usually with very little success. Until quite recently, soccer, the game the British call football, remained the most popular participant and spectator sport in the land.

The growing interest in American football is believed to have as much to do with declining standards on the field and waning spectator interest in British soccer, as with the decision by a British television station to screen 90 minutes of gridiron every Sunday during the season. Another element that has reduced spectator interest is the violence of the soccer fans who spend as much time attacking each other as they do watching the game.

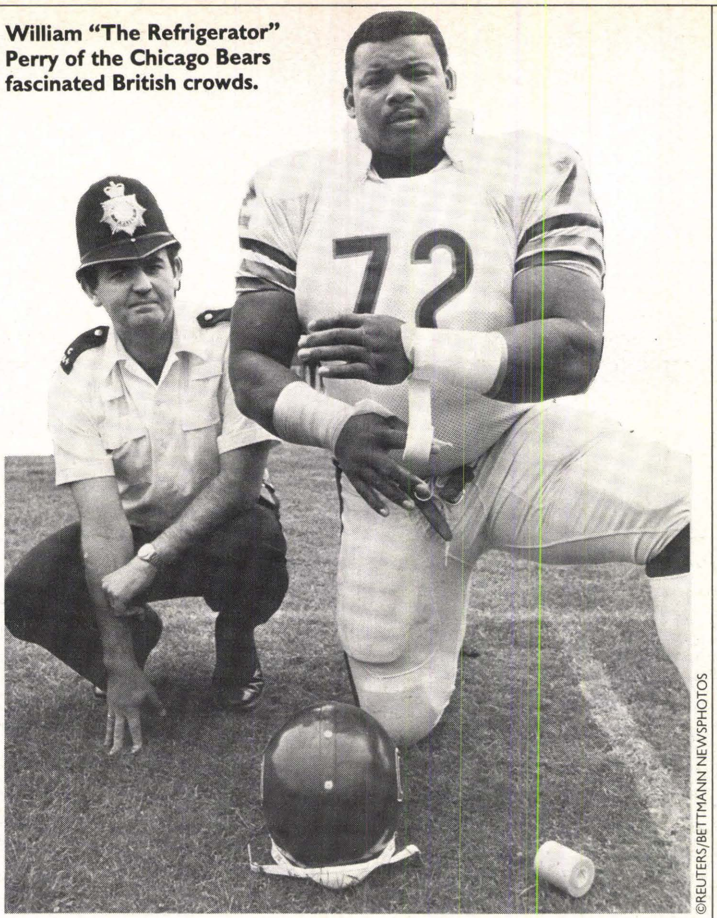
This violence, or "hooliganism," as it is called here, has reached such a peak that English clubs have been barred from playing in European soccer competitions. The ban was imposed in May last year after the European Cup final in Brussels, during which 39 supporters of the Italian champion, Juventus Turin, were killed when a stadium wall, against which they were driven by attacking fans of England's Liverpool team, collapsed.

The three-year ban means serious financial losses for the British clubs already struggling to maintain profits in the face of dwindling crowds at their home games. Attendance at soccer league games last season dropped by almost 10 percent from the levels during the 1984-85 season, and was the lowest annual figure since World War II.

The prohibition on British teams was temporarily lifted at the beginning of the last season to allow British clubs to participate in a "friendly" competition in the Netherlands. This was the signal for British soccer hooligans to carry their battles to fresh fields—a ferryboat on the North Sea.

Three people were stabbed and several more injured when drunken fans attacked each other on the ferry, which was taking 2,000 passengers and 500 cars from Harwich in the United Kingdom to the Hook of Holland. The ship turned back to England to unload the rioters, but enough fans made it to the Netherlands to stage another rampage in Amsterdam, smashing bars and automobiles, and even a tram before being rounded up by the police.

**William "The Refrigerator" Perry of the Chicago Bears fascinated British crowds.**




The immediate response of the Dutch soccer authorities was to kick the British teams out of the competition. The long-term impact is likely to be an extension of the ban on British clubs. One depressed British official was heard to remark that it could run into the 1990s.

It is this type of behavior that is driving away the sort of spectators who flocked to the NFL pre-season game at Wembley. Indeed, the tickets for that game sold out more quickly than those for the soccer equivalent of the Superbowl, the Football Association's FA Cup Final, played at Wembley only a couple of months earlier.

That huge crowd, not all of whom appeared to understand the mysteries of what was happening on the field, was good-humored, cheering and singing throughout the game. No one was attacked or beaten up, stabbed or bludgeoned, and when the game was over, the huge crowd left the arena without breaking a single shop window or smashing a street lamp, the sort of behavior that has by now become a standard part of the English football scene.

The spectacle of the big men bone-crunching each other on the field rather than fans bashing each other in the stands, as well as the razzamatazz of the music, colorful scoreboards and—above all—the cheerleaders, surely must play a big part in the sudden upsurge on interest in American football in Britain.

Two years ago, one would have had to visit 10 sports shops before finding one selling an American football: Today even the local toy and sports shops have the trans-Atlantic ball nestling alongside the soccer balls. The ratio may still be 10 to 1, but it does indicate that American football may well be the latest U.S. export to flourish in Britain.—DAVID LENNON

## COPENHAGEN

# A Grumbling Public Sector

Although a strike is still a remote risk, the Danish police for the first time ever are actually contemplating the possibility of using this ultimate weapon in their wage negotiations, which are due to begin soon, tough as it may be for the law enforcers to break Danish labor laws. Teachers and doctors and other hospital personnel are also considering a strike, and they have been for some time. Their common denominator is a deeply felt dissatisfaction with pay levels in the public sector.

Wages, and especially changes in wages, are relative. The public employees as a group complain that they are the only ones who have abided by the Government incomes policy, limiting growth to an annual 2 percent. They do have a point: The very strong growth in the private sector has let loose market forces that have led to average growth rates of wages of 5 percent or more every year for the past three years.

Public employees insist that they will not be shortchanged again in the upcoming negotiations. Many believe that handling this issue will prove to be the most formidable challenge to the conservative-liberal Government, which has successfully reduced the growth rate of the public sector to zero, with only 15 percent of the 200,000 new jobs in the Danish industry since 1982 having been created in this sector. This is no mean feat considering the fact that the public sector in Denmark is one of the largest among the industrialized countries, absorbing 60 cents of every dollar turned in the Danish economy. In 1987, the Danish Government even hopes to achieve a small budget surplus for the first time since the early 1970s.

The price, however, has been frustration and a brain drain to the public sector, focusing on wage disparities that often reach 40 percent to 50 percent. The Government and private economists say that these disparities are smaller than they seem, when benefits like indexed pensions and permanency of tenure in jobs are included.

Danish labor laws make strikes by the police, most teachers and hospital personnel illegal, but they may still occur, as indeed they did two years ago. There is no question of applying the criminal code, or of following the American example of firing the air controllers and bringing in new ones. That would be completely inconceivable in the Danish political environment.

The challenge will be one of political intensity. More than a third of all Danish voters are employed in the public sector, and many of them voted for the present Government. There is no way that Government can win the next election if it antagonizes the public sector, but there are very few ways of finding economically successful conclusions to the wage negotiations without antagonizing those same public employees.—LEIF BECK FALLESEN

## DUBLIN
# Traveling Families

They used to be called "tinkers" or "gypsies." Later, the name "itinerants" was thought to be less offensive. But the term preferred by the people concerned is "travelers"—now their official designation. But although the names may have changed, the problem remains the same: What can be done about Ireland's "traveling population"?

Once it was believed—and hoped—that they were a disappearing breed and would become "settled" and undistinguishable from the rest of the Irish population. With their large families of ill-clad, undernourished children, hungry horses and a tendency to treat whatever piece of land they were temporarily occupying as a rubbish dump, the traveling families were usually unwelcome visitors. When fights broke out between rival clans, they were often fearless clashes that terrorized the nearby towns.

Official policy was to persuade the travelers to forsake the roads and live in houses like everyone else, which the local authorities were even willing to provide. Unfortunately, the settled neighbors often strenuously objected to having a traveling family in their midst, and some deplorable incidents occurred when neighborhoods physically threw traveling families out of their homes on the pretext that they were lowering the tone of the locality. This rejection by the settled population was hard especially on the children of such families, who were usually delighted to get the chance to go to school and live like other children, thereby escaping at last from the hardship of living under canvas all year round in the damp Irish climate.

It must also be noted, however, that the traveling families themselves, and especially the men heading them, were often reluctant to give up their traditional lifestyles in order to settle down and become "domesticated," as it were. The skills they had inherited were those of the "tinker," who wandered the countryside, repairing the old metal pots and pans on his way. Horse-dealing was also a main source of livelihood, and one not easy to conduct from a semi-detached council house with a small garden.

Until about 20 years ago, it looked as though time would solve the problem as the numbers of traveling people steadily declined, with a certain number of them able to quit the road each year, while others moved to Britain to become, with moderate success, traveling antique dealers. But this trend began to change and, thanks to their customs of marrying young (as early as 14 for girls) and their high fertility, the numbers began to rise again.

This new trend coincided with a new policy set up by local authorities of trying to provide "halting sites" for travelers, where they would have access to running water, toilet facilities and trash disposal services. Finding such sites, however, was nearly as big a headache as providing houses had been earlier. In the Dublin area, where most of the families have been gravitating in recent years, few people wanted a halting site near their homes.

Now the Economic and Social Research Committee has carried out the first authoritative survey of the attitudes of the travelers themselves. The survey, based on 1981 census returns, also gives the most reliable information to date on the extent of the problem. It warns that the traveling population is set to rise dramatically: The average traveling mother gives birth to, and raises, at least 10 children. The population now has an annual growth rate of 6.7 percent and almost half the traveling families in Ireland are living by the roadside in "appalling conditions," the report says.

It went on to note that "life is harsh for travelers. Their average life expectancy is lower than that of the rest of the population and there is a very high infant mortality rate." Teenage marriages were becoming less common, but at least 500 children are expected to be born to traveling families annually in the coming years. The outlook is therefore gloomy. The report comments: "The Irish travelers are caught up in a vicious circle. The more squalid and unsanitary their living conditions, the more despised and outcast they become; the more unpopular they are, the fewer services are provided for them by the community and they are pressurized to move on."

In absolute terms, the numbers do not seem all that unmanageable. The total traveling population is estimated at around 15,000. This, however, represents a doubling in a 20-year period. About 6,000 are living on the roadside in tents, shacks or, if they are lucky, in caravans. The report says that 800 houses are needed for them and that the local authorities should provide them. The Dublin authority, where 27 percent of the roadside category live, has stirred up a row by claiming that many of these travelers have indicated they do not want to live in houses. The authority spokesman said bluntly that many of them were not yet "ready" to live in houses, and that it was for this very reason that the halting sites had been decided upon as an intermediary stage.

A representative of the travelers contested this, saying that while there might be some who did not want a house, most travelers did but realized there was much local hostility to them—which is the way it is likely to remain.—JOE CARROLL

## AMSTERDAM
# Toward The 1990s

The second Government of Prime Minister Ruud Lubbers has set its goals for the 1990s, and it has now put together next year's budget. The spending package was read out by Queen Beatrix to the members of both chambers of Parliament, to the Council of State and to the diplomatic corps at the opening of the new parliamentary session at the end of September.

In a policy declaration to Parliament following last May's general elections, Lubbers said the Government was preparing for the "information" society of the 1990s. He called for holding down wage increases, with the public sector setting an example. Work-sharing and a vast retraining effort would be used to fight unemployment. More part-time and shift work would fill the gap created by an overall reduction in the work week, supported by the Government, to 36 hours. The Government is resisting a 32-hour work week, advocated by the trade unions. Lubbers emphasized the importance of wage stabilization in the private sector as well, but said that purchasing power must be maintained at its present level.

Lubbers pointed out that a public sector, which costs two-thirds of the national income, was not consistent with economic growth. He said that employment opportunities were needed for 250,000 school leavers each year and for the present 687,000 jobless. He said the role of government would be pruned and there would be greater autonomy for the business sector.

With regard to unemployment, he proposed to subsidize job creation and a youth job guarantee plan to wipe out unemployment among people less than 20 years old. The financial burden on private citizens and industry would be further reduced by tax and premium cuts.

The new Government, which differs little from the first Lubbers Government, is a coalition of Christian Democrats (CDA) and right-wing liberals (VVD). The election showed that the weight has shifted toward the CDA, which gained nine seats, the exact number lost by the VVD. Meanwhile, the former leader of the VVD, Eduard Nijpels, was replaced by Rudolf de Korte. Both have a seat in the new cabinet—de Korte heads the Economics Ministry, and Nijpels the Ministry for Housing and Environment. The switch has not made for better internal relations in the right-wing liberal party.

**The horse-shoe-shaped amphitheater in Delphi might suffer from the proposed alumina plant.**

Further budget pruning can be expected from the new cabinet. Christian Democratic Finance Minister Onno Ruding has proposed cutting the estimated 1987 budget deficit from 7.9 percent of the net national income at present to 5.25 percent by 1990.

Earlier this year, the previous Government set out a package of measures totaling 9.3 billion guilders (about $3.9 billion) to meet budgetary problems caused by projected natural gas revenue shortfalls after the drop in oil prices. Dutch gas prices are linked to oil prices. The Government then proposed that 5.25 billion guilders out of the total 9.3 billion guilders should come from spending cuts. It proposed reductions in departmental budgets, savings from social security and salaries and reductions in the health-service and education programs.

In July, Ruding proposed further savings to come from the imposition of excise duties on domestic fuel oil.—NEL SLIS

## ATHENS

# History vs. Industry

Government plans to enlist Soviet technical assistance in building an alumina plant near the ancient oracle of Delphi in central Greece is meeting determined resistance from worried local residents who have launched a public awareness campaign about the threat to one of Greece's most popular tourist destinations.

The $550-million contract for the plant signals the first Soviet industrial venture in Greece. The plant is to be constructed in a desolate upland valley near the village of Agia Efthymia, seven miles from the ruins of Apollo's sanctuary at Delphi. It will process locally mined bauxite into alumina, the raw material for aluminum, and also create more than 5,000 jobs in a region where unemployment is a chronic problem.

Despite these obvious economic advantages, the locals are arguing against its installation for a variety of reasons. Although the plant will not be seen from the ancient site, the villagers argue that tourists staying in Delphi will have a skyline view of it and will inevitably feel the effects of atmospheric pollution. Another flourishing tourist resort, the town of Itea, where ancient pilgrims disembarked to begin the 12-mile climb to the sanctuary, would be threatened by muddy effluents pouring into the Gulf of Corinth from the alumina plant.

Furthermore, it is in the Delphi area that the plump, black Amphissa olives, famed abroad, are produced. It is now feared that, if the alumina plant goes ahead, red dust and other airborne pollutants would ruin one of Greece's major export crops.

The greatest concern, however, is that windblown bauxite dust would erode the limestone columns of Apollo's temple, the well-preserved remains of a horse-shoe shaped stadium and the tiered stone seats of an amphitheater still used for performances of ancient plays.

Once the plant begins operation, more than 1 million cubic tons of bauxite sludge will flow into a gorge near Agia Efthymia every year and trickle gradually down to the sea. There are fears that the waste may seep into the underground springs that provide Agia Efthymia's water supply.

The plant, for which the Soviets are to provide technical know-how and machinery, was originally intended to start up in 1990. The Soviets, stockpiling alumina for future use, were to buy 400,000 tons of the product annually for at least 10 years, with Bulgaria purchasing the remainder.

But Bulgaria has refused to make a firm commitment, and Greece is now trying to persuade the Soviet Union to buy the additional 200,000 tons yearly. The Soviets are not unwilling, but want to tie the purchase to another grandiose project in Greece—a pipeline that would carry natural gas to Athens and other major cities from the Soviet Union, through Bulgaria. Ironically, the pipeline is billed as a way of reducing atmospheric pollution in Athens by using natural gas to replace fuel oil as a cheap fuel for central heating systems in the capital city.

Delphi residents have greeted the delay with relief, but say their campaign will continue. They have sued local officials and presented petitions to Cabinet ministers in the Socialist Government. They predict that they will win in the end, pointing out that in 1979 they successfully defeated a similar Government-proposed project by mobilizing public opinion both in Greece and abroad.—KERIN HOPE

## LISBON

# Homeward Bound

During the summer months, the Portuguese daily routine, particularly in the north of the country, is changed by the presence of thousands of Portuguese emigrants who have come back home for their annual summer vacations. It is a time of religious festivals and celebrations, and with their relative, hard-earned affluence, these emigrants now are an indispensable presence at these events.

The large extent of the Portuguese "diaspora" has led to growing interest and research into this phenomenon, and this summer, a week-long conference was held in Lisbon to analyze some of its roots and consequences. Of particular interest to attendants were the changing cultural habits and practices, such as the fusion of languages and the slow evolution of a new "dialect," known as *emmigrese.*

The great waves of Portuguese emigrants to Western and Northern Europe in the 1960s and early 1970s have had a deep sociological impact on the home country, and "imported" attitudes have produced significant changes in the Portuguese way of life, particularly in the northern conservative and rural regions that had for long been isolated from the outside world.

Emigration has been a constitutive element and a permanent reality in Portuguese history ever since the maritime discoveries several hundred years ago. The total number of Portuguese living abroad is estimated at more than 4 million—roughly 40 percent of the country's total population. Western Europe, and particularly France, account for almost 25 percent of this number, but there are also very large Portuguese communities in Brazil, South Africa and throughout the United States.

The extent of emigration was, in itself, a very clear expression of the important structural imbalances that existed in the home country, and, throughout the past 25 years, has served as an essential stabilizing factor for Portuguese economic and social life. This is amply reflected in the size of emigrant remittances which, in 1970, represented 10 percent of Portugal's gross national product, 50 percent of gross capital formation and 40 percent of global imports. Last year, with a total of $2.1 billion, they accounted for 13 percent of gross domestic product and were more than sufficient to offset the trade deficit.

But the stabilizing effect of emigration must not be limited to its financial aspects alone. During the two decades between 1965 and 1985, some 1.5 million people—or 15 percent of the total population—left Portugal for other countries, the majority of this movement occurring during the first 10 years of the abovementioned period. Considering that the average number of new jobs created by the Portuguese economy was not reaching 13,000 a year even during the expansionary period between 1950 and 1974, it is easy to understand just how important a factor emigration has been to keep labor markets and social life balanced, although this "solution" in turn brought with it some negative side-effects, such as changing demographic structures and human resources.

In the mid-1970s, however, the oil shocks and the world economic crisis put a sudden stop to Portuguese emigration, and total emigration has now fallen to an average 6,500 people in the last three years, compared to more than 80,000 in 1973. As a consequence, the amount of remittances has fallen, but this has not been so drastic as to cause major economic problems in Portugal itself. At the same time, a new sociological trend is underway: the return to Portugal of significant numbers of first-generation emigrants, who have been hit with homesickness or, as is the case more frequently, by the massive layoffs in declining industries.

Although there are no accurate figures available, the Portuguese authorities estimate that 30,000 to 40,000 people are returning to Portugal every year. It is too early yet to understand exactly what the social consequences of this development will be, but there is little doubt that an important cycle of contemporary social history in Portugal is being closed, although its effects on the Portuguese economy and social structure are still very much alive. The conference recently held in Lisbon about the "diaspora" has shown that we are just beginning to understand some of them.—José Amaral


COURTESY SABENA BELGIAN WORLD AIRLINES

## BRUSSELS

# Sabena's Success Story

The skies have cleared remarkably for Sabena, Belgium's national airline. Continuing a recovery that began in 1983, net profits soared by over twelvefold last year to some $90 million, giving the company its best return since 1957. There had been times in the 1960s and 1970s when Sabena's financial predicament had seemed so dire that many thought its only hope for the future lay in a merger with the Dutch national airline, KLM.

That kind of talk is seldom heard nowadays—on the contrary, the latest speculation is that prospects are good enough to warrant privatization of the company. This would be in keeping with the declared philosophy of the present center-right Belgian Government, which has indeed already reduced the state share-holding from 90 percent to 54 percent. The suggestion now is that Sabena would arrange a capital increase to be taken up by financial institutions that would lead to the state investment falling about 25 percent, which in turn would be followed by a listing for the company on the Brussels stock exchange.

To some extent Sabena's problems and possibilities mirror those of European airlines in general. Its major single profit-spinner is the North American route, and like most of its competitors, it has been hit by the slump in American tourist traffic earlier this year as a result of terrorist scares.

But flying people and goods across the Atlantic nevertheless remains Sabena's brightest growth prospect and it is to this end that its expansion plans are geared. A new Boeing 747-300 has just come into service and a second will follow in 1988. The aircraft is flexible enough to allow for all freight or all passenger operations, or a mixture of the two, and the plan seems to be to build up the airline's freight business, possibly by the introduction of goods flights between Brussels and the American West Coast next year. Sabena flies passengers between Belgium and five North American cities at present, its other major long-range routes being to Africa, and in particular to Zaire, Belgium's former colony.

Less clear is the outlook within Europe where Sabena, along with all other major common market air carriers, is under notice from the E.C. Commission to end agreements to fix fares, routes and capacities. There is considerable opposition to the move and enough money in the airlines' reserves to ensure a lengthy legal battle, but there seems little doubt that deregulation of the market will happen, if only on a piecemeal basis for a time. What effect it will have on profits and growth is difficult to judge, but consumers associations in Brussels reckon that present fares on most internal European routes are about 50 percent higher than they would be in a free market.

This fact may not prove to be advantageous for Sabena, for it faces competition on its important Brussels-London route from the two aggressive British carriers, British Airways and British Caledonian. But Sabena has just joined with the latter company to operate a joint daily service across the Atlantic. The deal with British Caledonian will involve daily flights by a Boeing 747 with the two companies sharing the revenues. This is a novel deal and somewhat experimental, but, if successful, could lead to similar tie-ups with other partners.

Sabena has generally shown itself to be a shrewd judge of its markets, enjoying a capacity utilization rate well above the European average. It has also successfully exploited subsidiary activities—its airline catering operation, for instance, will be the largest in Europe when present expansion is completed next year. If the Government does press ahead with plans to extend ownership of Sabena, it seems certain the shares will command a lively following.—Alan Osborn

### CORRECTION

The "Letter From Luxembourg" in the July/August issue of *Europe* incorrectly stated that the E.C. Commission has drawn up plans under which E.C. employees would pay taxes to the country in which they work. While there has been considerable discussion in the Luxembourg press over the pros and cons of this idea, no such plan exists.

## LUXEMBOURG

# Sweeping Tax Reforms

The most sweeping tax reform in Luxembourg's postwar history was announced in August, delighting the public but winning a somewhat more guarded reception from the business community. In all, some $130 million will be cut from the tax bill next year and although this seems hardly a massive figure by other national standards, it is something of an achievement within Luxembourg where, as a result, the average taxpayer will be about $500 a year better off. There are to be no significant cuts in public spending—the Government is calculating that faster consumer spending and the closing of some notorious tax loopholes will sustain its revenues.

Just over half the tax cuts will be enjoyed by the business sector where the minimum tax level is to fall from 40 percent to 38 percent in 1988. The chief beneficiary will be the banking industry: Indeed, some observers claim that the entire tax reform exercise is a device to improve the financial environment for bankers without causing undue stir in other sections of the community. Besides the break in corporate taxes, banks will also benefit from the abolition of stamp duty and the borrowing tax.

The spur to banking coincides with a massive deregulation of the financial industry in Britain that will lead to a sharp rise in London's competitiveness in money management. As one would expect, Luxembourg does not admit that its tax moves are a direct response to this, though it would certainly have been imprudent of the Government to ignore the development.

"Luxembourg never was, and never will be, a tax haven," says Mr. Victor Rod, head of the country's insurance supervisory authority. But clearly it cannot move too far in the opposite direction if its other attractions for bankers are not to be neutralized.

London's "Big Bang," as its financial deregulation is popularly known, is occurring at an awkward time for Luxembourg, which is engaged in an ambitious move into new banking markets where the British have traditionally played the dominant role. But the Luxembourgers have little choice other than diversification if they are to preserve employment and maintain growth in what by most measures, and certainly that of taxation revenues, is the Grand Duchy's most important industry.

It reached this position thanks to the explosive growth of the Eurocurrency business in the late 1970s. Put simply, this means the recycling in the form of loans of U.S. dollars and other currencies held abroad. Luxembourg, with its liberal exchange controls and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absence of a central bank to impose reserve requirements, proved an irresistible location for banks operating under stricter domestic constraints—particularly for West German and Scandinavian institutions. During this period, it was not uncommon for some banks to double their assets in a year.

A number of factors combined to put on the brakes, of which the main were the end of the boom in oil prices and stiffer competition for fund management from London, New York and the Far East. The Eurocurrency asset growth rate is now down to about 10 percent annually and likely to fall further in the medium term.

The forecasts for such activities as insurance broking, commodities trading, financial futures and "retail" banking operations like mutual funds and portfolio management are strikingly better by contrast, and it is toward these fields that the Luxembourgers are turning. They have two basic assets—the reservoir of basic banking skills in the Grand Duchy and the country's high reputation for financial integrity.

Against this has to be set the Luxembourg banks' lack of extensive branch networks and their relative inexperience in the newer specialized fields. Clearly there will be no repetition of the remarkable growth of the 1970s, but at least the Government has now moved to ensure that the fiscal environment will present no handicaps to the banks' ambitions.—ALAN OSBORN

## BONN

# Constitutional Challenges

In the 41 years since the end of World War II, the Federal Republic of Germany has peacefully absorbed almost 11 million refugees from the German Democratic Republic and from the rest of Eastern Europe. In addition to that, it has accepted, if not fully integrated, more than 4 million foreign workers.

While there have been tensions over the years and, recently, concern about *Überfremdung*—the swamping of public facilities, such as primary schools, by a large and growing foreign population—there has never been anything even hinting at large-scale discrimination.

Obviously, the painful memories of the Holocaust played a major part in shaping public policy in the Federal Republic. German leaders of all political parties agreed that their country had to be more welcoming to foreigners than did other countries—such as France or Britain, with their completely different historical backgrounds—as well as being vividly aware of the difficulties that some of them, and many other German opponents of the Hitler regime, had faced in trying to find places of asylum in the 1930s and 1940s.

For these reasons, all political parties represented in the Constituent Assembly in 1949 supported Basic Law Article 16, which says, without qualification, that "persons persecuted on political grounds shall enjoy the right of asylum."

But suddenly, 37 years after its adoption, that constitutional guarantee has become controversial. A growing number of conservative spokesmen want to see it amended to make it more restrictive. At the same time, Christian Democratic Chancellor Helmut Kohl and his advisers are warning that a wave of xenophobia—the German word is *Ausländerhass*, meaning, literally, a hatred of foreigners—may wash over the country bringing with it dire consequences.

The sudden change of temperature has been due to an overwhelming inflow of Sri Lankan Tamils, Iranians, Ethiopians, Ghanaians and Lebanese to the Federal Republic of Germany, who have been made aware that, according to this Basic Law article, any person managing to get a foot on German territory and uttering the word "asylum" must be permitted into the country until his application is processed—and that can take up to three years.

During this time, the applicant is forbidden to work or to leave the community to which the state assigns him, living in quarters and drawing on welfare payments provided by the state. Even if the application for political asylum is eventually rejected, as it often is, few refugees are actually expelled and, eventually, they are allowed to seek work.

Few Germans are upset about Poles, Czechs, Hungarians, Rumanians or Russians who come to settle in their country, since they all share the same cultural European heritage. But the status of the 1.4 million Turkish "guest workers" already poses more of a problem. While their homeland has a long tradition of good relations with the Federal Republic of Germany, they are Moslems. Furthermore, since they were specifically recruited to work in German factories during the boom years of the 1960s, their social and political position, as well as their longstanding physical presence in the country, make it a shade difficult to expel them now. It is, however, made clear to them that neither they nor their children—who are, in many cases, born in Germany—can ever hope to become German citizens.

The threatened wave of xenophobia has been triggered by the sudden discovery of the German haven by Asians, Africans and Arabs, all of whom are of a different color, religion and cultural background. Chancellor Helmut Kohl himself has stated that only a tiny percentage of these persons are actually "politically" persecuted, and that the remainder are "economic refugees" who have come looking for a better life than at home. But, Kohl said, the Federal Republic has no obligation to take in "economic refugees" and his Government ordered a number of administrative measures aimed at restricting the inflow of such persons last August. If they fail, Kohl has already pointed out that he will consider amending the Basic Law. He has further stressed that the issue is of such importance that it should become an issue in the campaign leading up to the national election on January 25, 1987.

Meanwhile the dispute continues to percolate at the lowest community levels. A story recently made the rounds of a priest who assisted his parishioners in organizing a protest against a Government plan to assign a group of Africans to their village. He was thrown into a quandary when he learned that all of the Africans were Roman Catholics.—WELLINGTON LONG

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NEW ISSUE

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**U.S.-E.C. RELATIONS**/TRADE

# THE U.S.-E.C. DEFICIT: IS ECONOMIC EXPANSION THE ANSWER?

## REAGAN ADMINISTRATION WANTS INTEREST RATE CUTS, BUT EUROPE IS WARY.

STEPHEN BROOKES

It's been just over a year since the United Kingdom, France and the Federal Republic of Germany joined the United States and Japan at a meeting of the Group of Five (G-5) in New York to try to pull down the value of the dollar and turn around the growing American trade deficit. The Plaza Agreement, as it came to be known, was in many ways a huge success: Coordinated intervention in currency markets lowered the value of the dollar by about 40 percent against the major Western currencies, and most economists feel that it is now at or close to an appropriate level, one that should eventually bring about a better trade balance. But the dollar's descent has failed to bring about the hoped-for improvement, and concern is growing. The United States has, in fact, slipped into deficit with countries with which it has traditionally run substantial surpluses.

One of these trading areas is the European Community, where a growing American trade deficit threatens to become a sore point in trans-Atlantic relations. While the most explosive of this year's trade disputes—over enlargement, steel, pasta and citrus—have in large part been resolved, U.S. Commerce Department figures show an American deficit of $16.76 billion with Europe for the first seven months of 1986, and there is wide belief that the figure will rise to about $30 billion by the end of the year.

In itself, this deficit—like any bilateral deficit—is relatively unimportant; it's the overall global balance that counts. As the author of this article, for example, I run a surplus with *Europe* Magazine, which buys from me but from which I buy nothing. Am I trading unfairly with the good people at *Europe?* Obviously not, and neither am I being exploited when I run a chronic deficit with the neighborhood grocery store. As long as I spend no more than I earn, there's no problem. It's simply the way non-barter economies work, and the global trading system functions in much the same way. The trade deficit with Europe does, however, reflect basic

Stephen Brookes is a contributing editor of *Europe*.

weaknesses in the global economy as well as some of the negative long-term effects—in particular the budget deficit—of recent American economic policy.

Why hasn't the lower dollar benefited the overall American trade deficit by lowering the cost of U.S. exports and raising the price of imports, as most analysts predicted it would? Part of the answer lies in the so-called "J-curve" effect, which says that the deficit will persist (and even worsen) while consumers continue to buy imports at higher prices and exporters reestablish markets and gear up production. The resulting gap—the hook of the J—simply reflects the "turning around" period. While opinions differ on how long it will take before the economy rebounds, a number of economists are predicting a healthier trade balance early next year. As David Wyss, chief financial economist for Data Resources Inc. (DRI) in Lexington, Massachusetts, put it, "The consensus has shifted a bit. In the prevailing view, if anything, we're a little behind schedule."

Other factors have slowed the turnaround. American consumers have developed a marked taste for imported goods over the past several years and are willing to pay higher prices, and foreign exporters are cutting their profit margins to hold onto newfound markets. A number of American exporters, on the other hand, are doing almost the opposite, going for fatter profits instead of dropping prices. Europeans and Japanese alike point to poor American marketing efforts abroad as a further brake on export expansion.

All of this notwithstanding, the Reagan Administration has been focusing on the anemic level of world demand as a central cause of the continuing deficit. Led by Treasury Secretary James A. Baker III, Washington has been putting increasing pressure on Europe to expand economically by lowering interest rates, thereby stimulating global economic expansion (and demand for American exports), and taking some of the pressure off the United States. Baker has been blunt about what he feels is a European obligation to take up the slack in world economic growth. "We have carried to a large degree the world economy for the last 42 or 43 months," he told reporters last summer. "We would like to see some help from over there."

As the most recent G-5 talks approached in late September, Administration officials began stepping up their warnings that, without cooperation on coordinated rate cuts, the United States would be forced to push the dollar down even further by cutting interest rates unilaterally and "talking down" the dollar. A number of economists are cautioning that such action could, in the context of the existing budget deficit, set off a crisis of confidence in the dollar, sending it into a tailspin and forcing the United States to raise interest rates to new highs in order to halt the slide—moves that could bring on a new world recession.

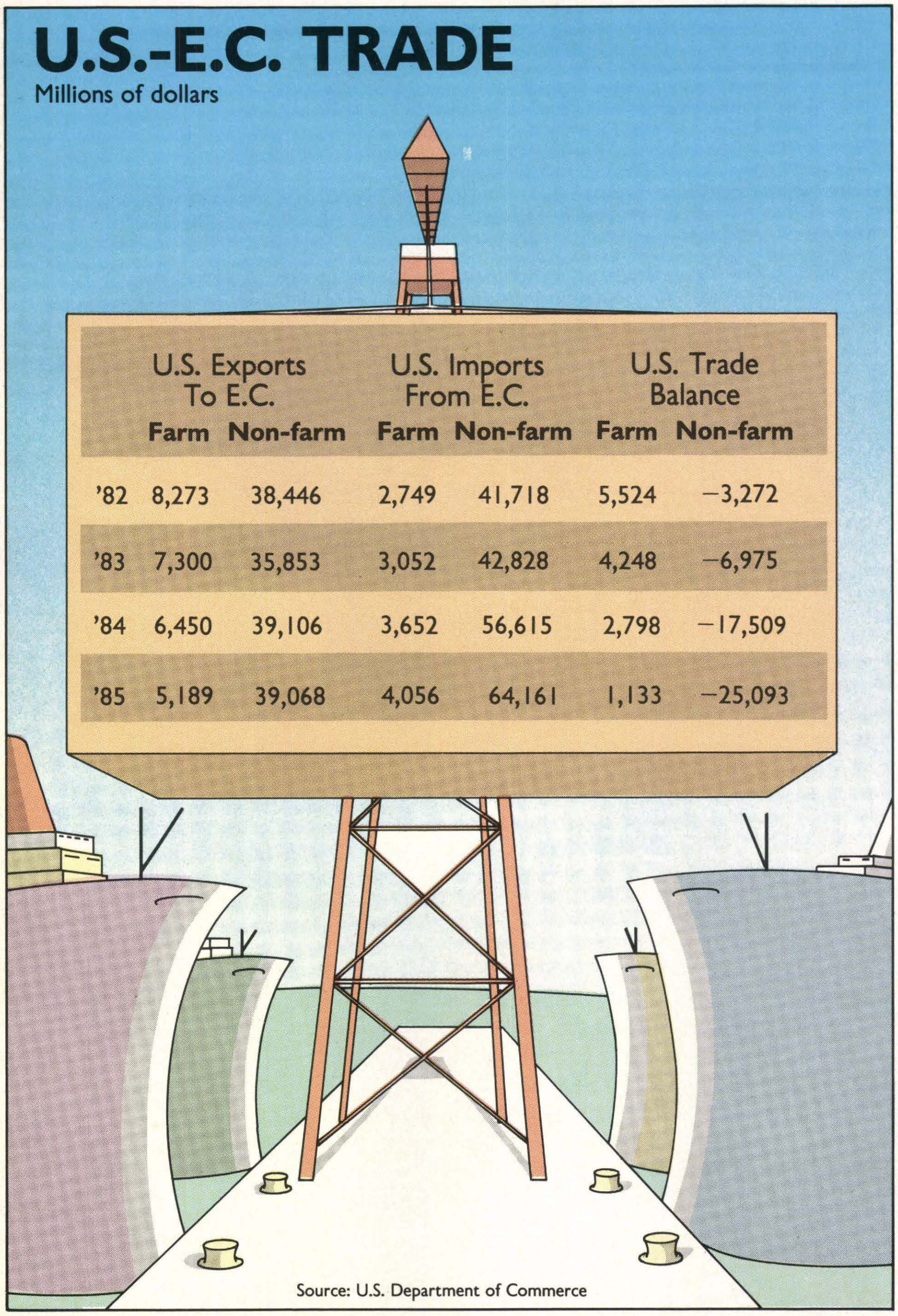
In fact, the American appeal for economic expansion in Europe has been underway for some time. Washington launched its first attempts to export Reaganomics to the Community early in 1985 under radically different circumstances, when the dollar (or the "Superdollar," as it was affectionately known) had hit unprecedented heights. A strong dollar, it was proudly claimed, reflected a muscular economy; the solution to the trade imbalance, President Ronald Reagan told a press conference in May of 1985, "is a recovery [in Europe] to bring their money up in value comparable to ours."

Europeans remained, for the most part, unconvinced. The United States enjoyed GNP growth three times that of Europe in the early 1980s, with little inflation and low unemployment. But the American expansion, conducted without the restraint of tax increases, has resulted in an enormous budget deficit that has been financed to a considerable degree by foreign investors. As a prescription for economic growth in Europe, it seemed unsound.

Continued on page 47.

## U.S.-E.C. TRADE

Millions of dollars



| | U.S. Exports To E.C. | | U.S. Imports From E.C. | | U.S. Trade Balance | |
|---|---|---|---|---|---|---|
| | Farm | Non-farm | Farm | Non-farm | Farm | Non-farm |
| '82 | 8,273 | 38,446 | 2,749 | 41,718 | 5,524 | −3,272 |
| '83 | 7,300 | 35,853 | 3,052 | 42,828 | 4,248 | −6,975 |
| '84 | 6,450 | 39,106 | 3,652 | 56,615 | 2,798 | −17,509 |
| '85 | 5,189 | 39,068 | 4,056 | 64,161 | 1,133 | −25,093 |

Source: U.S. Department of Commerce

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# NEW MECHANISMS SOUGHT TO SETTLE G.A.T.T. DISPUTES

## U.S., E.C. DISAGREE OVER SCOPE AND SHAPE OF PROPOSED REFORMS.

JAMES DAVID SPELLMAN

Reforming the mechanisms by which the international trade regime—the General Agreement on Tariffs and Trade (GATT)—defuses, negotiates and resolves trade disputes is emerging as a major issue in the new round of trade talks, which began last month at Punta del Este, Uruguay. Under what seems an abstruse issue is a debate about preventing the GATT's collapse by improving the way it manages a growing realm of parochial trade disputes.

The GATT, negotiated in 1947, was never designed to be an international organization governing trade among nations on a scale comparable to the United Nations. That role was envisioned for the International Trade Organization (ITO), but never realized because the U.S. Senate failed to ratify the ITO charter. By default, the GATT assumed the role; but its organization was makeshift, and its powers were weak and ambiguously defined. Through precedents, improvising, formal negotiations and habit, GATT's role evolved.

This history has plagued the ability of GATT to settle disputes among members, or the "contracting parties" in GATT-ese. No specific procedures were defined in the agreement beyond dim provisions in two articles. Article XXIII calls vaguely for remedies for the "nullification and improvement" of trade liberalizing efforts. A similarly ambiguous provision in Article XXII requires members to consult with those practicing unfair trade policies. If such consultations fail, the case may be referred to the Council (the organization's general, steering body), which can convene a small party of experts or a working group of member countries. If either avenue fails, the Council can rule on the case. The issue can ultimately be brought before the entire GATT to decide, including retaliation against recalcitrant, offending countries.

These "dispute settlement mechanisms," as they are called, are used most frequently in cases brought by industrialized countries against other developed countries and primarily involve agricultural trade practices. Private parties cannot use these procedures.

During the GATT's first 35 years, 159 formal cases were presented, according to John H. Jackson, a trade expert at the University of Michigan. Three-quarters of those cases were brought by developed countries, and 86 percent of these were against developed countries. About 45 percent involved agricultural goods, while only 16 percent covered manufactured products. About half the cases were settled or withdrawn before a panel report was issued. Decisions on the remaining cases were nearly all accepted.

"The United States stands out as the primary user of the procedures," Jackson wrote. "In one-half the dispute settlement cases in GATT, the United States is either a complainant or the respondent."

Few substantive rules accumulated from these cases, contributing little to an inchoate, somewhat outdated body of GATT laws. States were reluctant to commit themselves to GATT panels and risk abiding by ad hoc decisions. Negotiators avoided using the procedures in the most contentious cases because they did not want to undermine GATT's credibility by either demonstrating the body's ineffectiveness or attacking the economic policies of major countries. But cases concerning highly technical issues, tariffs and quotas were often resolved satisfactorily, according to a study by the U.S. International Trade Commission.

During the Tokyo Round, GATT's seventh multilateral session ending in 1979, contracting parties approved a "restatement" of settling disputes in GATT. Also, different procedures were attached to each of the 11 new codes on nontariff barriers. These reforms addressed how dispute panels would be initiated and organized. Time limits were imposed—a three-month deadline, for example, to resolve urgent cases. Greater stress was placed on encouraging an agreement among parties before the panel would decide and procedures were clarified.

These changes, in short, were conservative, enhancing "the essentially normative force of declaratory rules," as one expert, Robert Hudec, put it. Michigan's Jackson, concluded: "The substantive improvements . . . are neither as profound nor as satisfactory as the changes in the normative trade rules embodied in the various codes." He speculated in 1983: "With this plethora of different procedures, there is an increased risk of jurisdictional conflicts, forum shopping and disputes over procedures."

Problems persist, GATT observed in this year's annual report. "In a number of instances, considerable delays were incurred through the inability of disputing parties to agree to either the terms of reference of panels or their membership. In other cases, problems arose through differences of interpretation of some panel reports—or through a failure to agree on the interpretation of GATT rules themselves—and a consequent refusal to allow adoption of the reports by the Council or, when adopted, to fully implement their recommendations." The ineffectiveness of these "mechanisms" is helping to push the management of more and more problems outside GATT. More than 120 export-restraint or market-sharing arrangements exist.

In the preparatory talks leading up to the session at Uruguay, discussions over dispute-settlement reforms focused largely on the positions taken by the E.C. and the United States, with Canada and Japan being slightly more supportive of America's views. The E.C. has insisted that the panels should mirror the current decision-making norms of GATT; disputes before panels should be settled by forging a consensus among the negotiators. The panels should not evolve into ad hoc international courts of justice.

In March last year, the Community expressed its opinion in its declaration on a new round of trade negotiations: "The Community recognizes that the credibility of the GATT is to a large measure dependent on its ability to settle disputes between contracting parties efficiently and to the satisfaction of all concerned. This has generally been the case. However, in a few cases that have received widespread publicity, problems could not be resolved by the existing mechanism given the type of complaint at issue. It is recalled, in this context, that the dispute settlement procedure cannot be used to create new obligations or to replace the process of negotiation.

"The Community should reaffirm its readiness to participate in the search for more effective procedural formulae in the area of dispute settlement based on consensus, it being understood that, in the final analysis, procedural mechanisms on their own cannot ensure the resolution of problems arising out of substantive differences. . . . The Community will seek reaffirmation by contracting parties to resolve trade disputes through GATT procedures and not by resorting to measures outside the dispute settlement process."

Willy De Clercq, the E.C. Commissioner responsible for external affairs, is reported to be supportive of a U.S. proposal that the GATT Secretariat should play a more active role as mediator in the process. De Clercq agrees that the time lag between when panels are convened and when decisions are reached is too long. Stricter time limits would streamline settlements, in his view, but the panels should never resemble a tribunal handing down edicts for governments to follow. More panelists should be used from private industry.

In contrast, the United States seeks to change the panels into quasi-judicial tribunals, which would hand down decisions and enforce remedies. These panels would emerge as stronger, more active forums within GATT. Current problems with the panels have helped to undermine GATT's credibility and confidence, the United States maintains. One reform goal should be changing the perception of GATT members that the process is effective.

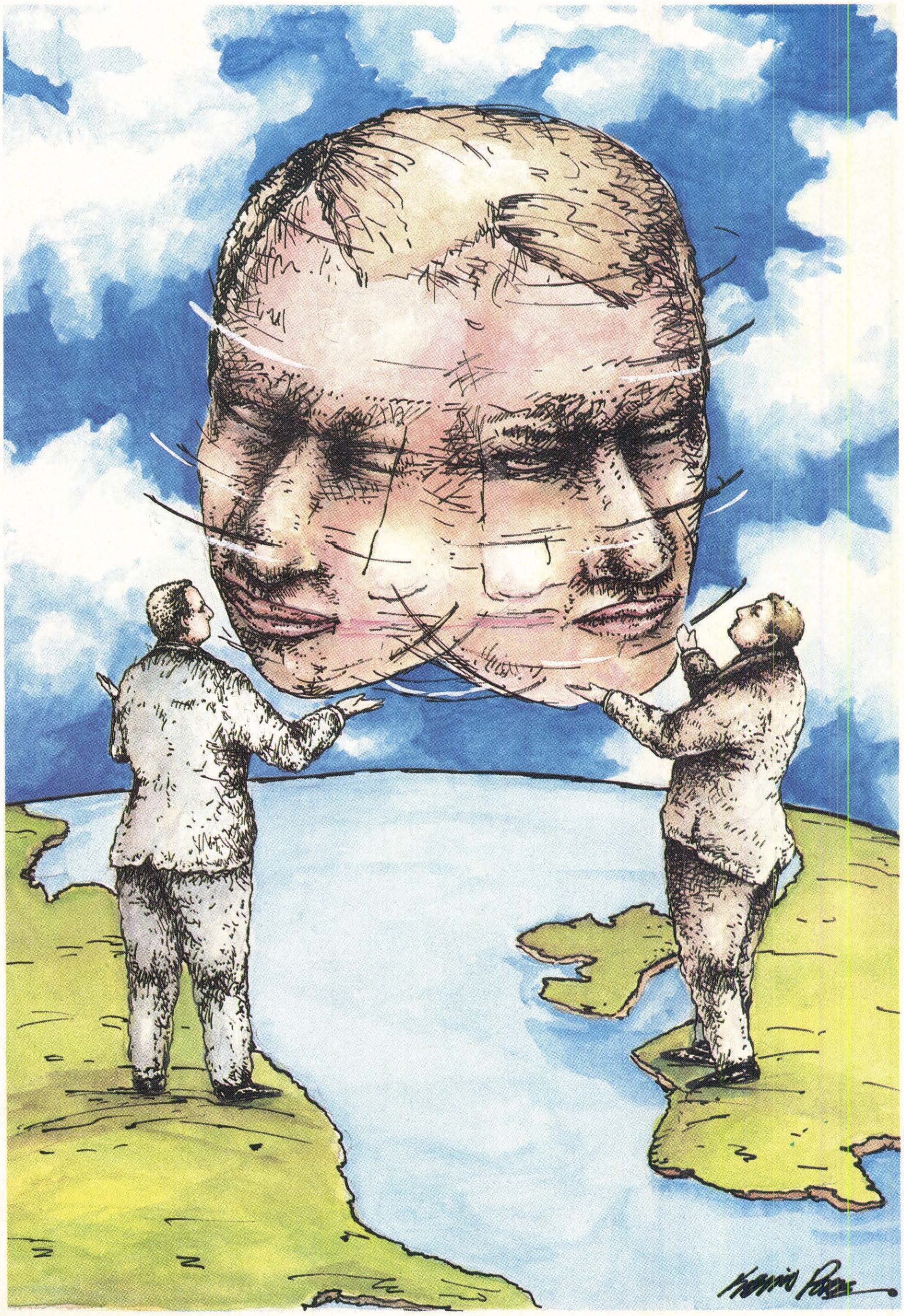

ILLUSTRATION BY KEVIN POPE

The thinking in Washington, as shown in a draft paper, is more elaborate than it is in Brussels. The United States seeks to mandate a mediation role for the GATT director-general or his designee, with oblique encouragement that members should "voluntarily" submit to such mediation before resorting to a more formal panel proceeding. "A voluntary mediation phase, with appropriate safeguards for timing and confidentiality of the process, and under the prodding of a respected neutral mediator, could lead to more timely and less confrontational solutions."

Second, a binding arbitration process—needing no approval by the Council—would be established as an alternative to implement the arbitrators' decision, but a party failing to implement such a decision would have to pay compensation or accept retaliation." Third, "binding, enforceable" timetables would govern the process. Fourth, GATT would be encouraged to use more nongovernmental experts as panelists. Fifth, compensation and retaliation would be imposed as penalties. "It is essential that these improvements be accompanied by an explicit new affirmation by all parties that they will use the process to settle disputes, that they will accept the results and that they recognize that the failure to implement recommendations will give rise to a right to compensation or retaliation for adversely affected parties."

How this issue will play out and the kind of agreement that will result depend upon how the interplay of economics and politics generally influences the new round. A decline in world economic growth will make it more difficult for states to reshape their domestic policies to meet GATT's demands, obstructing progress in the round. The United States and the E.C. have raised the stakes of gaining agreements to liberalize international transactions of services and soothe the acrimonious conflicts over agricultural trade. The pace and timbre of these negotiations will probably overshadow talks on other fronts. And then there are interminable problems of finding the precise words and grammar, which burden all levels of negotiations. The results will define GATT's maturity, effectiveness and future. €

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

# YOUTH AND EUROPE: A GENERATIONAL GAP

## THE INTEREST IN EUROPEAN UNIFICATION IS DOWN DRAMATICALLY FROM POSTWAR LEVELS.


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**Students in the 1980s show little of the commitment and enthusiasm for European affairs that characterized the 1950s.**

J. ROBERT SCHAETZEL

Any analysis of generational change must overcome a major barrier. An older generation believes, or is thought to believe, in its own superior performance in long-gone halcyon days while deploring, with not a little self-service, the foibles of its successors. Yet there seems to be wide agreement that the current younger generation of Americans and Europeans is distinctly different from that of their parents, those who rose to maturity and then opportunity during World War II and the post-war period.

A *Washington Post-ABC* poll led to these conclusions about what the *Post* termed the "confident generation": optimistic, ambitious, independent, sober, competitive, pragmatic, restless, but not rebellious. A television producer, who works on a major campus, wrote in *The Wall Street Journal* that "their energy seems to be directed wholly toward self-improvement for self's sake. The skills they exhibit seem to be employed primarily on behalf of acquisition."

Earlier this year, *The Washington Post* carried an extensive series of articles on the younger generation that corroborated these judgements. The unspoken premise that would make achievement of these personal values and goals possible is a stable national and international environment. Yet none of the numerous studies shows any sign that this generation recognizes the indispensability of this order or has any plans to become personally involved to ensure that it will be so.

Turning to Europe, one striking impression is not the differences but the similarity of attitude on the part of the European and American younger generation. Almost nothing is left of the "anti" campaigns of the 1960s. Paolo Stoppa-Liebl, a professor and writer, could be writing about American youth: "Very much like Epicurus, today's young Europeans maintain that family and friendship are the highest interest in life. On the whole, they do not challenge authority, within the family or in society. They express the wish to cultivate human relationship. The testimony of an 18-year-old Milanese high school senior exemplifies this. Her goals? "To succeed in my exams, then find a job that I will like, and in the end find a husband, form a couple and start a family." He goes on to note, consistent with public opinion studies, that no more than 10 percent of the youth assert any interest in European affairs: "Only 8 percent consider the unification of Europe an important objective."

Examples of the dramatic changes that have taken place between the 1950s and the 1980s are legion. In organizing a series of seminars on the European Community under the auspices of the Council on Foreign Relations, we were shaken by the difficulty in finding participants who had been following, even in general terms, Community developments. Offsetting this was obvious interest in the seminars and the quality of those who took part. Yet for the old hands, the discussions that went on for over a year contained none of the enthusiasm or commitment that characterized similar affairs carried on during the 1950s or 1960s. The tone was detachment, skepticism and a preoccupation with the effect of European developments on immediate American interests.

A number of interesting questions arise: What has caused these changes in interests and attitude, in personal motivation and goals? Are the changes cyclical or seminal? What do they mean for our respective societies and the Atlantic relationship? And what, if anything, can be done about it all?

World War II and the postwar period stamped a generation. On the Continent, the known world had been destroyed, its leaders repudiated, institutions found wanting. In America, isolationism had been transformed from a policy to a pejorative. On both sides of the Atlantic, nationalism was under attack as an anachronism. Yet consistent with the perversity of human history, the world's most devastating conflict created opportunities for basic change. There were European and American leaders who recognized the need and, more surprisingly, the opportunity. The resulting dynamism and innovation of that period caught the imagination of the younger generation.

The problems were of extraordinary dimension: European recovery, the "German problem," pervasive poverty, decolonization and the creation of a new international order and the organization of a Western response to a wartime ally that had turned itself into a military threat.

As Europe and the United States addressed these problems, quite coincidentally, a remarkable asset came into being. Americans and Europeans (and Europeans among themselves) developed the habit of working together, as Jean Monnet, one of Europe's founding fathers, always put it, in the search for solutions to common problems. The supply missions in London and Washington, then the Marshall Plan, were breeding grounds that nurtured unprecedented bureaucratic relationships.

Beyond any other individual, Monnet was the master of developing and exploiting, in the best sense, these non-traditional relationships. Tommy Tomlinson, Treasury Attaché at the American Embassy in Paris, was at the right hand of Monnet in developing the Schuman Plan. Monnet spent a lifetime maintaining an intricate network of associates, both in and outside Western governments, who not only were sources of information but indispensable to the creative endeavors that were the hallmark of this fruitful life.

These personal relationships, based on common endeavors and mutual respect, existed at all levels of the American and European bureaucracies. The similar productive intimacy among Europeans was basic to the development of the Community. For both Americans and Europeans, these unique relationships were to last throughout, and indeed, beyond the governmental careers of the individuals.

By the time of President Richard Nixon's Administration, the old hands, or in former Ford Foundation President McGeorge Bundy's mocking term, the few remaining "theologians," were being asked by dismayed Europeans to whom they could turn in Washington. Where were the senior officials who understood Europe's problems and goals? The change of the old guard had taken place.

Another elusive but important difference lies in the indifferent quality of current leadership, in government and out, as compared to the postwar period. When the Herter Commission reported on the Marshall Plan, a distinguished panel carried weight with the public and the Congress. One of today's parlor games is to conjure up a parallel commission or wise man's exercise—whom would you put on it and who would care what they reported? The 1980s seem void of either leaders or followers.

By any measure, this interdependent, uncertain and dangerous world demands mutual understanding, cooperation, effective institutions and imaginative leadership. It is hard to see where the necessary talent is to come from if a recent survey of college students by the Education Commission of the States is accurate. "The values showing the greatest increase since 1972 were being very well-off financially, being an authority, having administrative responsibility for others and obtaining recognition. The values that showed the largest decline in importance since 1972 were helping others, promoting racial understanding, cleaning up the environment, participation in community-action programs and keeping up with political affairs."

Several other factors contribute to changes in attitude and involvement. In that remarkable postwar era, all things seemed possible. The United Nations would assure amity and security; the Bretton Woods institutions and the General Agreement on Tariffs and Trade were the road to economic order and growth; the Point Four program would bring development to the Third World; the Treaties of Paris and Rome would take Europe to federation. The flaw lay not in false prophets or dubious conceptions, but largely in underestimating difficulties. Ambassador Charles Bohlen in his memoires captured this in a reference to President John F. Kennedy. "[He] spoke philosophically of the function of government in the future, maintaining that in 20 or 30 years political problems would begin to fade away as economic prosperity grew. The result, he said, could be that government would be largely administrative." Each problem—the economic system, development, security, new institutions—has turned out to be infinitely more complex than had been anticipated. The public is not attracted, but repelled, by complexity.

The foregoing analysis hardly suggests the presence of a younger generation ready to pick up this challenge. Before holding the youth accountable, attention should be directed again at political leaders. The Reagan Administration came into office contemptuous of the World Bank and the International Monetary Fund. Its attitude toward the United Nations system has encouraged the U.N.-bashers in the Congress. Why would the British public support the E.C. in the face of its Prime Minister's evident distaste for the whole affair? Through their summit meetings, Heads of Government have shown their preference for image over substance. Both Europe and the United States have drifted back toward the nationalism that the postwar leaders attempted to bring under control.

A renewed commitment by political leaders to the work begun in the 1950s will not assure an extension of goals and assumption of responsibility by the youth of today. But without a more enlightened and daring leadership, at the end of this century the then middle-aged are likely to be little more than an older Me Generation. €

J. Robert Schaetzel, a consultant to the Brookings Institution, was the U.S. Ambassador to the E.C. from 1966 to 1972.

# MANAGING CHANGE: EMPLOYMENT POLICIES IN U.S., E.C. FIRMS

## SEMINAR HIGHLIGHTS NEW "TECHNOLOGIES OF COMMUNICATION" APPLIED IN A SOCIAL SENSE.

PENELOPE SMITH

Both the United States and Europe are going through periods of rapid structural change. How have firms adjusted to these changes? How and what can firms learn from the experiences of others?

The E.C. Commission, together with the U.S. Industry Coordinating Group (USICG), organized a seminar in Bruges, Belgium on May 15-16, 1986, to talk about these questions. Participants included representatives from U.S. companies, European affiliates of U.S. companies, European companies, the services of the E.C. Commission, the European Parliament, UNICE, the Economic and Social Committee, the Organization for Economic Cooperation and Development, the International Labor Organization and universities.

Both the presentations and the discussions concentrated on exchanges of information about practical experiences of managing change rather than on theoretical issues. Despite the diversity of the cases presented, a common thread throughout the seminar was that of new technology in the largest sense—not only of new technology applied in the traditional, productive sphere—but also in the social sense: "new technologies" of communication and management. This article gives a brief outline of the presentations that were made in the course of the three sessions and indicates some initial reactions and areas for future work.

Bruno Liebhaberg, from E.C. Commission President Jacques Delors' cabinet, recalled that the major priorities of the Delors Commission were the completion of the internal market by 1992, greater economic and social cohesion and closer technological and industrial cooperation with the aim of reducing unemployment. To achieve these ends, consensus is necessary and this is why the E.C. Commission launched its cooperative growth strategy in last year's annual economic report. The aim of this cooperative growth strategy is to increase employment—generating growth by encouraging real wage growth, which is lower than productivity gains, while at the same time supporting demand so that job creating investment will be promoted. Both sides of industry have endorsed this strategy.

Liebhaberg said that the seminar, which provided a meeting place for Americans and Europeans, was fully in keeping with the wider industrial cooperation between countries, which the Commission feels is necessary.

The first conference session—entitled "Competitive needs and planning for change within the company: Growth, reduction."—contained four case studies dealing with the problems of labor force reductions, plant closings, transfers of activities and personnel to different geographical areas as well as changes in labor force composition—such as upgrading the technical capabilities of staff in line with technology changes.

Canadian General Electric (CGE) set up a new high technology plant in Bromont, Quebec, an area with a long history of traditional and declining industries, and a labor force with outdated skills.

The plant is now the most productive operation within CGE and probably the most productive of its type in the world. This success can be attributed to the innovative approach to management. Employees, who are provided with an intensive training program, work in teams with a high degree of responsibility. There are no foremen or first line managers and employees are free to make proposals for change, and evaluate their own productivity. Salaries reflect productivity improvements and cost reductions.

The philosophy of the company is that each employee can make a positive contribution to the company in an environment that is conducive to initiative and creativity, and where training is paramount.

Allied Signal Corporation, a producer of automobile and aeronautic components, was forced to close large manufacturing units in Indiana as a result of international competition. The firm consulted the highly unionized workforce at an early stage and investigated the failures and successes of other firms who had also experienced mass layoffs.

By deciding to close production completely, rather than cutting product lines here and there, the company managed to save the jobs of the technical and administrative personnel (50 percent of the original 5,000 workforce) and could introduce major employee assistance programs.

The company provided substantial compensation to the employees and also set up a transition center. This provided training in drafting resumes and preparation for job interviews with use of videos and films. A computerized job matching and placement service together with counselling to help workers deal with sudden unemployment and early retirement was also provided.

Dow Chemical automated an old-fashioned plant in Terneuzen in the Netherlands. Communication with and involvement of all employees concerned were key factors in ensuring a smooth transition. Delegation of decision-making, widespread dissemination of information, introduction of more flexible working time and training programs to encourage job flexibility and multi-craft employees have led to a strengthened company that now employs more people than before the change. Some of the original employees took early retirement but none were made redundant and many have upgraded their skill level through training.

ICI petrochemicals and plastics divisions found themselves in dire trouble at the beginning of the 1980s, with heavy losses and over-capacity. Between 1981 and 1983, the workforce was reduced from 18,500 to 12,500 and the company's research and development operations moved from the south of England to the production site in the north of the country. Yet of the 6,000 who lost their jobs, only 100 ended up as unemployed. How was this achieved?

After layoffs in 1971 that had unsettled the remaining staff, the company introduced a "Security of Employment" charter, which stated that any labor force changes should have a business justification and be fully discussed with the employees. Attempts should be made to redeploy any displaced employees within ICI, first locally, then nationally. Where

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**Three hundred new companies specializing in new technology have been established over the last five years and large companies such as Volkswagen and BMW (above), which have a joint project to stimulate technological innovation in the car industry, have also become involved.**

this is impossible, the company should help in redeploying personnel outside the company.

To cope with cutting the workforce so drastically, ICI set up a range of resettlement activities that included:

- Counseling sessions to help employees with interviews and resumes for new jobs;
- Assisting in the job search;
- Secondment to job creation schemes in local communities;
- Retraining of employees;
- Training employees to set up their own businesses;
- Preparing older employees for early retirement and providing investment counseling.

Frequent and early consultations with employees helped them to understand the need for change and facilitated management of the change.

The second session—entitled "Competitive needs, change and innovative resources management within the Company: job creation"—contained four case studies, two dealing with the problems of rapid labor force growth, one with deregulation and the fourth with reorganization of working time.

DHL provides an international courier service for parcels and mail. Operations started in Amsterdam and London in 1976 with a staff of five and a couple of old cars. Ten years later, there are 2,700 employees. The company has succeeded in expanding rapidly with no corporate strategy or planning. Key factors have been young, flexible personnel who have been willing to pack their bags and go to set up new offices with little capital, and a "try-fail-correct-try again" philosophy.

The average employee is 27 years old, of whom 40 percent are women. Shift systems have been set up to keep key offices open 24 hours a day and part-time workers and others on fixed-term contracts are used to supplement the full-time labor force at peak periods—for example, form October to December. DHL has also introduced a system for individuals in more far-flung places to set up their own business under a DHL license.

Sun Microsystems produces high performance computer systems. Created in 1982 by four young people (average age 26), turnover reached $8 million in the first year and this year its 2,000 staff are expected to produce a turnover of $200 million. Employees are highly qualified to work flexibly—many working from home with only occasional visits to the office. Employees work in an entrepreneurial, participative environment where authority is based more on technical competence rather than management position.

Sun survived the recent recession in the computer industry. Rather than lay off workers, employees agreed to a temporary hiring freeze, to increasing productivity and to a reduction in profits. Those workers who failed to reach performance targets were counselled and, in the end, only 10 people had to be laid off.

Sun's reputation as a good employer encourages larger numbers of applications. Recruitment is currently running at 7 percent of the workforce every month. An expected turnover of $400 million to $700 million by the year 2000with between 3,000 and 8,000 employees will mean management may have to become more structured and variable compensation schemes are being considered. Nevertheless, Sun hopes to protect its philosophy of treating people as its primary resource.

The third case study in this session looked at the effects of the 1980 deregulation of the trucking industry. In the regulated industry, new entrants had to prove that they would not damage other business interests in the industry. In the deregulated world, the onus is now on existing firms to prove that the new entrant to the industry would have definite harmful effects to the community. Potential loss of income to their company from outside competition is no longer accepted as a valid argument.

Deregulation was followed by a massive increase in license applications. The number of carriers rose from 17,000 in 1978 to 33,500 in 1985. The very large firms tended to survive deregulation but many medium-sized firms were undercut by the increasing number of small firms and went bankrupt. Thus, there were direct dislocation costs for the industry itself. Consumers, however, found prices falling and more diversified services with faster delivery options and so on. The share of freight and inventories in gross national product (GNP) has fallen and it is estimated that there have been overall savings in logistics costs of many billions of dollars. It is difficult to estimate the employment effects of deregulation independently of the cyclical position of the economy, but they are generally regarded as positive. Although salaries have tended to fall, more and more employees are taking advantage of employee share ownership plans. The general feeling seems to be that deregulation has been a good move.

Philips Belgium laid off over 9,000 workers between 1974 and 1982, as a result of international competition. To survive as a going concern for the remaining workforce, the company reorganized working time to increase production capacity by allowing longer use of equipment. The company was stimulated in its efforts by the "Hansenne Experiments"—named for the Belgian Labor Minister who introduced the schemes—whereby regulations governing evening and weekend employment, overtime and so on, were relaxed for those companies who engaged new personnel, reduced labor hours and moderated wages. The new working arrangements at Philips include paying weekly salaries and benefits to workers working two 12-hour days at the weekend. Philips has also made increasing use of part-time workers and workers on fixed-term contracts to allow production to vary in response to demand.

Although the proposed changes met with some initial hostility from the unions, it has now been agreed that the company can modify the work schedules of new employees in accordance with the needs of the company. The plant is now in operation, on average, by 12 percent longer than before and employment has increased. Philips believes that the Hansenne Experiments have played a vital role in introducing the concept of flexible working hours and labor organization.

The third session—entitled "Competitive needs, change: Impact and external considerations"—looked at links outside industry, public/private partnerships, university-Industry links and industry involvement in social/employment programs.

Deutsche Bank, Berlin, has been very involved in helping Berlin develop as a center for technological innovation. With a student population of 90,000 and one of the first science parks with over 180 research and development centers, Berlin had considerable potential. However, 100,000 manufacturing jobs had been lost between 1970 and 1983 and the Government decided to step in to halt the employment decline. A series of innovative schemes included a public venture capital fund; creating an incubator center for new businesses at the heart of Berlin's University of Technical Sciences; and a "qualification offensive" that provided unemployed people with training in private enterprise.

Links between the universities and the business community have improved greatly. Curricula have changed to meet the needs of industry, people work both as university lecturers and businessmen; businesses send more of their employees on university courses; research is more market-oriented and the opportunities for product development and production are increasing.

Three hundred new companies specializing in new technology have been established over the last five years and large companies have also become involved, such as Volkswagen and BMW, who have a joint project to stimulate technological innovation in the car industry.

Deutsche Bank has employed non-traditional criteria in assessing bank loans and has a special team for assessing loans to new businesses. It has also specialized in providing financial and market advice to technologically innovative firms. Cooperation between governmental bodies, industry and the university has led to the creation of 9,000 new jobs since 1984, and Berlin's economic growth is now higher than in the rest of the Federal Republic of Germany.

IBM, in common with many big companies, spends large amounts of money each year on social programs. One of the projects in the United States is a network of Job Training Centers that provide training for the unemployed or the underemployed and other disadvantaged groups. The aim of the centers is to teach marketable skills that are relevant to the needs of the local labor market. Local community organizations and industry are involved in running the centers and providing additional financial support. There are now over 140 centers across the United States and since 1968, 14,000 people have graduated—80 percent of those who enrolled—and 85 percent to 90 percent of the graduates have gained good jobs.

IBM spends $4.5 million a year on this project, but estimates that the net gain to the public in terms of cuts in benefit payments, increases in income and taxes generated is over $30 million. The involvement of local people in design and maintenance of the schemes has been crucial in determining their success.

A number of impressions from this seminar stand out.

- In terms of management objectives, the companies seem very concerned with the morale and motivation of their personnel. Career planning, training and development of the capabilities of all members of the labor force is highly developed. Good internal communications and involvement of all levels of personnel in decision-making are seen as crucial.
- Business, universities and local communities are cooperating more closely and in new ways to provide innovative solutions to competitive and social needs.
- A flexible organization, capable of adapting to change, was important in all companies—unionized or non-unionized. This flexibility applied equally to management and workers. There is a growing tendency for employees to work in teams with responsibility for setting and achieving their own production targets.

Future seminars, perhaps with more limited themes, are being discussed and the possibility of setting up an information network on "best practices" in companies is being considered. €

Penelope Smith works in the E.C. Commission's directorate-general on employment, social affairs and education.

1st September 1986

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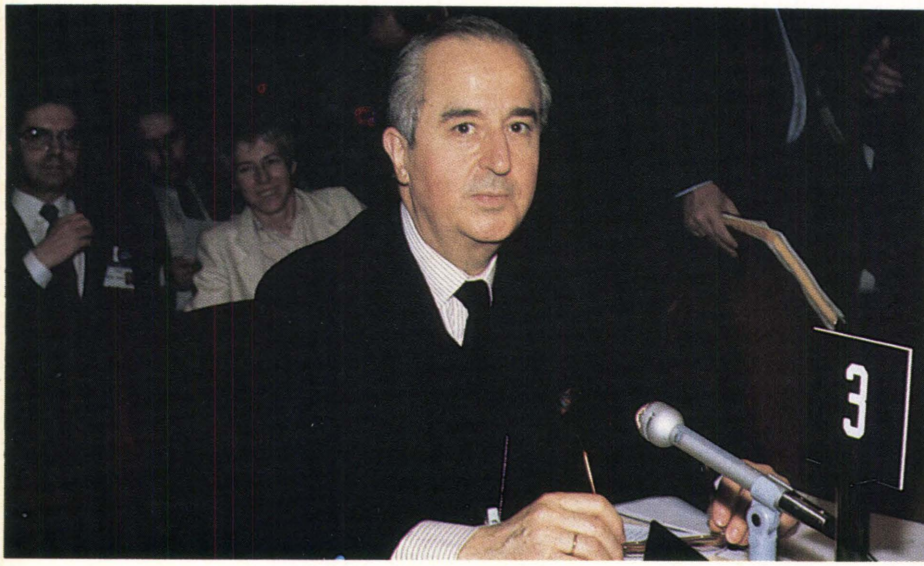
# FRANCE ANNOUNCES FIRST THREE FIRMS TO BE "PRIVATIZED"

## PROGRAM SEEKS TO RESTORE GROWTH AND DYNAMISM TO FRENCH ECONOMY.

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**Finance Minister Edouard Balladur is in charge of the plan to denationalize 65 state-owned companies.**

AXEL KRAUSE

President François Mitterrand made it clear during a recent interview that he not only openly opposed many of the reforms being implemented by Prime Minister Jacques Chirac, but that he was particularly skeptical about the Chirac program to privatize leading industrial companies, banks and insurance groups—a key, first step aimed at launching a Reagan-like revolution in France.

Asked whether he thought conservative strategists were, in fact, launching something of an American- or British-style revolution in reducing the role of the state in the life of average French citizens, Mitterrand told the *International Herald Tribune*: "A revolution? I have not noticed that. No. But, indeed, there will be changes."

One of those planned changes began taking concrete shape on September 10, when Edouard Balladur, Chirac's soft-spoken and moderate Finance Minister, announced that the first companies to be denationalized under the Government's program would be the following: Compagnie de Saint-Gobain, a large multinational industrial company; Compagnie Financière de Paribas, a powerful financial holding group; and Assurances Générales de France, one of the nation's leading insurance companies.

The announcement followed the vote of approval by the National Assembly and the Senate a month earlier for a law that permits denationalization of 65 state-owned companies and banking groups during a five-year period—a move Mitterrand firmly opposed. During a brief television address on July 14, the French President warned that there was a danger of the "national patrimony" being sold for too little and of foreign interests gaining control, and thus he refused to sign a denationalization decree submitted by the Government.

Countering with equal vehemence 48 hours later, Chirac said he would submit the proposal to both legislative bodies, which are controlled by his conservative coalition. They quickly approved the measure, including a provision to limit foreign ownership in any of the groups to 15 percent. Pressure from the E.C. Commission and France's main trading partners, including the United States, led to raising the limit to 20 percent, which has delighted the investment community.

"It is one ambitious program, and there is room for lots of people," commented Evan G. Galbraith, the former U.S. Ambassador to France, who has returned to investment banking and is seeking French business. "We are certainly moving forward," added an aide to Balladur, noting that the Government was particularly attracted by the prospects of the fallout next year from the sale of its controlling stakes in the three companies: about 30 billion francs (roughly $4.6 billion). "How far we go from there on will depend on how the markets react and how ready the companies are," the aide emphasized, adding that the first offerings would be of Saint-Gobain's shares, probably before the end of 1986. A thumbnail sketch of the trio shows the following:

- Saint-Gobain, which traces its history back several centuries, and whose profits have grown rapidly during the past several years, has been planning a major acquisition in the United States that is expected to materialize shortly. Company sources say the move would be complementary to its large U.S. subsidiary, CertainTeed, a manufacturer of insulation materials. Under the leadership of Jean-Louis Beffa, its 45-year-old chairman, Saint-Gobain's net profits last year rose 46 percent to 753 million francs, while sales rose 10.6 percent to 67.8 billion francs.
- The Paribas banking group, which also was nationalized in 1982 along with Saint-Gobain, also has attracted considerable interest outside France. Its net earnings last year rose 93 percent to 2.7 billion francs, while group net assets increased to 26.3 billion francs from 21 billion francs. The new head of the group is Michel François Poncet, 51, who directed Paribas' North American operations from New York and has known Chirac since they were classmates at Paris' Institut d'Etudes Politiques. His goal, insiders say, is to further develop Paribas' impact on international capital markets and to restore confidence in the group among employees.
- As France's second-largest insurance group nationalized in 1946, Assurances Générales de France has already become a favorite on the Paris Bourse, because of its performance and the fact that roughly

24 percent of its shares are already in private hands. Michel Albert, the company's ebullient, 56-year-old chairman, and formerly head of the French government planning agency, has directed impressive growth—a 45-percent rise in net earnings last year to 1.2 billion francs. The bulk of its business, three-fourths generated in France, has come from writing automobile and casualty insurance, but its life insurance business has been rising rapidly.

"We were not chosen to be the first in the privatization program by pure chance—it was deliberate and well-planned," commented an executive in one of the groups. At least two and possibly four additional groups have been targeted for privatization during 1987, but Balladur and his strategists have not identified them. "They will be drawn from the list approved by Parliament," one official said, noting that this includes the following groups also nationalized by the Socialists in 1982:

- Thomson, France's largest electronics group, with substantial interests in military sales and a leading French contender for research contracts under the U.S. Strategic Defense Initiative program;
- Compagnie Générale d'Électricité, France's largest maker of electrical and telecommunications equipment, which, through an agreement signed with ITT Corporation in July, is becoming the world's second largest maker of telecommunications equipment;
- Pechiney, France's leading aluminium manufacturer, which under Jean Gandois will be preparing itself for privatization through continued cost-cutting;
- computer maker Bull;
- and Matra, a leading defense contractor, specialized in electronics.

In addition, the list of groups includes other insurance companies and banks—some of which were nationalized in the post-World War II period, such as Crédit Lyonnais and Banque Nationale de Paris, and those brought under state control by the Socialists, notably the Suez investment group—and Havas, the advertising and media company, and Elf Aquitaine, both of which are under state control and have acted as private companies for decades.

Why go through such an exercise? President Mitterrand, like many others, has been puzzled and skeptical, noting that key state-owned companies were well on the road to financial health at the time the Socialists lost the parliamentary elections last March. "Of the seven groups nationalized in 1982, only one was already profitable, CGE. All the others were ailing," Mitterrand said during the interview. "Today, those that were heading toward bankruptcy are in good shape, or are recovering." However, for Chirac, and particularly Balladur, the architect of the privatization plan, and a former CGE executive, returning the 65 groups to private ownership is a key step.

What Balladur and Chirac are seeking is nothing less than restoring growth and dynamism to French industry through privatization and a range of other crucial steps that also are being implemented. These include removing the price controls on industrial and consumer products; easing, but not eliminating, exchange controls; and cutting back sharply on government spending, while also reducing income and corporate taxes and charges paid by employers. How should heads of companies targeted for privatization act? "I have asked that they concern themselves exclusively with the good management of their companies," Balladur says.

The track record of the Government since the March elections has been modest at best. Indeed, as *L'Expansion*, a leading French business magazine, noted in its mid-September report on privatization: "Liberalism pure and simple is not for tomorrow. In France, the cradle of Colbert, of Napoleon, of General de Gaulle and of François Mitterrand, one cannot give freedom to companies without taking precautions. The personalities selected by the Government for leadership are not bent on denationalization warfare. . . . their mission is simple: privatize yes, but *en douceur*." The object, *L'Expansion* stated, is "a minimum of serenity," which is reflected in the calm, moderate approach to the reform program.

No one personifies the approach better, most observers agree, than Balladur, who is widely regarded as a potential Prime Minister in a future conservative Government led by Chirac as President. Above all, Balladur has brought to his job an affinity for international business and administration, toughness, discretion and, above all, a moderate approach to deregulation. "Balladur and all those around him are anything but wild performers," commented a senior West European ambassador in Paris. "He may not be well known outside France and he is not a businessman, but he is strong and effective."

Born in Turkey, Balladur graduated from the prestigious National Administration School and, in the 1960s, was twice an adviser to the ORTF, then the French state-run radio and television network. In 1966-68, he was a close adviser to Georges Pompidou, and served as his chief of staff, his last job in government. From 1968 until 1981, he was president of the company that built and now operates the Mont Blanc tunnel, and, until being named Finance Minister in March, he was a senior executive at CGE. A longtime friend of Chirac, Balladur was a key force in persuading him to seek the Premier's job and prove that a power-sharing arrangement with Mitterrand—called "cohabitation"—could work effectively. Balladur was proven right, according to most observers, who note that Raymond Barre, another presidential hopeful, had repeatedly predicted that the arrangement would fail.

Another piece of advice from Balladur that Chirac accepted was calling the company-reform program "privatization" rather than "denationalization." But will it really restore growth? And does anyone outside a small number of individuals and groups really care? The answer to the first question is that the outlook for the French economy remains gloomy. Growth of gross domestic product is projected at around 2.5 percent this year, and around 3 percent at best in 1987. Inflation is coming down—2 percent, on a 12-month basis, during August, but that is still above the German rate of 0.2 percent during the same period. And unemployment is continuing to grow. In August, the jobless rate stood at around 10 percent, or 2.48 million people, and nearly double that rate among youth. By 1987, the unemployment rate among those between 15 and 24 years old will rise to 26.5 percent in France, which is the second-highest rate among the Western world's seven leading nations, after Italy's 37 percent, according to the Organization for Economic Cooperation and Development.

The fact that the French economy is sluggish may help to explain why many French citizens are skeptical about the privatization program, or simply not interested. A poll published by *L'Express* in its September 25 issue showed the following: Asked if they were personally interested in buying shares in privatized companies, 55 percent of those interviewed said "not at all," and 14 percent replied "somewhat." About 24 percent of those interviewed said the entire privatization program was "a bad idea" and 15 percent had no opinion at all. In an effort to stir up interest in the program, Saint-Gobain in late September announced it was launching a national advertising campaign, while Paribas said it was planning a similar promotional effort. €

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

# E.C. APPROVES SANCTIONS AGAINST SOUTH AFRICA

## NEW INVESTMENT BANNED AND SOME IMPORTS EMBARGOED.

STEPHEN BROOKES

European Community Foreign Ministers agreed on September 16 to a package of trade sanctions against South Africa aimed at bringing about an end to apartheid. The sanctions include a ban on new investment in South Africa and embargoes on imports of iron, steel and Krugerrands, the South African gold coins. A European ban on coal imports, the ministers said, would be considered at a later date.

The sanctions come three months after E.C. leaders condemned apartheid at their summit meeting in The Hague, when they called for the release of Nelson Mandela, the jailed leader of the African National Congress, and said they would impose further measures if progress was not made toward ensuring the rights of South Africa's black population.

South Africa represents a small but significant part of Europe's trade. Imports from South Africa represent about 2 percent of total extra-E.C. inports, and last year rose about 8 percent from 1984 levels to reach a total of 9.15 billion ECU (about $9.15 billion). Four countries took 85 percent of the imports: Italy (26 percent), the Belgo-Luxembourg Union (24 percent), the United Kingdom (20 percent), and the Federal Republic of Germany (15 percent).

South Africa takes about 2 percent of the Community's extra-E.C. exports. Last year these exports fell by 24 percent to 5.55 billion ECU. Two countries accounted for 72 percent of the total: the Federal Republic of Germany (41 percent) and the United Kingdom (31 percent). The E.C. had an overall trade deficit with South Africa of 3.6 billion ECU in 1985, up from 1.5 billion ECU in 1984; the United Kingdom went from a surplus of 507 million ECU to a deficit of 83 million ECU.

Among the Community's main imports are diamonds (20 percent of last year's total imports), gold (19 percent), coal (11 percent) and iron ore (5 percent). Imports of coins and iron and steel products were much smaller, amounting to 1.5 percent and 0.5 percent respectively. Imports of South African iron and steel for 1985 amounted to 424.4 million ECU, and imports of gold coins were valued at 142.2 million ECU.

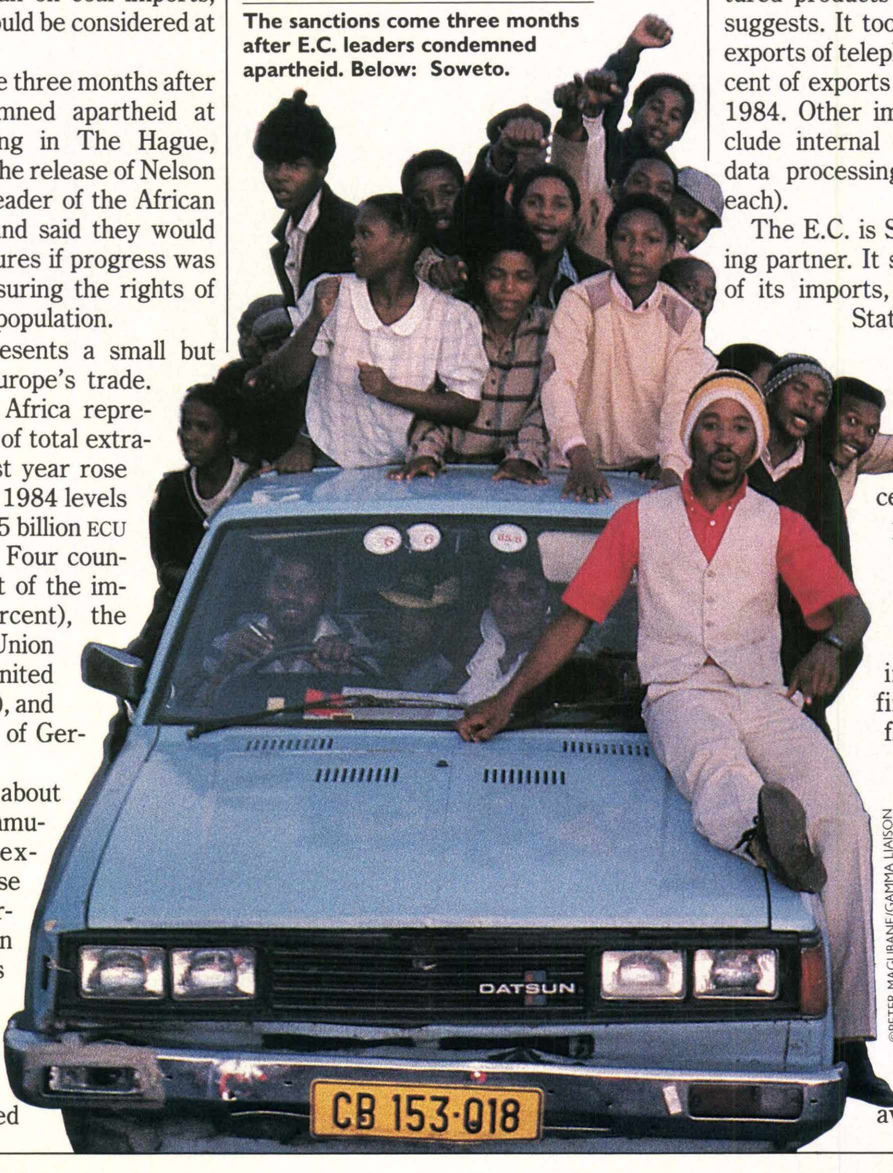
The South African market is more important to the E.C. for certain manufactured products that its 2-percent share suggests. It took 9 percent of total E.C. exports of telephone apparatus and 7 percent of exports of motor vehicle parts in 1984. Other important E.C. exports include internal combustion engines and data processing machinery (5 percent each).

The E.C. is South Africa's major trading partner. It supplies some 38 percent of its imports, followed by the United States (15 percent) and Japan (10 percent). The Community takes around 20 percent of South African exports, as against 9 percent by Japan and 7 percent by the United States.

While information on investments is hard to find, balance-of-payment flows can be used to chart changes from one year to the next. They show that direct investment from the United Kingdom (excluding oil companies) rose by 450 million ECU a year on average between 1980 and 1983. Investment by the rest of the Community rose by 300 million ECU a year on average. €

Stephen Brookes is a contributing editor of *Europe*.

**The sanctions come three months after E.C. leaders condemned apartheid. Below: Soweto.**

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June 1986

# E.C. PREPARES EUROPE-WIDE AUDIOVISUAL POLICY

## FREE FLOW OF BROADCASTS AND STANDARD TECHNOLOGIES SOUGHT.

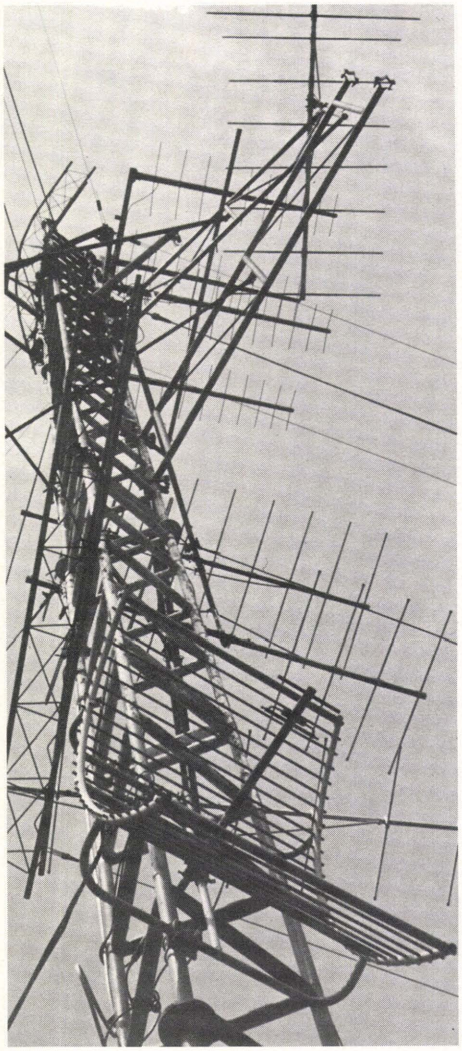
DIEDERIK BANGERT

While independent and public television broadcasts are thriving in Europe, the world telecommunications industry is undergoing a broad and profound transformation, one that Europe must come to grips with if it is not to lose out in the highly competitive audiovisual sector of the future. The shape of Europe's strategy is gradually emerging as the experts in Brussels busily work out an "Audiovisual Community policy" to open up the European market to television and cinema, and to intensify the circulation of cultural programs from Europe in the world market.

To achieve these objectives, the E.C. Commission is taking a three-pronged approach. The first of these is the abolition of legal obstacles to the free flow of broadcasts within the Community; any broadcast that complies with the laws of the member state it originates in should be able to circulate freely throughout the E.C., unrestricted by differing national requirements.

The Commission's second goal is the abolition of technical obstacles by introducing standards for production, broadcasting (in particular by satellite) and reception, as laid down in a recent proposal to the Council. Its third aim is to examine the activities of the networks and the audiovisual markets: this is the purpose of the Commission's "Action Program for the European Audiovisual Media Products Industry."

Within the framework of its telecommunications policy, the Commission is particularly concerned that common technical standards be adopted within the Community. One area with a pressing need for such standards is that of television transmission to home receivers through direct broadcasting by satellite (DBS). This technical innovation will soon become a reality, for next year the first French and German DBS systems (known



as DBS-1 and TVSAT-1, respectively) should become operational. However, it would be absurd to continue to use the existing standards for television broadcasting in the Community, such as PAL and SECAM, which would waste the available power in the new satellites. Therefore, an adequate common standard ought to be adopted without delay, if we are to avoid the present confusion of two coexisting but entirely different European systems.

This is why the European Broadcasting Union (EBU) and the European electronics industry have designed a family of broadcasting systems called MAC/packets (for Multiplexed Analogue Components), based on the transmission of digital data by packets; the Commission has proposed a directive for the adoption of these standards.

The introduction of the MAC/packet family is all the more important as it is an essential step toward the elaboration of a European standard for the "high definition" television (HDTV) of the future. HDTV is a new technique which doubles the number of lines on the television screen (currently 625), making for a clearer picture comparable with that of a 35mm film on a cinema screen. There is much to gain from this new HDTV standard—forecasts for the potential market over the next decade predict sales of some 10 million HDTV receivers.

The Japanese company Sony, however, is putting the finishing touches to a system which it claims will be on the market by 1989. What is upsetting to Europe is that the Japanese system represents a "leap into the void" that has deliberately severed itself from most existing systems and can only be adapted to 25 percent of the world's receivers, in particular in the United States, South America, Japan and certain other Asian countries. Europe, on the other hand, believes that it is essential to adopt standards that will be compatible with most existing systems while allowing for their progressive evolution. Moreover, the MAC/packet family of standards is easily adaptable to the equipment aiming at 75 percent of the world's receivers, notably in Western and Eastern Europe, Australia and other Asian countries such as China and India.

Thanks to the firm stand the Commission and the E.C.'s member states took on this matter, they were able to avoid the adoption of the standards proposed by Japan and backed by the United States at the recent meeting of the International Radio Consultative Committee (CCIR), a United Nations institution that organizes world-wide radio and television broadcasts. As CCIR decided on a two-year period of reflection, it is now up to Europe to coordinate its efforts, to press for the adoption of the HDTV standards that best suit its needs and to put the equipment on the market.

To achieve this, a joint action plan was drawn up this summer within the framework of the Community's RACE program, to perfect, among other things, flat screens, interfaces and the Eureka project on HDTV, which was submitted by several European companies (Thomson, Philips, Bosch and Thorn/EMI) with the participation of the E.C. Commission, and is estimated to cost around 180 million ECU (about $180 million). An additional aim is to increase competitiveness in the manufacturing of receivers and studio equipment.

Besides the regulations and administrative measures, the Commission is offering support and incentives (including support for research and development) to encourage quality and creativity in the production of audiovisual programs. Hence its most recent brainchild: an "Action Program for the European Audiovisual Media Products Industry." This initiative is addressed to all interested parties who could have a determining effect in this field, and is divided into three main parts: finance, production and distribution.

Financing audiovisual production is becoming steadily more difficult and complex because of the cost and the longer time required to recover the funds. Therefore, the Commission is looking for new sources of credit such as venture capital, and is exploring ways of introducing tax incentives.

As regards production, the Commission has made four suggestions:

• Encourage collaboration between countries by stimulating new forms of writing, setting up competitions and grants for original scenarios, and providing funds to implement the chosen projects;
• Rationalize filmmaking, for example by shooting fictional series and low-budget movies with new electronic equipment;
• Enhance the value of Europe's audiovisual heritage, now lying dormant in European television and cinematographic archives, by making use of computer programs and setting up international exchange channels;
• Develop programs to assist producers and backers in mastering state-of-the-art techniques (such as digital editing and high definition television), in multiplying production centers and in building up cross-national finance synergies.

> Europe must come to grips with broad changes in the world telecommunications industry.

As for distribution, the Commission has two major objectives. First, increasing multilingualism in order to overcome language barriers that hamper the circulation of cultural programs, through techniques like dubbing, subtitling and by computerized dubbing synchronization processes. Second, the Commission wants to extend the existing distribution channels to ensure greater exposure of the European productions via the cinema and television networks and the new transmission areas of video, cable and satellite. This would require analyzing the sales and cultural promotion policy for cinema films and for the multimedia exploitation of fiction programs, and examining the tax systems applied to coproductions, program exchanges and technical services.

So, over a relatively short period, the Commission's services are forging a series of very useful instruments that will endow Europe with a harmonious audiovisual tableau in the decades ahead. It is now up to the member states to accept them and to provide the Community institutions with the means to implement them, otherwise another golden opportunity will slip by as has happened before in other "high tech" areas.

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Diederik Bangert is a correspondent for *Agence Europe.*


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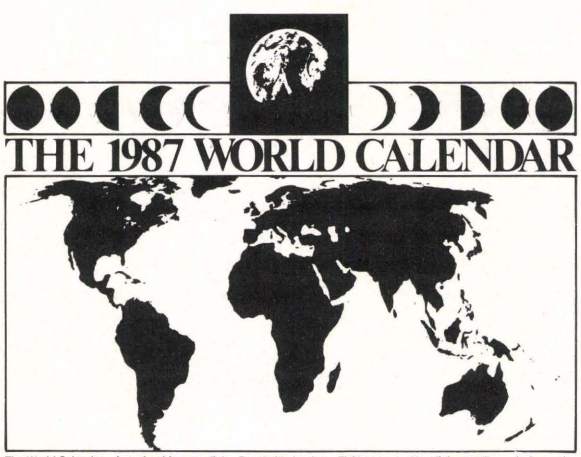


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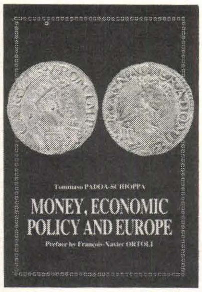


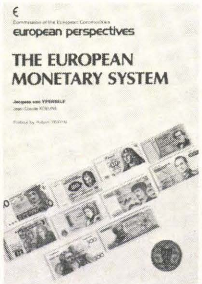


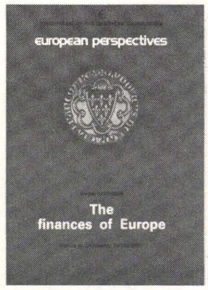


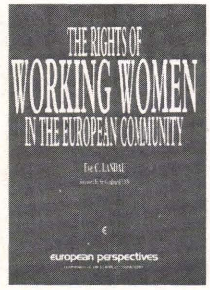


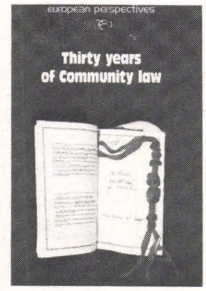


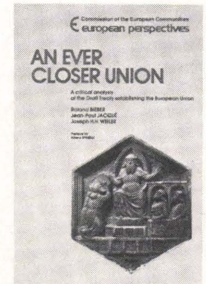


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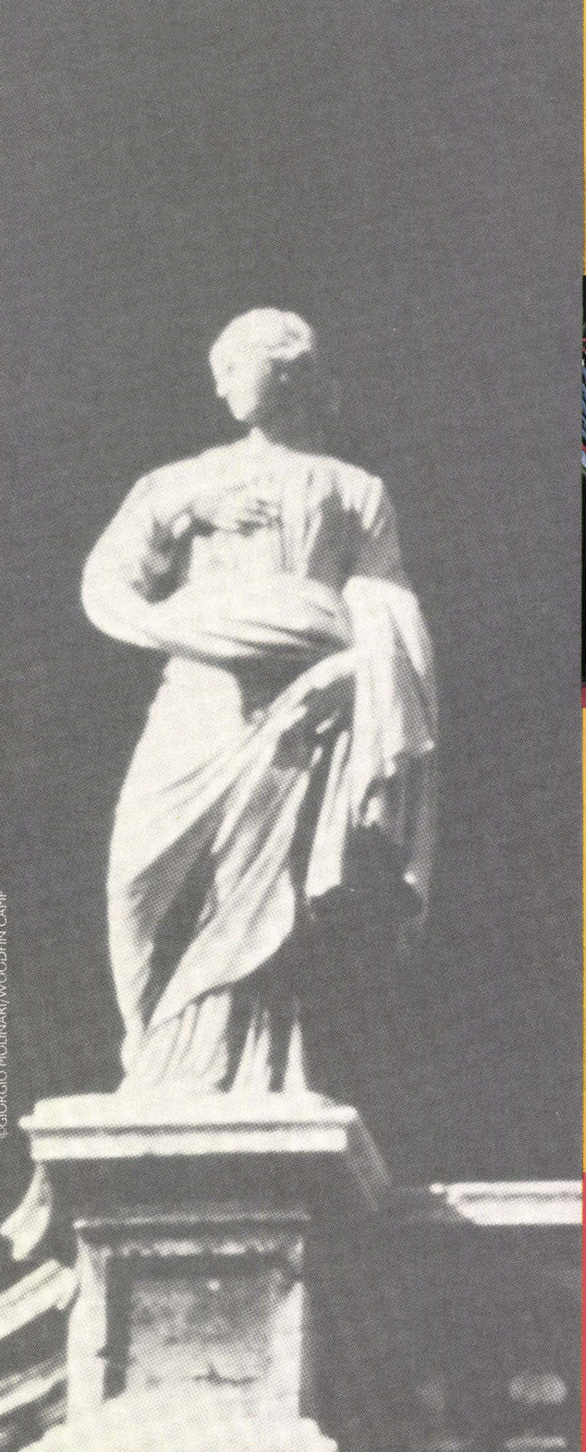
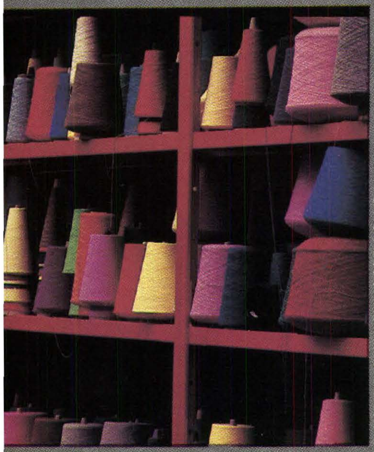
MEMBER STATE REPORT/OVERVIEW

# ITALY

## A STABLE POLITICAL SITUATION AND AN IMPROVING ECONOMY MAKE FOR A ROSY PICTURE.





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JOHN WYLES

While not quite ready to declare 1986 an *annus mirabilis,* Italians are very satisfied with the general state of their affairs. This sense of well-being owes much to the improved performance of the national economy, which will grow by close to 3 percent this year, thanks partly to falling oil prices that have also cut down the annual inflation rate from over 8 percent to between 5 percent and 6 percent. With wage increases running satisfactorily

**Italy is now the world's sixth economic power and its per-capita gross national product should soon overtake that of the United Kingdom. Background photograph: the Piazza Navona in Rome. Insets, from left: a Benetton factory, gondola chairs in Venice and new Fiat automobiles.**

PIAZZA NAVONA:©E. FORNACIARI/GAMMA-LIAISON

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ahead of inflation, a favorite diet in the newspapers these days is stories that compare this evident prosperity with those countries that are tending to underperform. "England, seriously ill, admires Italy," reported the London correspondent of *La Stampa* recently.

In most countries, general satisfaction tends to make for political stability and electoral harvests for those in Government. But Italy is not like most other countries, although recent years have seen an unaccustomed stability. In early summer, Socialist Prime Minister Bettino Craxi notched up a postwar record of three consecutive years in office—and was then pitched into an extraordinary crisis that was purely and simply a struggle for power between his Socialists and the largest single Italian political party, the Christian Democrats.

During the entire month of July, when Italy was without a proper Government, not a single harsh word was exchanged about policies; there was no dispute over priorities, no polemics over which reforms were urgently needed. Instead, the Christian Democrats and the Socialists slugged it out over when and how long one party or the other should occupy the Premiership.

In the resulting compromise, Craxi got what he wanted, which was another term of office, but conceded the right of the Christian Democrats to move into the Prime Ministerial offices at the Palazzo Chigi from the end of next March. If the agreement holds, there they will stay, sustained by the Socialists and three other smaller parties until the next general elections in 1988.

Will the agreement hold and will it matter if it does not? Italian politics are entirely dominated by the absence of a real alternative to the center-left, five-party coalitions that have governed Italy in the 1980s. The main opposition party is the Communist Party, which, in the last 10 years, has polled between 29 percent and 34 percent of the vote. Though supportive of democratic institutions and of the North Atlantic Treaty Organization (NATO) alliance, the Communists are rejected by the 60 percent to 70 percent of voters who cast their ballot for other parties, many of them expressly to keep the Communists out of Government.

So the Christian Democrats, the Socialists, the Social Democrats, the Liberals and the Republicans must combine to form a parliamentary majority and a Government. They are, as it were, condemned to collaborate, unless one or more of them is emboldened to create an opening to the left and usher the Communists into a governing coalition.

The fact that the Socialists are the only party likely to do so is one of many reasons why other party leaders watch Craxi so carefully. Might he not just have a strategy to create a Socialist-Communist alternative to the Christian Democrat-dominated Governments that have ruled Italy since World War II?

Craxi is central to the picture of Italy in 1986. He captured the leadership of his party 10 years ago from a power base that represented little more than 10 percent of its strength. "You can do a lot with 10 percent," he said then. After the brief two-year *compromesso storico,* when a Christian Democratic Government was sustained by a voting alliance with the Communists, Craxi again demonstrated that 10 percent and a clever political mind can indeed reap a rich harvest.

His party was part of a succession of coalition Governments, and in 1983, when the Christian Democrats were worn out by internal strife and badly frightened by an electoral dubbing in 1980—when they dropped nearly 4 percentage points of their share of the national vote—Craxi stepped into the Palazzo Chigi as Italy's first-ever Socialist Prime Minister. He was a man with no previous government experience and leader of a party with. . . . only a little more than 10 percent of the vote.

**Prime Minister Bettino Craxi is central to the picture of Italy in 1986.**

After three years, how much of their current happy state do Italians owe to Craxi? The answer may be found more in style than in substance. Though a deeply humane and profoundly individualistic people, Italians have tended to draw their strength and confidence from leaders who truly master their political environment or who at least appear to be in control.

The reference here is not just to Benito Mussolini, but to Camillo Cavour and Giovanni Giolitti, who dominated the politics of the first 50 years of the Italian state, and whose equivalent in the post-war period was Alcide de Gasperi. There are some on the left who worry about Craxi's alleged authoritarian tendencies—the cartoonist in *La Repubblica,* Italy's best daily newspaper, always has him wearing a black shirt—but the man undoubtedly communicates a sense of what he wants and of what is due to Italy as a European power.

> The performance of the major sectors of Italian industry and banking that belong to the state has been tremendously improved over the last four years.

So when he remonstrates with President Ronald Reagan about America's treatment of Italy during the *Achille Lauro* affair, Italians feel a national confidence that guilty memories of fascism often keep repressed. In sum, Craxi fulfills a deeply felt Italian desire to be taken seriously.

It is his excellent good fortune to have reached the political summit when others are doing as much, if not more, to ensure that Italy be taken seriously. If, for example, Gianni Agnelli at Fiat had not confronted the unions in 1981 and had failed to cut 40,000 jobs, would Italian industry have found its own path to restructuring and 30-percent annual growth in profits over the last two years? If Carlo De Benedetti had not moved Olivetti out of typewriters and into information technology through international alliances and acquisitions, would French politicians be complaining now that Italy is turning their country into a banana republic?

Olivetti was already an international name before De Benedetti, but the flowering of Italian business has suddenly brought other companies into the spotlight. Benetton, the clothing manufacturer, is steadily becoming a household name around Western Europe and the United States through its highly successful chain of franchised retail outlets. Ferruzzi, a privately owned sugar manufacturer, is slowly carving out a major share of the European market, and it is currently bidding for the British Sugar Corporation, a major force in British sugar production.

Such initiatives are ensuring that Italy is becoming an ever more important player in the international game. Now the world's sixth economic power, Italy's per-capita gross national product will very shortly overtake that of Britain. Much of this progress has been made under Craxi's stewardship, but it cannot yet be clearly argued that continuity of Prime Minister and Government has crucially determined Italy's real progress over the last few years.

There has, undoubtedly, been a psychological gain. Business has benefited from a stable political environment and from dealing with ministers who have had time to learn their portfolios. The first Craxi Government did, moreover, make a start in tackling some of the many social and economic problems without which Italy could not have become a formidable force in the world.

The Government's successful confrontation with the left-wing trade unions and the Communist Party over the *scala* *mobile* seriously weakened the impact of wage indexation on the economy and laid the basis for cutting inflation. Greatly helped also by tumbling oil prices, inflation has come down from nearly 9 percent in 1984 and may touch 4 percent next year. The political results of this victory were also just as important: It split the trade union movement, tilted the balance of bargaining power toward employers, and created a crisis of confidence in the Communist Party that still endures.

A more convincing legal drive against the Mafia than any previously mounted by recent Italian Governments has also been an important credit for Craxi, together with a drive to reduce the scope of tax evasion practiced by shopkeepers and small businesses. Much, however, remains to be done on this front: Independent professionals, such as lawyers and doctors, declare small incomes that do not even compare with average industrial wages. Salaried workers have their taxes deducted from their paychecks and the freedom with which the self-employed can escape the tax net is a source of considerable discord.

Tax collection is, of course, a responsibility of the state and the inefficiency of Italy's bureaucracy is a big disadvantage for the country. Italians understand their system, however, and they value it in a way that foreigners find difficult to understand. The public service is inefficient and hugely expensive because it has always been like that since the Italian state was created in the last century. It is also inefficient because it is not in the ruling political parties' interest to make it more efficient. Control of the public sector has been divided between the main governing parties, very roughly according to their relative strengths. Greater efficiency would mean streamlining and loss of jobs. This in turn would cut the votes and the power of the political parties.

All parties acknowledge the need for reform and each year marginal reforms are proposed, discussed and sometimes passed. Those that go through do so on the basis of some kind of equality of sacrifice as they must in a system where only one or two percentage points added or lost to a party's share of the vote can make an enormous difference to its prospects of participating in government.

That being said, the news from the public sector is by no means all bad. The performance of the major sectors of Italian industry and banking that belong to the state has been tremendously improved over the last four years because of the efforts of men such as Romano Prodi, who runs IRI, the giant state holding company whose interests run from banking to steel to insurance to food manufacturing.

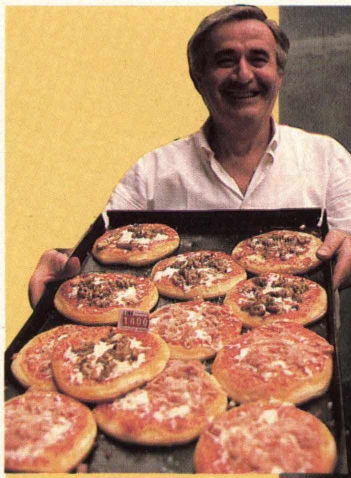
But the pressure to cut down the enormous cash drain on the public finances has come principally from the inescapable need to get a hold on Italy's public-sector deficit and total government debt. This year the deficit is running to 14 percent of gross domestic product (more than three times greater than that of the United States) while total government debt is now greater than the total product each year of the economy. Such a burden is both inflationary and insupportable, but many bankers and observers still need persuading that the Italians are really prepared to attack it.

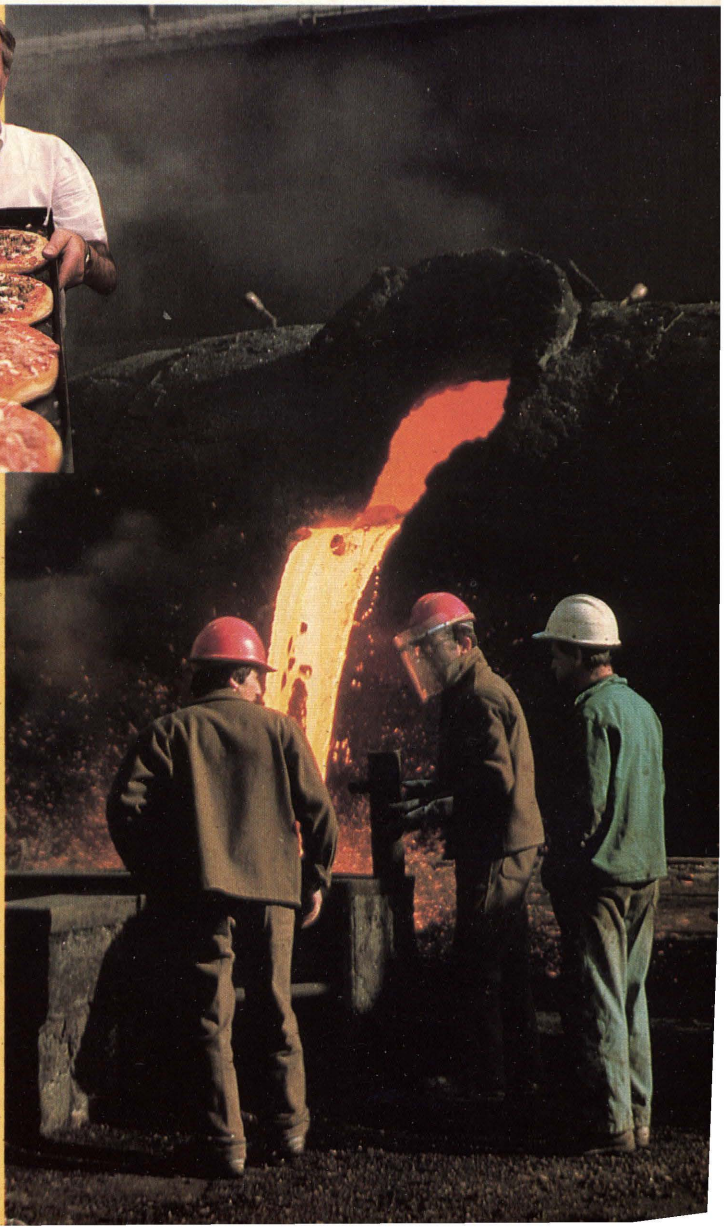
But Craxi's Government is now committed to balancing its budget—or at least the part of it not committed to paying interest on the national debt—by 1990. The Government, which Craxi has agreed will be led by a Christian Democrat from next March, is sure to maintain this commitment.

But a Government without Craxi will always be living on its nerves, wondering when the tiger will strike. The Socialist leader's still unresolved problem is that although his popularity far outruns that of his party, it has yet to be turned into a substantial increase in Socialist voters.

If such a harvest were ever reaped and the Socialists' share rose above 15 percent, then Craxi might just feel confident about a coalition with the very much larger Communist Party in the hope that, in the end, he could push it out toward the margins of politics as President François Mitterrand has done to the French Communist Party. However, there are not many people who believe that this can happen in the short term, so effectively are the Communists organized at local level and so stable is Italian voting behavior. This being so, Craxi may well have to go on proving that you can do a lot with 10 percent.

John Wyles is the Rome correspondent for the *Financial Times.*





**With wage increases running satisfactorily ahead of inflation, Italians are generally satisfied with their affairs. Right: steel works at Taranto. Inset: a national pastime.**

RIGHT: ©FABIAN/SYGMA
INSET: ©CLAUDIA PARKS

# IS WAGNER'S MUSIC REALLY NATIONALISTIC?

## SUCCESSFUL REVIVAL OF BAYREUTH FESTIVAL SHOWS THE UNIVERSAL VALUES OF HIS WORK.

© NA/RWG

ROBERT JACKSON

Nationalism and power are issues that cannot escape the visitor to Richard Wagner's shrine at Bayreuth. You hear the heady music, you ponder the richly complex drama of *The Ring*—and you are bound to reflect on the meaning of Wagner for Germany past and present.

Wagner's relation to the German nationalism that rose to power in his lifetime was, in fact, highly ambivalent. He was born and formed in the world of the small but highly cultured courts and cities of fragmented pre-Bismarck Germany, and his great patron, who established him and his festival at Bayreuth, was that King Ludwig II of Bavaria who viewed with such ironic distaste the assumption in 1871 of the imperial German title by the King of Prussia.

Indeed, Wagner was first attracted to Bayreuth by one of the great monuments of that older Germany—still the most striking sight in the town: the splendid rococo Court Theater built by the Margravine of Bayreuth in the 1740s. Until he grasped the possibility of erecting a new theater to his own design, Wagner even intended that *The Ring* should be performed here—amid gilded cherubs and Italianate false marble balconies originally conceived to set off the operas of Handel and Gluck.

Wagner's roots lay in this Germany of small states. It was a society that compensated for its small scale with a self-consciously cosmopolitan, European and universal culture: In the words of Friedrich Schiller at the end of the 18th century, "I am a citizen of the world who serves no prince. At an early age I lost my fatherland to trade it for the whole world." This world of universal culture is tellingly displayed in Wagner's library, which can still be inspected in the music room of his house—now the Richard Wagner Museum—in Bayreuth.

But in spite of all this, Wagner's maturity coincided with the transformation of this contentious, fragmented Germany into a great power, unified by "blood and iron," dominating the European Continent with its armies and developing the potential to dominate the world with its industries. Like his apostate disciple, Nietzsche, Wagner disliked the coarsening of the German fiber, the narrowing of the German soul, which came from these changes; but, again like Nietzsche, he was at the same time inspired by the unfolding of the German personality, and the sense of mastery and of unlimited possibilities that also accompanied them.

Accordingly, Wagner conceived the cast of *The Ring*—its Gods, its heroes, its Rhine Maidens and Valkyries, its Giants and its troglodyte Nibelungs—as types from universal mythology. But at the same time, they were also the expression of something profoundly and distinctly German, potential elements in a German national cult. The drama of *The Ring* is thus both universal and national. And it was this latter, national, image of Wagner that came to prevail in Germany, especially in the 1930s—thus indelibly associating his music with the Third Reich, and fixing some people's view of Wagner's relation to German history.

But if this identification of Wagner with German nationalism is somewhat superficial, there is no doubt that there is substance in Wagner's attitude to power. The story of *The Ring* revolves around the thoroughly irresponsible exercise of power by Wotan, father of the Gods. He causes Valhalla to be built in a spirit of vainglorious caprice:

"When youth's delightful
Pleasure had waned,
I longed in my heart for power."

He makes commitments to the Giants who build Valhalla that he knows he cannot fulfill. And, having constructed his great palace in the skies and paid for it by trickery and theft, he loses heart at his misdeeds:

"Yet the longing
For love would not leave me, . . .
Then I lost all my joy in life."

And he sets out upon a path that leads with increasing deliberation to his own destruction, to Valhalla's and to the end of the Gods.


©STADTARCHIV BAYREUTH

**The old Town Hall in Bayreuth.**

So, power in *The Ring* is power-for-its-own-sake and not power-as-a-means-to-ends. It is an aesthete's idea of power, in which the ruler and the musician, Wotan and Wagner, face the same problems and have the same purposes and tasks, in which power is a vehicle for self-fulfillment, and in which sublime self-regard—and self-pity—conjure moods of elation and depression without regard either to fittingness of purpose or to appropriateness of means, or, in a word, to the need for limits. Here indeed Wagner, the would-be revolutionary of 1848, and Hitler, the artist *manqué* in Berlin in 1945 meet in a fearful symmetry—exemplars both of a long German tradition of aesthetic escape from the realities and responsibilities of power.

What is the significance of this Wagner in the Germany of today? The success of the revival of the Bayreuth Festival by Wagner's grandsons in the early 1950s, after the interruption of the postwar years, shows the living force of the universal—as opposed to the national—aspects of Wagner's great music-dramas. It has proved possible for Bayreuth to put behind it the cult of *The Ring* as a national celebration and, by inviting guest-producers, often from abroad, to bring forward a variety of different interpretations: *The Ring* as the allegory of the maturing psyche; *The Ring* as Marxist theory (a French account); even, in a recent British production, *The Ring* "as Wagner intended it."

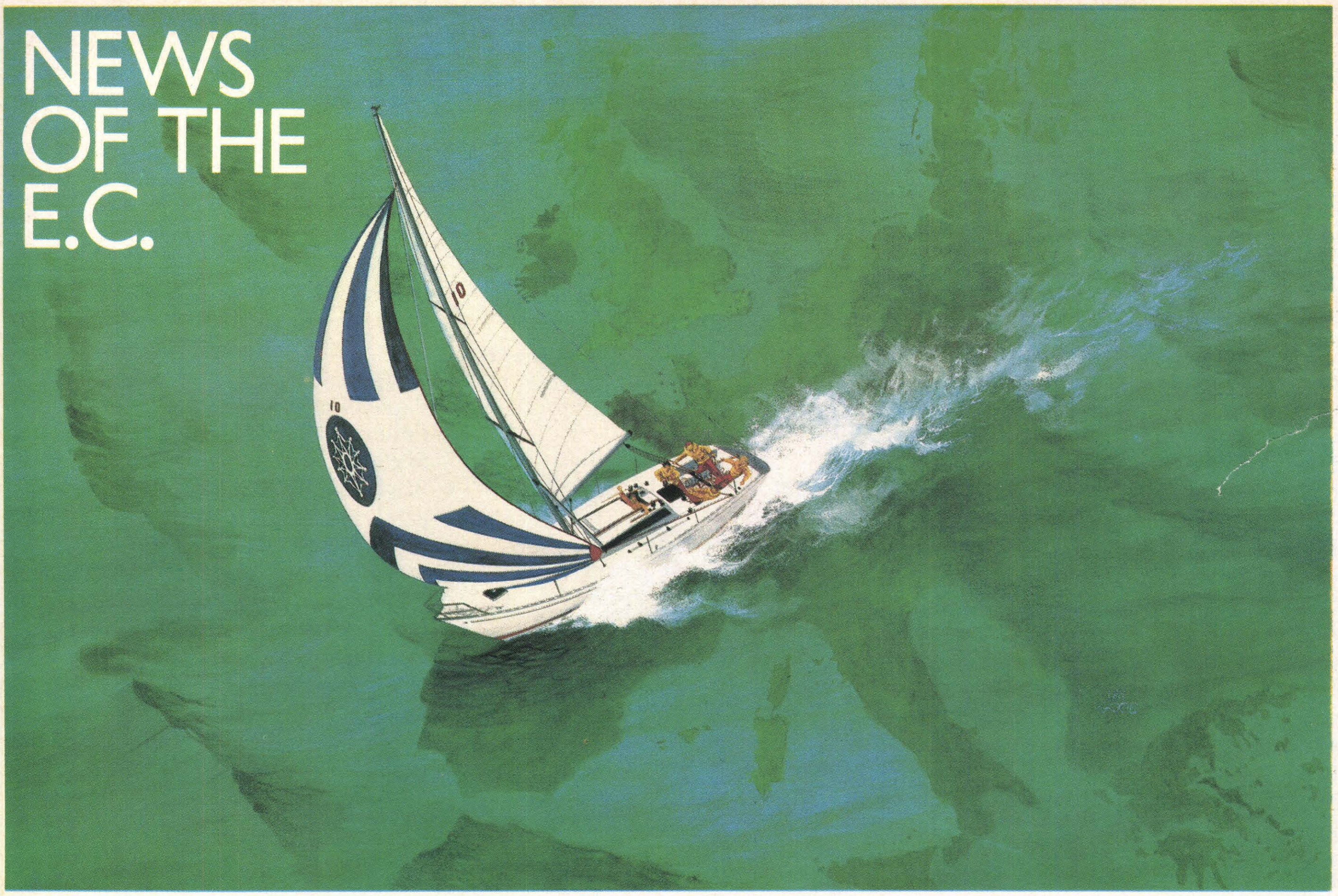
These successes at Bayreuth are of a piece with the historic recovery of Germany in the same period and, both at Bayreuth and on the wider stage of the Federal Republic of Germany, the method has been the same. For, like the Wagnerians at Bayreuth, the Federal Republic has returned to the universal and cosmopolitan values of the old Germany. At least in the West, Germany is today once again a decentralized country, composed of proud and self-sufficient provinces and cities, identifying itself more with the European, than the national, idea.

This alternative Germany was largely suppressed between 1870 and 1945; but it grows out of a much older and richer German tradition than that of the nationalism of that period. For most of the period since World War II, Germany's critics have been looking for evidence of a supposedly ineluctable resurgence of nationalism, just as Wagner's critics have insisted on associating him with that aspiration. But there is a non-national Wagner, overlooked by those who forget the *Meistersinger* and those who think of the end of *Götterdämmerung* as a pre-figuring of Berlin 1945; and in just the same way, what has happened in the Federal Republic since the war, surprises only those who forget the old Germany of the Holy Roman Empire and remember only Bismarck and Hitler.

Nevertheless, as Thomas Mann wrote about his countrymen, "Whoever should strive to transform Germany in the sense of the West would be trying to rob her of the best and weightiest quality, of her problematical endowment, which is the essence of her nationality." The visitor to the Wagner Festival at Bayreuth knows the force of that observation. Here is so much depth and force, and so much which is problematical. Wagner may no longer be the musical focus of a German national cult. The themes that successive productions at Bayreuth bring forward may be of resolutely universal significance. But still the glorious and painful fact remains: Richard Wagner could not be anything other than a German.

Robert Jackson is a British Member of Parliament.

# NEWS OF THE E.C.



## TRANS-ATLANTIC SAILING RACE TO RUN NEXT SPRING

Next year marks the anniversary of two major political events on either side of the Atlantic: the 30th anniversary of the Treaty of Rome, which established the European Community, and the bicentennial of the signing of the Constitution of the United States. To celebrate these twin anniversaries, the E.C. Commission recently announced a trans-Atlantic sailing race from Brussels to Philadelphia, to take place in May 1987.

"This event will be a celebration of liberty and democracy, and of the political and economic unification of Europe made possible through the inspiration of the Constitution of the United States," said Denis Corboy, then Director of Press and Public Affairs for the E.C.'s Delegation in Washington, D.C., when the race was announced. "This is also an occasion to underline the contribution of the 12 member states of the European Community to the development of the United States during the last 200 years, and to demonstrate the profound and enduring ties between Europeans and Americans," he noted.

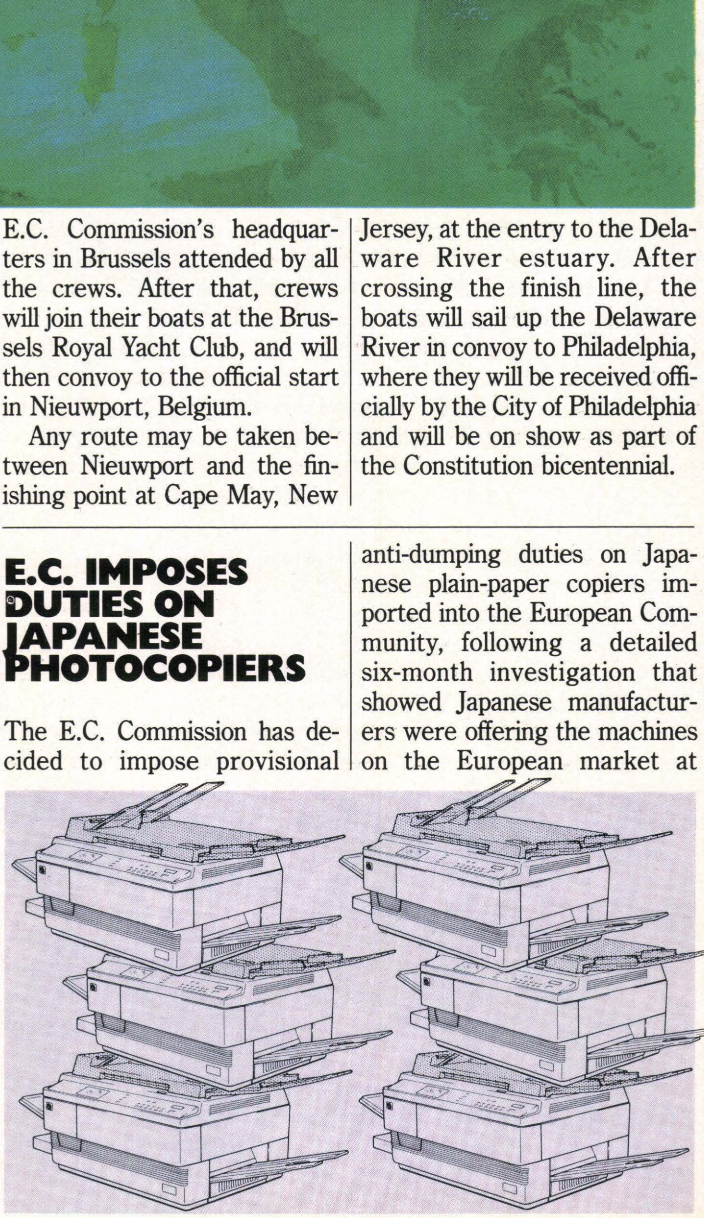
The race is being organized by Sail For Europe, the sailing club of the E.C. Commission. Fourteen boats will participate: one representing each member state of the European Community, one representing the E.C. as a whole, and one representing the City of Philadelphia. The participating boats must be series-built monohull yachts, with an IOR rating of 31 feet to 33 feet, and may be equipped as the owners or skippers see fit. The crew on the Community boat will have no more than two nationals from any one member state, and the crew on the American boat will be residents of the City of Philadelphia or the surrounding area.

The race will start on or around May 14, 1987 (the final date has yet to be determined) with an official ceremony at the E.C. Commission's headquarters in Brussels attended by all the crews. After that, crews will join their boats at the Brussels Royal Yacht Club, and will then convoy to the official start in Nieuwport, Belgium.

Any route may be taken between Nieuwport and the finishing point at Cape May, New Jersey, at the entry to the Delaware River estuary. After crossing the finish line, the boats will sail up the Delaware River in convoy to Philadelphia, where they will be received officially by the City of Philadelphia and will be on show as part of the Constitution bicentennial.

## E.C. IMPOSES DUTIES ON JAPANESE PHOTOCOPIERS

The E.C. Commission has decided to impose provisional anti-dumping duties on Japanese plain-paper copiers imported into the European Community, following a detailed six-month investigation that showed Japanese manufacturers were offering the machines on the European market at



prices substantially below their value in Japan.

Such practices, designed to capture markets and undermine competition, are generally considered unfair and illegal in international trade. The E.C.'s anti-dumping investigation was undertaken following a complaint by the Committee of European Copier Makers (CECOM) on behalf of five Community producers (one of which withdrew its complaint after being taken over by a Japanese company).

Japanese photocopier makers currently have an 85-percent share of the European photocopier market, which is worth more than $1 billion a year, according to the E.C. Commission. E.C. photocopier makers have seen their share of the European market shrink to 15 percent last year from 20 percent in 1981, as Japanese exports to the E.C. increased from 272,000 to about 600,000 copiers over the same period.

The new rate of duty will be 15.8 percent for nine of the 12 Japanese manufacturers, with lower rates for three other manufacturers. The imposition of duties reflects the fact that all the manufacturers were found to have dumping margins, ranging from 7 percent (COPYER) to as much as 69 percent (KYOCERA), with most companies falling within the 20-percent to 45-percent range. The duties will be imposed on all models of plain paper copiers from Japan with the exception of high-volume models, which were not imported from Japan during the reference period (January-July 1985). The duties, which came into effect September 1, will be imposed for four months with a possible extension to six months.

## COMMISSION PROPOSES IMPROVED TARIFF PREFERENCES FOR 1987

The E.C. Commission has adopted a number of proposals for the Community's 1987 generalized system of tariff preferences (GSP) that increase the value of the preferences accorded to imports of industrialized products by an average of 5 percent.

The E.C. also concluded negotiations this summer for a five-year renewal of the Multi Fibre Arrangement, which regulates world trade in textiles. The terms of the renewal, said a member of the Commission, will allow E.C. textile industries to continue restructuring, while allowing developing countries to preserve and increase their textile and clothing trade with the Community in an orderly way.

The proposals for the 1987 preference system cover some 19 billion European Currency Units (ECU)—about $19 billion—worth of exports from the developing countries, allowing them to save up to 900 million ECU in customs duties. The preferences are in addition to those already granted to the 66 African, Caribbean and Pacific (ACP) countries that are linked to the E.C. through the Lomé Convention, and to the preferential access provided for under the cooperation agreements that exist between the E.C. and most Mediterranean countries.

The GSP scheme accords duty-free access to all manufactured goods from developing countries that do not benefit from contractually-based preferences, including sensitive sectors such as textiles, footwear, steel products and petrochemicals, which are all wholly or partially excluded by other tariff preference donors. In the agricultural sector the Community offers reduced import duties on nearly 400 products, including canned pineapple, coffee, raw tobacco and palm and coconut oil—products of particular importance to the developing countries.

The Commission regards preferential access to the Community market as a vital element of its strategy for promoting development in the Third World, particularly at a time when the developing countries are constrained by massive debt, falling commodities prices and a decrease in the labor cost advantage.

The Commission also considers that the GSP must evolve in order to maintain its original objective of helping the developing world industrialize, and is proposing in the 1987 plan to continue with its policy of differentiation in respect of industrial products.

For industrial products other than textiles, the Commission is proposing to liberalize the GSP scheme by reducing the number of products on the list of sensitive products and eliminating 24 individual quotas from the list. Preferential limits on 15 products will be increased by more than 20 percent, and will be raised from 10 to 15 percent on 30 other products.

In adherence to its differentiation strategy, however, the Commission is proposing the exclusion of 29 product/country cases in which suppliers have demonstrated their competitiveness by accounting for over 20 percent of the E.C.'s total third-country imports of the products concerned. Examples include certain petrochemical products, alarm clocks and pneumatic tires. The amounts withdrawn from the most competitive suppliers will be redistributed to less competitive supplier countries.

The Commission has also advanced proposals for improving the scheme for agricultural products, in particular fresh carnations and coffee—two products of special importance to Latin America. It also is planning 16 improvements in preferential margins on products already included in the scheme, as well as the restoration of the real value of the preference accorded for Virginia "flue-cured" tobacco.

**Restoring the real value of the preference for Virginia "flue-cured" tobacco is one of the changes in the Community's tariff preference system proposed for 1987.**

In order to give the least-developed countries similar access to that accorded to the ACP countries, the Commission is also proposing that coverage be extended to three products not hitherto included: frozen strawberries, grape juices and pineapple juices.

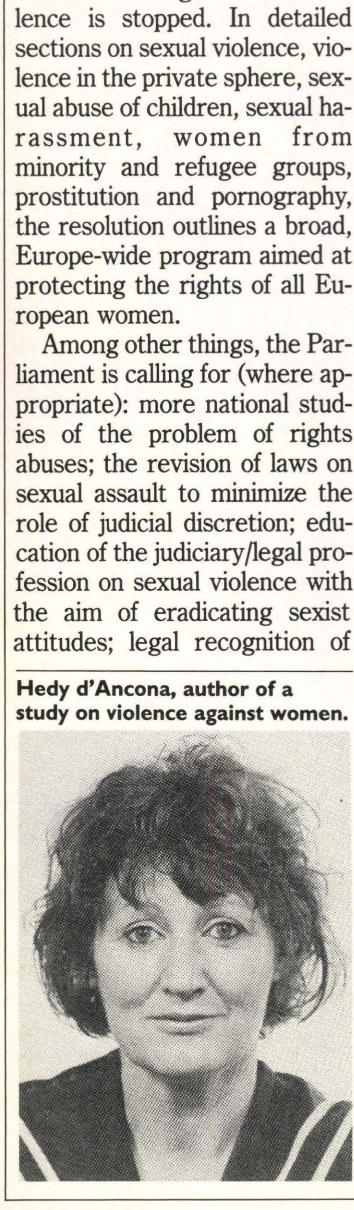
# EUROPEAN PARLIAMENT CONDEMNS VIOLENCE AGAINST WOMEN

The preservation of human rights has long been a concern of the European Parliament, which every year issues a report on rights violations throughout the world. But the Parliament turned its attention this summer to a problem closer to home: the violation of women's rights within the European Community.

The Parliament adopted a resolution in June that reviewed the scope and nature of physical, social and economic violence against women, and made a number of recommendations toward ensuring that such violence is stopped. In detailed sections on sexual violence, violence in the private sphere, sexual abuse of children, sexual harassment, women from minority and refugee groups, prostitution and pornography, the resolution outlines a broad, Europe-wide program aimed at protecting the rights of all European women.

Among other things, the Parliament is calling for (where appropriate): more national studies of the problem of rights abuses; the revision of laws on sexual assault to minimize the role of judicial discretion; education of the judiciary/legal profession on sexual violence with the aim of eradicating sexist attitudes; legal recognition of rape within marriage; more humane treatment by police when complaints are lodged; better education within schools on child abuse; harmonization of national laws on sexual blackmail at work and clear definitions of sexual harassment so that victims of such attacks will have a precisely defined basis on which to lodge complaints; and decriminalization of prostitution.

**Hedy d'Ancona, author of a study on violence against women.**



The resolution was adopted following discussion of a report on the problem drawn up by the Committee on Women's Rights under the direction of Hedy d'Ancona, a Dutch Member of the European Parliament. The d'Ancona report noted that "the extent of violence, in the form of forced sexual acts, assault and rape, incest and other forms of sexual intimidation is much greater than was ever imagined, and is found at all levels of society. The reaction of police and justice is often inadequate. Complaints are not taken seriously in many cases; no report is drawn up or—if it is—such cases are relatively easily dismissed . . . the existing sexualized and domesticated image of women seems to influence the vindication of violence against them, not only by the offenders but also by psychiatrists and policemen."

Debate on the report in the Parliament was overwhelmingly favorable, and the resolution was adopted by a three-to-one margin. One Member of the Parliament, Nicolas Estgen, noted that "the problems covered in this report . . . concern not only women, but equally men. If one woman is violated, all humanity is violated. The true foundation of human rights is the dignity of the human being, and the worst of crimes is to degrade, destroy or wipe out this dignity, whether by brute force or intimidation. Violence is the law of the brute."

**Rapid and irreversible changes in the global shipbuilding industry are forcing painful adjustments in Europe's shipyards.**

# E.C. SHIPYARDS IN TROUBLE

Europe's shipbuilding industry, once dominant in world markets, is facing virtual collapse in the face of increasing competition from new shipyards in other parts of the world. A program of government financial aid, begun in 1981 to help the industry restructure, has had only limited success, and the E.C. Commission is now attempting to develop a new strategy to replace it beginning next year.

The extent of the crisis is clear from shipbuilding statistics. Last year shipbuilding in the 10-nation European Community had an output of 2 million compensated registered tons (CRT), as against 5.1 million CRT in 1976. This was just 14 percent of total world output and represented a fall of 61 percent since 1976. In the past five years, cargo volume has shrunk by 16 percent and the size of the world's cargo fleets has declined by an average 25 percent. Literally hundreds of tankers and bulk carriers once used to carry raw materials have been mothballed.

Over the last 10 years Community shipyards have more than halved their workforce to just over 91,000. In the Commission's assessment, "it is becoming increasingly difficult to adjust to new employment levels, since every opportunity to redeploy the workforce or for early retirement was exhausted long ago."

The fact is that the industry has been trying to restructure itself since 1977, when the crisis first took hold. Strenuous efforts have been made to keep Europe's shipyards afloat by cutting back on shipbuilding capacity and adapting production to new markets, including offshore industry.

The industry's problems, however, stem not only from a fall in worldwide demand but also from the widening gap between the prices quoted by European shipyards and those quoted by industry newcomers in the developing countries. Shipyards in South Korea, which today are second only to the Japanese in output, have been quoting prices that are 35 percent to 50 percent below the best European offers. Commission sources say that the large market share that South Korea and Japan control—about 65 percent of the world market—allows them to virtually dictate price levels. Moreover, shipyards in South Korea and other developing countries are now competing for such specialized vessels as methane tankers, for which European yards have in the past had a technological edge.

Neither Japan nor Korea, however, has completely escaped the present crisis, which is world-wide. The fall in demand for new ships is substantial; the tonnage likely to be completed this year will be some 30 percent below world output 10 years ago. At current prices, yards are not always able to cover production costs, and even highly competitive yards often lose money.

The restructuring of European shipbuilding will have to continue, along with state aid. The European Commission would like the European industry to specialize in vessels incorporating advanced technology. Government aid, it believes, should be available both to promote restructuring and to help offset price differences.

## E.C. NOTES CONCERN ON U.S.-JAPAN SEMICON-DUCTOR ACCORD

This summer's U.S.-Japanese agreement regulating semiconductor trade may have negative repercussions for the European Community and is "an inauspicious prelude" to the new round of multilateral trade negotiations, according to a recent statement by the E.C. Commission.

"Japanese and United States producers hold a preeminent position in this strategic sector," the Commission said. "The Community imports about two-thirds of its consumption of semi-conductors. Consequently the agreement will have considerable repercussions on prices and industrial structure in the European Community.

"The Commission cannot accept that Japan and the United States determine prices to be paid by European users on the basis of a bilateral understanding. Furthermore the Commission is concerned about the possibility of discriminatory market access in Japan arising out of this agreement. Of course, it does not object to those parts of the agreement that are intended to eliminate dumping in the U.S. market.

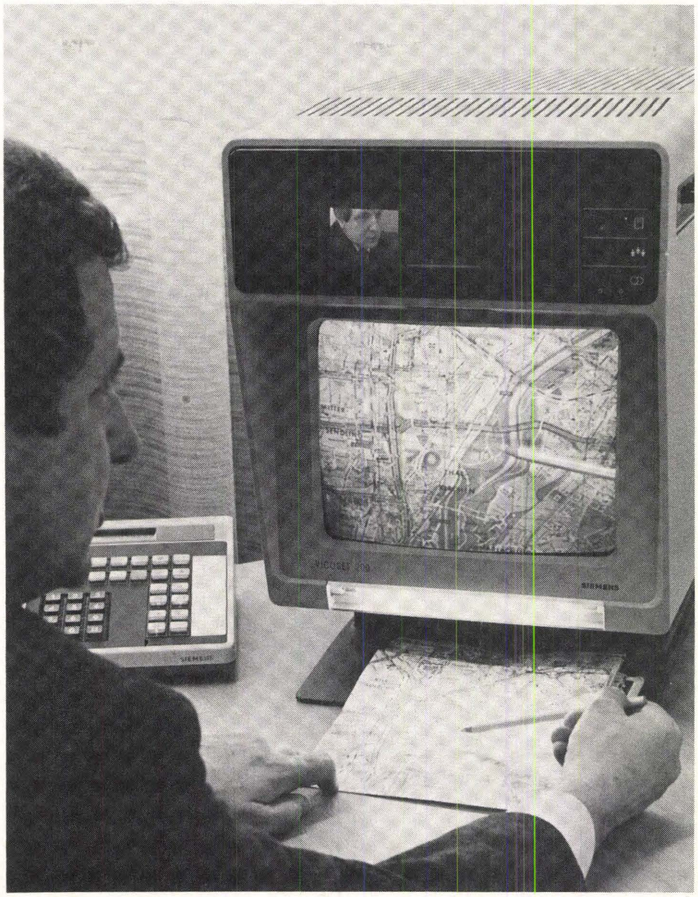
"The Commission considers that this bilateral agreement is an inauspicious prelude to the new round of multilateral trade negotiations in the area of trade in high technology products. One also fails to understand how the agreement could be compatible with repeated pleas for and expressions of adhesion to the free play of market forces."

The Commission said in its statement that it will carefully follow the evolution of export prices to the Community, and would decide on that basis what course of action—including action in the General Agreement on Tariffs and Trade (GATT)—would be most appropriate.

## EUROPEAN TELECOMMUNI-CATIONS: ARE U.S. MARKETS OPEN?

A revolution is underway in the world's telecommunications systems, and vast technological and economic opportunities are opening to both the United States and the European Community. Digitalization of telecommunications networks and the transition in Europe to both the Integrated Services Digital Network and the Integrated Broadband Communications System will greatly stimulate the European economy; the E.C. Commission has estimated that the integrated business information system market alone will account for more than 200 billion European Currency Units (ECU)—about $200 billion—a year by the early 1990s.

**European telecommunications suppliers are still finding it difficult to enter American markets despite the AT&T divestiture, according to the E.C. Commission.**



But the search for the best ways to harness the potential of the telecommunications potential is complex and may mean problems in U.S.-E.C. trade, a recent European fact-finding mission to the United States found. The European Community's trade balance in telecommunications equipment illustrates its position in the race to equip the world information networks of the future. While the E.C. had an overall surplus of 1.2 billion ECU in its telecommunications trade, it held a combined deficit of over 1 billion ECU in its trade with the United States and Japan.

One reason for the deficit is to be found in the difference between European and American standards. European firms lead the field in public digital switching systems, for example, but it could cost them an extra 20 percent to 30 percent (or up to $300 million) to meet U.S. specifications. U.S.-based multinationals, on the other hand, are among the top equipment suppliers in eight of the 12 Community member states.

Not surprisingly, therefore, the fact-finding mission identified work on international standards for telecommunications and information technology, two interrelated fields, as a major area for closer cooperation between Europeans and Americans. The United States should show greater concern for "global interoperability," the mission noted, and called for use of the International Open System Interconnect Standards for new systems.

"The resolution of these issues at the international level must be based on mutual understanding," the head of the E.C.'s Task Force on Information Technologies and Communications, Michel Carpentier, said in a speech to the U.S. Council for International Business. "It is certainly a myth that divestiture in the United States has led to an invasion of the U.S. market by European telecommunications products. Similarly, it is simply not true that in Europe the telecommunications operators procure only from domestic suppliers, thus cutting off the U.S. telecommunications and terminals industry from our market. Our trade statistics show a persistent trade deficit of the E.C. with the United States in telecommunications equipment, which has grown in 1984 to the equivalent of $418 million. Our telecommunications imports in 1984 were of the order of $1.7 billion of which $670 million were from the United States—excluding components and optical fibers."

According to figures from the U.S. Department of Commerce, in 1979 the E.C.'s share of telecommunications imports accounted for only 6.4 percent, while the E.C. market accounted for 14.8 percent of U.S. exports. In 1984, the E.C. share of American imports had dropped to 3.6 percent, compared to Japan's 51-percent share, Taiwan's 11.3-percent share, and Hong Kong's 7.3-percent share. At the same time, the E.C. had become, together with Latin America, the largest U.S. market, with a share of 15.4 percent of U.S. exports.

"Europe's industry still finds it difficult to enter the U.S. telecommunications market," Carpentier noted. "We continue to suffer from the heritage of the once fully integrated—and therefore effectively closed-off—Bell System."

The mission, which included representatives of the E.C. Commission and European industry, found that U.S. officials, Congressmen and industrialists accepted the principle of closer cooperation between European and American bodies dealing with standardization.

The European mission was also concerned with allaying American fears over a recent Community directive on telecommunications terminals. In addition, it sought assurances that the United States is not planning import restrictions following its $1.2 billion trade deficit in the telecommunications sector last year.

## E.C. BOOSTS LENDING TO STIMULATE GROWTH

A major source of financing for structural purposes within the European Community is the E.C. itself. Last year it lent a total of 7.75 billion European Currency Units (ECU)—about $7.75 billion—an increase of 8 percent over 1984, to companies, public authorities and financial institutions in the European Community. At the same time, it borrowed $8.17 billion on Community and other capital markets, some two-thirds of it in Community currencies and ECU.

The bulk of Community financing—5.6 billion ECU last year, or 73 percent of the total—is provided by the European Investment Bank (EIB), which was set up by the same treaty that established the European Community. In 1985 the EIB lent 2.2 billion ECU for projects aimed at furthering the Community's energy policy objectives, including the rational use of energy, the harnessing of geothermal energy and energy saving in industry.

The EIB grants most of its loans from its own resources, but makes other loans from the resources of the New Community Instrument (NCI). These loans totalled 884 million ECU last year, three quarters of which went to the productive sector, in large part to finance investment projects of small and medium-sized companies in industry and directly related services.

The loans from NCI resources are a good example of how the E.C. is helping to promote investments and employment. Between 1982 and 1985 nearly 7,000 small and medium-sized firms received loans totaling 1.8 billion ECU. This, according to the firms, led to the creation of an estimated 39,000 new jobs.

The two other sources of Community financing are the European Coal and Steel Community (ECSC) and Euratom. There was a 13-percent rise in ECSC lending to the steel industry and for the industrial reconversion of regions once dominated economically by coal and steel.

Countries characterized by large regional disparities were the major beneficiaries. Three of them accounted for 80 percent of total lending: Italy (43 percent); France (20 percent); and the United Kingdom (17 percent).

## COMMISSION CALLS FOR EMERGENCY NUCLEAR PROCEDURES

In the wake of the Chernobyl nuclear disaster, the E.C. Commission has drawn up a series of proposals for establishing a rapid information exchange system in case of an emergency at a nuclear power plant, and is asking the Community's member states to apply more efficiently basic standards imposed by the 1958 Euratom Treaty to protect both the work force in the nuclear sector and the general public from radiation exposure.

The response in Europe to the accident at the Soviet Union's Chernobyl power station last June underscored the lack of coherence in the way the rules of the Euratom Treaty are applied, and showed that existing provisions for communication and mutual assistance were inadequate. The Commission received critical radiation reports only after long delays, and the data that came in was often out of date or insufficiently complete to allow a meaningful assessment of air and food contamination. Sampling methods and reference units, moreover, varied from country to country.

These incidents showed that the Community needs a uniform approach in case of nuclear accidents; the Commission is asking the E.C. to set up an ultra-rapid information exchange system which would, among other things, provide the Commission with daily levels of measured radioactivity throughout the Community.

One of the lessons the Commission has drawn from the recent experience is that the Euratom Treaty articles which deal with health and safety have never been fully implemented. The regional network of monitoring facilities set up in the 1950s was designed to measure contamination from weapons tests, and is no longer monitored by the Commission. The European nuclear industry, moreover, has evolved spectacularly since that time. When the Euratom Treaty was signed, nuclear energy produced only about 500 megawatts of electricity. Today, approximately 70,000 megawatts—one-third of the E.C.'s energy needs—are produced by the 50 nuclear plants now operating in Europe.

## COLLEGE DEBATES ON PUBLIC TELEVISION

The Canadian University Society for Intercollegiate Debate has organized a series of debates known as *Dialogue.* Conceived as a forum to foster communication on issues of concern between Old World Europe and New World North America, it takes the form of 13 televised debates in which intercollegiate teams from each side meet to debate pre-arranged solutions. The debates will air on PBS stations in the United States starting in October. Please check your local listings for dates and times.

# THE COMMUNITY BOOKSHELF

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☐ **Higher Education in the European Community: A Guide to Courses and Institutions in 10 Countries.** *Commission, Brussels, 1885, 342 pages.* 4th edition. Guide to the organization of higher education systems in the E.C.-10 including admission requirements, fees and financial assistance, costs of living and student accommodations. Lists principal universities in each country, additional sources of information and survey of courses. $13.00

☐ **Energy Statistical Yearbook 1984.** *Statistical Office, Luxembourg, 1985, 180 pages.* Basic data for the E.C.-10 energy economy for 1984, supply balance sheets for 1984, data by energy sector for 1975-1984, and energy aggregates for Spain and Portugal for 1982-1984. $15.00

☐ **External Trade Statistics User's Guide.** *Statistical Office, Luxembourg, 1985, 61 pages.* Basic methodological information on E.C. external trade statistics. List and description of print publications, microfiche, and magnetic tapes, with prices and subscription terms. $2.50

☐ **Director of Community Legislation in Force: 7th Edition.** *Office of Official Publications, Luxembourg, 1986, 726 pages.* References for all binding Community legislation in force as of January 1, 1986. The main volume is organized by subject with a companion index with alphabetical and chronological references. $59.50

☐ **Fifteenth Report on Competition Policy.** *Commission, Brussels, 1986, 267 pages.* Overview of competition policy developments in 1986; specific cases involving business firms; government assistance to enterprises; trends in concentration and competition in various industrial sectors. $11.00

☐ **Practical Guide to the Use of the European Communities' Scheme of Generalized Tariff Preferences.** *Commission, Brussels, 1986, 369 pages.* Part one describes the characteristics and mechanics of the scheme, including origin rules. Part two lists, by product according to the tariff classification, goods benefiting from preferential treatment. $12.00

☐ **Industrial Cooperation and Investment in Yugoslavia.** *Commission, Brussels, 1986, 169 pages.* A "how to" guide for investing in and trading with Yugoslavia. Covers Yugoslavian government, industry and banking organization, joint ventures, taxation, compensation transactions and import/export regulation. $12.50

☐ **Single European Act and Final Act.** *Council of Ministers, Brussels, 1986, 76 pages.* Texts signed in Luxembourg on February 17, 1986 and The Hague on February 28, 1986, amending certain decision-making procedures in the treaties which established the E.C. and setting up formal procedures for European cooperation on foreign policy. $3.50

☐ **Commission Report to the Council and to Parliament on the Borrowing and Lending Activities of the Community in 1985.** *European Economy No. 28, Commission, Brussels, May 1986, 71 pages.* $7.00

☐ **Employment Problems: View of Businessmen and the Workforce.** *European Economy No. 27, Commission, Brussels, March 1986, 162 pages.* Results of an employee/employer survey on labor market issues including wages, labor mobility, flexibility of working hours and organization of work input. The issue also contains a description of COMPACT, a prototype macroeconomic model for the Community in the world economy. $7.00

☐ **Community Research and Technology Policy: Development up to 1984.** *EUR 10000, Commission, Luxembourg, 1985, 237 pages.* Report on the main thrust of E.C. research in an era of industrial and technological change. Appraises research in progress from traditional industries (textiles, steel, etc.) to energy, the environment, agriculture, raw materials, health and development in the Third World. $8.00

☐ **FORMEX—Formalized Exchange of Electronic Publications.** *Office for Official Publications, Luxembourg, 1985, 243 pages.* Guide to the FORMEX methodology, a system for recording information about E.C. publications in computer-readable bibliographic records for exchange between two or more computer-based systems. $80.00

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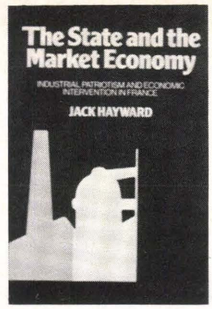
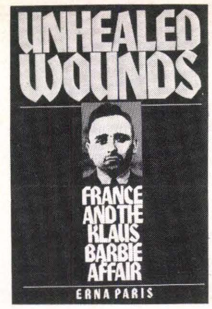
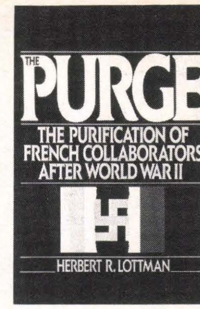
# BOOKS IN REVIEW




**The State and the Market Economy.** By Jack Hayward. New York University Press; New York; 267 pp.; $35.00.
**The Purge.** By Herbert R. Lottman. William Morrow & Co.; New York; 332 pp.; $19.95.
**Unhealed Wounds.** By Erna Paris. Grove Press; New York; 252 pp.; $27.50.

MICHAEL MOSETTIG

France the rational and France the irrational—there is enough in centuries of history to sustain both sets of myths and realities. There is also enough to make the study of French history and politics a risky undertaking for outsiders, but ultimately a rewarding one for the most talented in a long line of foreigners as diverse as the British historian Dennis Brogan and such naturalized American academics as Stanley Hoffman and Ezra Suleiman.

Among the outsiders who have succeeded in the past in making France comprehensible beyond its borders is Jack Hayward, a professor of politics at the University of Hull and author of the classic **Governing France**, which was first published in 1973 and revised a decade later. Now Professor Hayward has taken a narrower but more complex slice of French politics, the relationship between the state and economy. Since Napoleon gave shape to the modern state, this relationship has been the object of fascination to outsiders and of no little amount of myth-making.

Through prodigious research, Hayward has managed to penetrate many of the myths about the interaction between government offices in Paris and the dominant corporations in the economy. Unfortunately, because of a dense style of writing and presentation, one much in contrast to the clarity of **Governing France,** the question remains by the end of the book a subject of fascination only to determined specialists.

What this book does not suffer from is a detailed presentation and analysis of the participants (bureaucratic and corporate elites) and the policies guiding French industrial policy and economic planning. Only in Japan, among the non-communist industrial states, is there a more effective "political-bureaucratic-industrial complex."

What sets the French interventionism apart, says Hayward, quoting the British political scientist Andrew Schonfield, is that France has tried to make a coherent system out of various policy instruments that other nations only have used piecemeal. If France's planning has not matched that of Japan, the main reason is that a fragmented state machine is trying to impart unity to a more pluralistic country.

Since Napoleon gave shape to modern France, the relationship between the state and the market economy has been an object of fascination to outsiders.

Hayward is quick to point out that the state is not automatically the dominant partner in economic relationships. Notably, in oil, the bureacratic-corporate linkup is one of "collusive interdependence" in which the officials of the state promote and serve the interests of the international oil cartel, not necessarily those of the country. In steel, the Government has managed since 1978 to spend 60 billion francs in an abortive effort to keep the industry alive. At least, says Hayward, the subsidies have eased the human pain of the industrial dislocation. But, as he adds, the money going into steel in recent years has come at the expense of such present and future industries as electronics.

Not all in French economic policy-making is controlled through the elites, and Hayward's final chapters include an interesting look at the ideological shifts in policy from the conservative Prime Minister Raymond Barre through the advent of a socialist Government. The Barre Government, more than its predecessors, put its chips behind big business, with more that 56 percent of government aid to industry going to nine firms.

For Barre's Socialist successors Hayward is even more critical. He notes they came into power saying they would not manage the crisis of capitalism. "Unfortunately, it transpired that the alternative was to mismanage it." Their setbacks in office, however, may help them reconcile the role of the state and market with a more realistic idea of how much they can impose a political will over markets.

Although Hayward makes a few comparisons between France and the United States (he makes more with the United Kingdom), his book will offer little comfort to those Americans promoting a government-directed "industrial policy." If a country as comparatively compact and consensus-driven as France has difficulties with such a policy, how would it work in a country as diverse, sprawling and adversarial as the United States? What Hayward did not have time to assess is the effort of the Chirac Government to open the economy more to market forces and to diminish the role of the state. This attempt to apply a bit of Reaganomics in France will be fascinating to watch, but does it have even the slimmest chance to overcome an historical legacy?

The consensus and comparative unity of purpose of the elites is not necessarily reflective of the society as a whole, a point that emerges graphically, sometimes bitterly and tragically, in two books about France during World War II and the aftermath that will not go away. This is the France divided by political passions and revolutions.

**The Purge**, written by an American

newsman resident in Paris, serves to update the history of the *épuration*, or purification, of World War II collaborators. Lottman's conclusion, despite much revisionist history and arguments from those who claimed to be victims of injustice, is that the French basically should be proud of the tempered and lawful manner in which the purge was carried out, from the time of the liberation through the immediate post-war years.

Of course, there were incidents of individuals settling scores on their own, or judicial errors, but the author ends up agreeing with the official figures of 10,842 summary executions (more than half in the fighting just before and during the Liberation) and not the unofficial figures of 10 times that total. He also contrasts the official post-war cases (57,954, of which 6,700 resulted in death sentences and 767 actual executions) with much higher unofficial numbers.

Unfortunately, for all his meticulous pursuit of accuracy, Lottman tends to give too much of a rendition of events and too little of context and the meaning of the purge from the post-war years into current French life.

That the past still weighs heavily in the present is brought home in Erna Paris' disturbing book, **Unhealed Wounds**, on the arrest and impending trial of Klaus Barbie, the Gestapo officer known as the "Butcher of Lyon." This is not a book for the faint-hearted, and the author spares few details in recounting some of Barbie's crimes against humanity. But the work has a larger purpose and one the author pursues relentlessly—that France has been and still remains a country riven since the Revolution, since the Commune, since the Dreyfuss affair and since the French people were confronted with a choice in 1940-1944 between resistance or collaboration. That a vast majority tried to avoid choosing either is something the country is also slowly coming to grips with, as evidenced by the long fights over airing the documentary "The Sorrow and the Pity" on national television.

The forthcoming trial of Barbie in a French court has reawakened much bitterness, not merely because it is recalling the past, but because it is forcing many French people to deal once more with questions many of them would prefer to leave alone. The most disturbing of these is that thousands of French Jews were sent to the death camps, not by German occupiers, but by French officials who seemed to have few if any qualms about pursuing Nazi policies.

The author, a journalist of dual Canadian and French citizenship, skilfully sets a scene in which Barbie awaits his trial, proclaiming his innocence of all charges, and helps set Frenchmen again to fighting around him. Sometimes her writing is overdone: "An emotional longing for the Ancien Régime and for the traditional values it had incorporated during 1,000 years of history surged and swelled in the serpent's throat. In 1983, the arrest of Klaus Barbie threatened to precipitate a new attack of national indigestion."

Such phrase-making aside, the writer has a skill at reaching and dramatizing the emotional conflicts inherent in her story. The Barbie trial threatens part of the myth of the Resistance because it would bring out again how the Resistance hero Jean Moulin was turned in by one of his own men. The French again will have to confront the reality that countless acts of inhumanity were carried out while only 2,500 Gestapo were in the country and under laws instituted by Marshall Pétain's regime.

Paris' account of Barbie's French lawyer, Jacques Verges, is grimly fascinating. The leftist is now defending the Nazi, partly turned by his self-stated revulsion against the hypocrisy of French colonial forces under the direction of men who had been active in the Resistance committing Nazi-like atrocities in Algeria, partly turned by the Third World campaign against Israel. The author sees in the lawyer the merger of the extremes of left and right.

She also paints an interesting portrait of Serge and Beate Klarsfeld, the French Jew and his German wife, unrelenting in the pursuit of Nazi war criminals, using the press at every turn to keep their fight in the public consciousness. The Klarsfelds remain a lesson that even in a largely corporate and bureaucratic world, individuals of sufficient zeal and willingness to absorb opprobrium can move governments and events.

What this grim saga brings out most clearly is the difficulty that nations have in coming to terms with their pasts, especially when those pasts have been enveloped in myths as a way to bind old wounds. A nation on which such diverse rulers as Napoleon Bonaparte and Charles de Gaulle have tried to impose a measure of rationality, of the kind Jack Hayward describes in the creation of the de Gaulle-Jean Monnet post-war economic plan, remains by Erna Paris' account a nation still caught in the undertow of some passionate irrationality. €

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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.*

**EEC Business Strategy to 1990: Threats and Opportunities.** John Robinson. European Research Associates, Brussels, 1986. 305 pp.

In the face of stiff international competition, the author argues that new E.C. strategies are emerging, increasingly concerned with industrial promotion rather than simply business regulation. Predicts that companies will play a greater role in the attainment of political goals and that the E.C. will act as a service agency for business. The study covers a wide range of company law and standards. Also examines differing prospects for the treatment of non-E.C. multinationals and the role of the Community in the next round of multilateral trade negotiations.

**The United States and Germany: A Vital Partnership.** Arthur F. Burns. Council on Foreign Relations, New York, 1986. 51 pp. $10.00.

The author reflects on the state of American-German relations, drawing on his four years as Ambassador to the Federal Republic of Germany from 1981 to 1985. Describes some of the manifestations and causes of European economic sluggishness and explains why Americans have an important stake in a full European recovery. Argues that in spite of efforts to "privatize" various industries, much more must be done to diminish the scope of the welfare state and restore economic dynamism. Outlines some fundamental differences in perceptions and interests and suggests some ways to minimize tensions between the two countries.

**Staff Studies for the World Economic Outlook.** International Monetary Fund, Washington, D.C., July 1986. 195 pp.

Prepared in the Fund's research department, these staff studies analyze various economic trends in industrial and developing countries. Differences in employment behavior among industrial countries, labor markets, unemployment in developing countries and effects of exchange rate changes are discussed.

**The European Community: A Practical Guide and Directory for Business, Industry and Trade.** Second Edition. Brian Morris, Klaus Boehm. Gale Research Co, Detroit, 1986. 348 pp. $145.00.

Fully revised and updated edition provides essential details for establishing personal contacts with all of the European Community institutions, government departments of the 12 member nations and representative organizations in industry, the professions and trade. Its organization by agency makes this a useful resource for a company seeking support or information in an industry without any specific country commitment. Includes listings for hundreds of organizations and associations, complete with a system of cross referencing, index and list of agreements and other bilateral commitments linking the Community and non-member states.

**European Democracies.** Jurg Steiner. Longman Publishers, New York, 1986. 276 pp.

Introductory text to European politics designed especially for American students. Instead of comparing only European political systems, this text compares and contrasts the European and American experiences and perspectives on politics. Includes chapters on political parties, economic interest groups and social movements. Newspaper excerpts help frame the issues and bring the material to life. Compares parliamentary elections, the role of the state and cabinet formation. Also reviews E.C. institutions and various decision-making theories.

**The Economic and Industrial Impact of Spain's Accession to the EEC.** European News Agency, Brussels, 1985. 111 pp. + annexes.

Attempts to assess the situation of the Spanish economy on the eve of accession, analyzing the industrial structure, economic policies and foreign trade. The second part focuses on the implications of membership on Spain, especially as it relates to Spanish industrial and commercial interests. Discusses at length the various positions taken during the negotiations and reviews problem areas. Includes chapters on the customs union, commercial external relations as well as financial and social issues.

**Business Law Guide to Germany.** Strobl, Killius, Vorbrugg. CCH Editions, Ltd., Oxfordshire, 1986. 408 pp. £22.00.

Written by a Munich law firm for business executives and their advisors, this guide explains the rules and procedures governing a wide range of business law topics and, where applicable, includes developments at the international and European level. The text is supported by references to German legislation and case law and relevant E.C. material. Includes chapters on sales conditions and consumer protection, customs law and procedure, taxation, accounting, E.C. competition law and more.

**Opposition in the GDR under Honecker—1971-85.** Roger Woods. St. Martin's Press, N.Y., 1986. 257 pp. $29.95.

Against a background of rapidly expanding contact with the West, unrest and calls for political reform in Poland and mounting economic crisis at home, the leaders of the German Democratic Republic (GDR) have had to face an increasingly vocal opposition. Discusses the major forms of opposition under Council of State Chairman Erich Honecker including dissident intellectuals, the unofficial peace movement and those who simply wish to leave the GDR.

**Historical Dictionary of the Third French Republic, 1870-1940.** Patrick H. Hutton. Greenwood Press, Westport, CT, 1986. 2 Volumes, 1206 pp. $125.00.

This comprehensive reference work contains more than 750 entries and covers all aspects of French history and civilization from 1870-1940. Biographies of the leading personalities in politics, art, and intellectual life are presented along with a wide range of topical entries dealing with institutions, movements, organizations and ideas. A set of appendixes classifies the entries topically and provides a list of presidents and premiers and a thorough chronology of the Third Republic.

**Law of the Common Agricultural Policy.** Francis G. Snyder. Sweet & Maxwell. Distributed by Carswell Legal Publications, Agincourt, Canada. 181 pp.

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

**Stockpiling Strategic Materials—An Evaluation of the National Program.** Rayomond F. Mikesell, American Enterprise Institute for Public Policy Research, Washington, D.C., 1986. 66 pp.

Focuses on current debate over the role, size, and composition of strategic minerals held in reserve by the United States through its National Defense Stockpile (NDS) program. This well-written study identifies and analyzes the major policy issues related to the NDS program. The author examines and questions the current NDS program's design in relation to defense and civilian production. In the final chapter the author puts forward his own proposals for revision of the NDS program in the United States. In this healthy criticism of current U.S. policy, the author offers some well supported alternatives.

**Vacation Study Abroad.** Edrice Howard, ed. Institute of International Education, New York, 1986. 328 pp. $15.95.

A comprehensive guide to study abroad. This volume provides detailed descriptions of over 800 educational programs sponsored by U.S. and foreign universities and institutions. The guide is worldwide in scope including study abroad programs in Africa, Asia, Europe, the Middle East, Northern Africa and the Western Hemisphere. Information is provided relating to costs, application procedures, academic programs and living arrangements. Written with the student in mind, a helpful introduction to the planning and special requirements of a study abroad program is included by the editor.

**The Soviet Economy After Brezhnev—Colloquium 11-13 April, 1984, Brussels.** Philip Joseph, ed. North Atlantic Treaty Organization (NATO), Brussels, 1984. 332 pp.

A collection of essays presented by experts from academic, business, and banking communities to the 13th NATO economics colloquium entitled "The Soviet Economy After Brezhnev." The studies comprise an examination of recent Soviet efforts to revitalize their slowing economy. The studies are primarily based upon recent Soviet economic policy revisions, and newly released Soviet economic data. The essays examine the effects of recent and rapid changes in the Soviet leadership on the strength and direction of Soviet economic policy. Interesting observations are made in such areas as Soviet food programs and Soviet international trade strategy. Most of the essays are written in English, but some are in French.

**GDR Society And Social Institutions—Facts and Figures.** G. E. Edwards. St. Martin's Press, New York, 1986. 244 pp. $27.50.

A thoughtful examination of society within the German Democratic Republic (GDR). Based exclusively upon first-hand research of GDR society, the author presents a study of four major subjects: the family, women, youth and the elderly. The author is able to capture the practical everyday aspects of life in the GDR, and present it in a manner which will prove to be useful to researchers and students alike. The thoughtful analysis of the author is clearly evident in chapter 2 of the book, on the position of women in the GDR, and in chapter 4, dealing with the elderly.

**The Politics Of Energy Policy Change in Sweden.** Robert G. Sahr. The University of Michigan Press, Ann Arbor, MI., 1985. 267 pp. $19.95.

A study of the recent shift in Swedish energy policy from a supply oriented system to a demand oriented system. The author outlines and examines the formulation process of Swedish energy policy and the substantive and political concerns withing Sweden which mold it. The author is able to demonstrate, through careful analysis, the reasons behind the decision of Sweden to adopt a new energy policy. The work is concluded with an insightful comparison of energy policy in the United States and Sweden. Through his examination of the Swedish system, the author is able to present the energy alternatives and policy decisions facing the United States today. A concise examination of Swedish energy policy and its origins, which meshes well with American experiences.

**East European Economic Handbook.** Euromonitor Publications Limited, London, 1985. 323 pp.

A statistical study of all seven East European countries. The author begins with a global examination of the role of East European economies in the world economic scene. The performance of the East European region is compared with other areas of the globe. The trade relations of Eastern Europe are also studied, as well as the potential market for Western goods in Eastern Europe. To conclude the regional economic analysis, the role of the Soviet Union in the economy of Eastern Europe is studied. This volume also provides detailed statistical information on all major aspects of each individual East European nation's economy. The various roles of industry, policy and economic trends are studied in the context of each nation and its unique system of government. This statistical work should prove useful as a guide to East European economies and as a source of valuable information for the student and researcher.

# PUBLISHED FOR THE COMMISSION

**Technetium in the Environment.** *EUR 10102.* G. Desmet, C. Myttenaere, eds. Elsevier Applied Science Publishers, New York, 1986. 419 pp. $90.75.

Proceedings of a seminar on the behavior of technetium in the environment, organized by the Commission of the European Community, Radiation Protection Programme, and the Service d'Etudes et de Recherches sur l'Environnement of the Commissariat à l'Energie Atomique, France, in collaboration with the Office of Health and Environmental Research of the U.S. Department of Energy, and held at Cadarache, France, 23-26 October 1984.

**Odor Prevention and Control of Organic Sludge and Livestock Farming.** *EUR 10358.* V.C. Nielsen, J.H. Voorburg, P. L'Hermite, eds. Elsevier Applied Science Publishers, New York, 1986. 391 pp. $66.00.

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Proceedings of a seminar on the results of the E.C.'s Indirect Action Research Program on Safety of Thermal Water Reactors, held in Brussels, 1-3 October 1984.

## TRADE DEFICIT

Continued from page 14.

Over the past 18 months, in fact, the United States has gotten much of what it asked for from Europe, in particular European tax cuts and a new round of multilateral trade talks. The German and Dutch central banks both lowered interest rates last winter in coordination with the United States and Japan, but growth in demand has remained weak. The adverse impact of last November's fall in oil prices has hit many of the Western economies faster than the favorable effects, and economic activity in Europe earlier this year was further dampened by exceptionally cold weather.

But if growth in Europe has been less buoyant than hoped for, much of the blame can be laid on the drop in demand from the United States and the oil-exporting countries for European exports. The European response has been a careful, step-by-step shifting of the sources of demand toward the internal sector. As J. Paul Horne, a European analyst with Smith Barney, Harris Upham and Co., noted recently: "In the major European countries the domestic demand component of growth is now compensating for lost exports as the dollar falls."

The decline of the dollar has also affected the internal equilibrium of the European currencies. In addition to its 40-percent rise against the dollar over the past year, the Deutsche mark has been strengthened in recent months by an influx of speculative capital which has put the European Monetary System (EMS)—the semi-fixed exchange rate system that has tied the European currencies together in relative stability since 1979—under considerable stress. In a move that caught many in the United States by surprise, European Community Finance Ministers and central bankers meeting in Gleneagles, Scotland, over the weekend of September 21 pulled together and agreed on concerted action to defend the parities of the EMS currencies, and to persuade the United States to stabilize the exchange rate of the dollar.

So far, the E.C. member states have been adamant in their refusal to cut interest rates further, in spite of intense U.S. pressure at the G-5 talks on September 27 and 28. The hardening of positions underscores a basic divergence of attitudes: Worried that the American approach is shortsighted and volatile, Europeans are being intentionally cautious as they deliberate a strategy for growth.

But does Europe have the room for maneuver that American officials insist is there? With inflation down and unemployment continuing at record and intractable heights throughout most of the Community, monetary expansion might seem to make sense. Some Europeans agree. The German Institute for Economic Research has argued that, "without the expansionary policies of the Reagan Administration, European nations would long since have had to take more stimulatory steps of their own. For them not to do so now, and merely to urge Washington to cut its deficits, would be to turn the explanation of world economic developments over the past three years on its head."

Most European Governments, however, are extremely chary about moves that might undercut their hard-won victory over the inflation of the 1970s. "The reasons for caution in stimulating the economy are all too evident," Jeffrey Sachs, a noted Harvard economist, wrote in a recent working paper for the National Bureau of Economic Research. "Even at today's high unemployment rates, a demand expansion could well reignite inflation in many countries."

Those most responsible for the German economy concur. Bundesbank President Karl Otto Poehl believes economic and monetary realities argue strongly

## E.C. STATEMENT

*Willy De Clercq, the E.C. Commissioner responsible for external relations and trade policy, read the following statement on behalf of the Community at the conclusion of the Punta del Este meeting.*

Mr. Chairman, The starting gun for a new round of multinational trade negotiations has at last been fired. Under your leadership, what we came to achieve has been achieved. Each of us has tempered his demands, in the interest of the common good. We have demonstrated again the value of consensus in the General Agreement on Tariffs and Trade (GATT). And we have renewed our commitment to the open multilateral trading system, so vital for the European Community and for our partners, big and small. The Uruguay Round is launched and the Punta del Este declaration will henceforth serve as our banner for the great mission ahead.

None should underestimate the size of this challenge. The objectives are ambitious. The negotiations will be tough and demanding. But they can and will be brought to a fruitful conclusion. You can count on the European Community to play its part to the full.

In the GATT, genuine mutuality of advantages has always been, and must remain, a primary aim. Benefits should be fairly shared. Unhappily, certain fundamental disequilibria persist, and are undermining the health and well-being of the multilateral trading system. The Uruguay Round will need to put this right. During these negotiations, we shall be assessing the progress made.

Mr. Chairman, the Community reaffirms its commitment to differential and more favorable treatment for developing countries consistent with the level of their economic development. We will also continue to give special attention to the trade problems faced by the Least Developed Countries.

While our fundamental common policies and mechanisms are not up for negotiation, agriculture will be fairly and squarely addressed in the Uruguay Round. In our interest, as well as in that of other contracting parties. Given the specific characteristics of this vital and sensitive sector, all aspects will be handled in the group specially appointed for that purpose. We shall negotiate in that group in good faith, to secure genuine advance.

In the Uruguay Round, the Community will be participating in its new configuration. The process which led to our enlargement from ten to 12 member states entailed complex and lengthy negotiations. We uphold the outcome, which is now accomplished fact.

Finally, I must also say a word on fisheries. We accept the text on natural resources products in general and are, of course, ready to *aim* at further liberalization in this sector. But as far as fisheries is concerned, we regret that the options we developed in the Fisheries Working Group and which we stated in the Group's report, are in no way reflected in the text. We feel obliged, therefore, to repeat again what we have consistently stated in all fora in which this issue has been discussed; namely, that we will pursue discussions in the fisheries sector only if all factors specific to this product and having an influence on trade are taken into account.

I would ask, Mr. Chairman, that this statement be recorded in the records of out meeting.

against any move to stimulate the economy by driving down borrowing costs. "The objective facts and figures do not justify a reduction in German interest rates," he said in a recent interview with the *Financial Times*, noting that the German economy is growing, "for the time being at least," at a sufficient pace. "I have never denied the need for West Germany to make a strong contribution to a better equilibrium in the world economy," said Poehl, adding that, contrary to the American view, there is little room for expansion. "We are convinced that we are doing what can be expected of us. And the facts and figures coming in every day are confirming our judgement as right."

The latest figures support Poehl's position. Second-quarter GNP grew 3.3 percent from a year before, with a rise in domestic demand of 5.3 percent in real terms. Investment in machinery and equipment grew 10.8 percent, private investment 4.8 percent and government consumption 2.5 percent. "The process of shifting demand from export demand to domestic demand . . . is underway," said Poehl, noting that Germany's current-account surplus, which should finish the year at about $25 billion to $30 billion, "is almost entirely due to an improvement in the terms of trade," reflecting lower oil prices and a rise in the value of the Deutsche mark. "Imports are growing much faster than exports," he said, and pointed out that the trade account with the United States is a special problem as many large American companies manufacture in Germany rather than export to it.

Other observers, noting the stability of the economy, are impatient with the German response. The British economist Stephen Marris, a Senior Fellow at the Institute for International Economics in Washington, D.C., says that the fall of both the dollar and oil prices have effectively "clobbered" inflation, and that Europe should not miss this opportunity to expand. "What is needed is a collective European effort to take advantage of the new opportunity, along the lines that Jacques Delors, President of the European Commission, has been valiantly trying to develop in Brussels," Marris recently advised. "The lead would have to come from West Germany, where inflation has dropped to zero and the balance of payments is strong. Britain should then be able to follow suit."

Reducing interest rates without taking broader stimulatory measures, however, could turn out to be counterproductive. While real money supply has been growing at over 7 percent in both Japan and Germany, monetary expansion alone may not be enough to keep growth going in export-oriented economies, as investment demand is unlikely to respond greatly to lower interest rates when export demand is weakening. "To persist in trying to offset [the negative impact of the falling dollar] solely by expansionary monetary policies would mean piling up a massive overhang of liquidity," Marris said recently, "which, as the benefits from the drop in oil and other commodity prices wear off, could easily pave the way to a new inflationary outbreak by the end of the decade. The sooner Europe and Japan see the need to give themselves a temporary fiscal stimulus, the less the risk that, as the dollar goes down and the loss of export markets gathers momentum, their monetary authorities will be panicked into printing too much money."

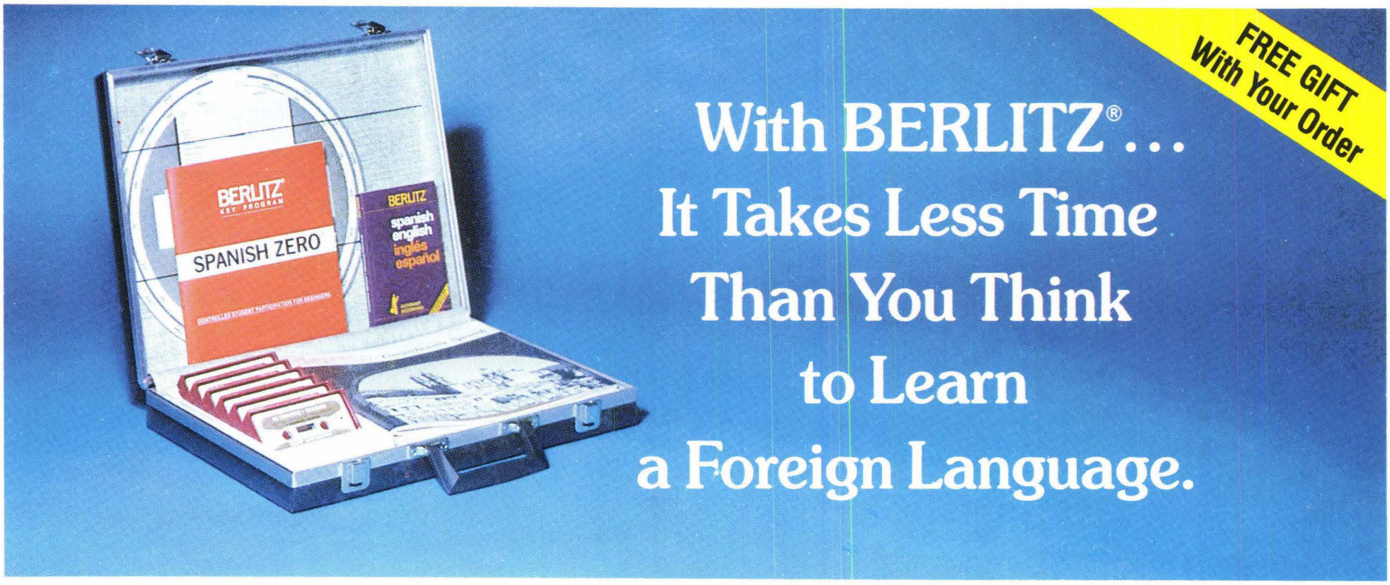
The U.S. trade and budget deficits are both the result of a strategy of economic expansion that was, in a word, shortsighted. As they take the reins of global economic growth away from the United States, Japan and the E.C. will be forgiven if, keeping one eye on the U.S. budget deficit, they tread more slowly.

Would a cut in European interest rates substantially affect the American trade balance? Poehl is fond of quoting Martin Feldstein, former chairman of the President's Council of Economic Advisers, who recently argued that even if an expansion of the German and Japanese economies were to boost real GNP growth throughout the world by 30 percent over the next two years, U.S. exports could not be expected to increase by more than 1 percent a year. By the end of 1988, says Feldstein, exports would have risen annually by about $5 billion—a trivial amount in comparison to a deficit expected to be in the range of $200 billion. Feldstein's figures are not universally accepted, and the trade balance would also be affected by diversion of imports from Japan and the developing world to Europe, thus relieving the flood of imports into the United States.

The debate over the American trade deficit and Europe's increasingly important role in the global economy will no doubt continue. Given continued stability in Europe, the Bundesbank may eventually relent and cut rates, and stimulatory fiscal measures (including new tax cuts) are expected after the German elections in January. European growth is expected to continue at about 3 percent, but whether expansion will have a strong effect on the U.S. trade deficit is still unclear.

The causes of the American deficit are multiple: The global economy is undergoing vast change, farm export markets worldwide are shrinking while surpluses pile up, floating exchange rates have given currency values an important role in determining comparative advantage, the United States appears to be shifting from a manufacturing to a service economy, the debt crisis has brought about a decline in demand from the Third World, and the terms of trade for many traditional American industries are shifting in favor of developing countries that can combine basic industrial technology with low wages.

There are no easy answers to a complex and multifaceted trade deficit. Any realistic solution will have to be just as complex. A number of the most important issues will be addressed in the new round of multilateral trade talks; others will demand political courage and commitment—and probably a fair dose of economic pain—to resolve. Important measures have already been taken: The E.C. has voluntarily accelerated its rate of tariff cuts agreed under the Tokyo Round, and a genuine consensus was reached in Punta del Este on the agenda for the next GATT round. Coordination of economic policies in the Group of Seven was begun last summer in an attempt to inject more stability into the exchange-rate system and more vitality into the global economy. And with determination, the American trade balance can again be brought into equilibrium. But the trade and budget deficits are both the result of a strategy of economic expansion that was, in a word, shortsighted. As they take the reins of global economic growth away from the United States, Japan and the European Community will be forgiven if, keeping one eye on the American budget deficit, they tread more slowly.

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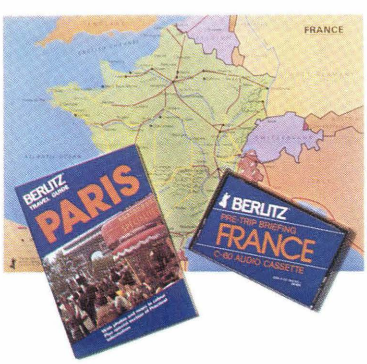


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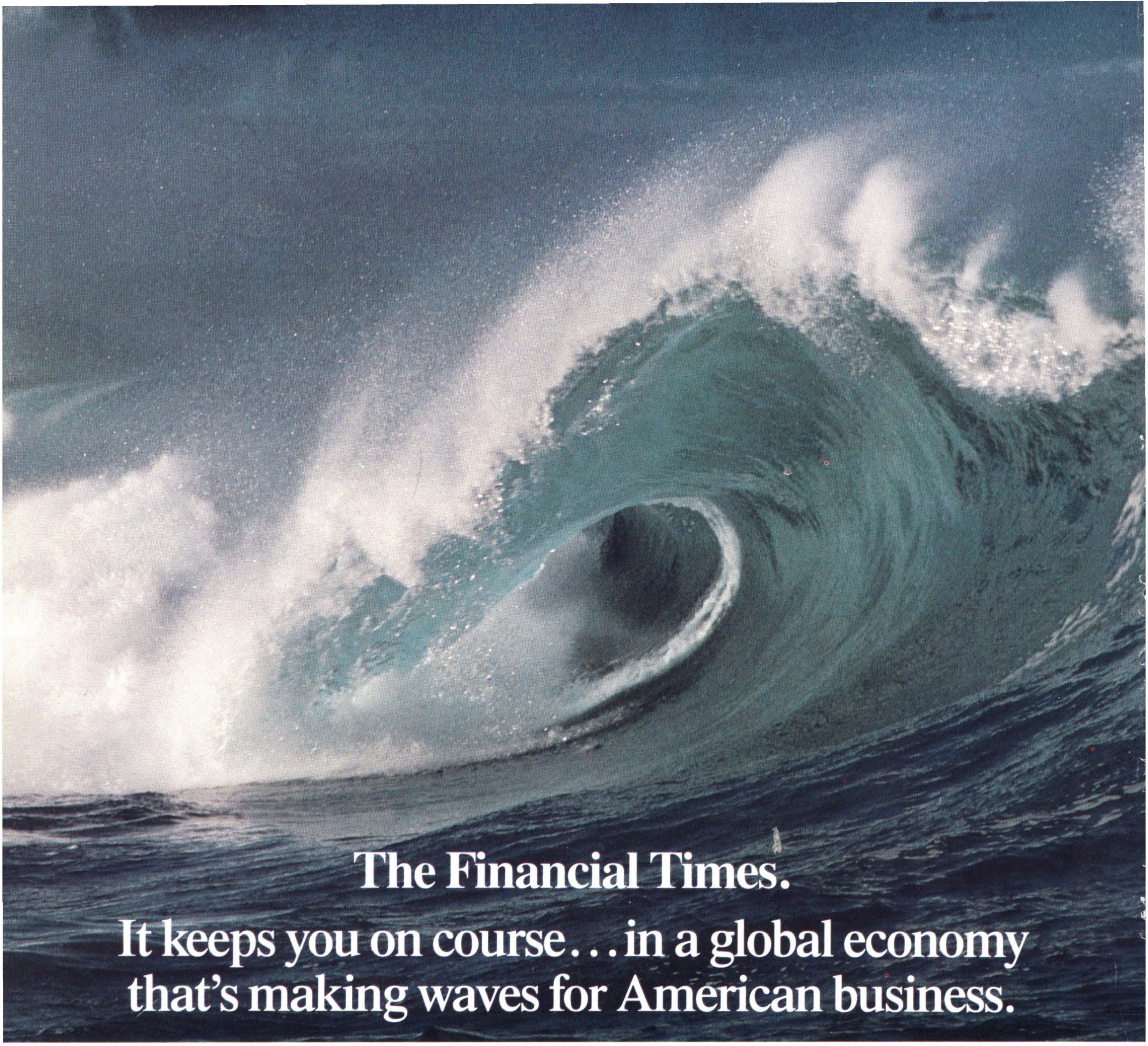


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