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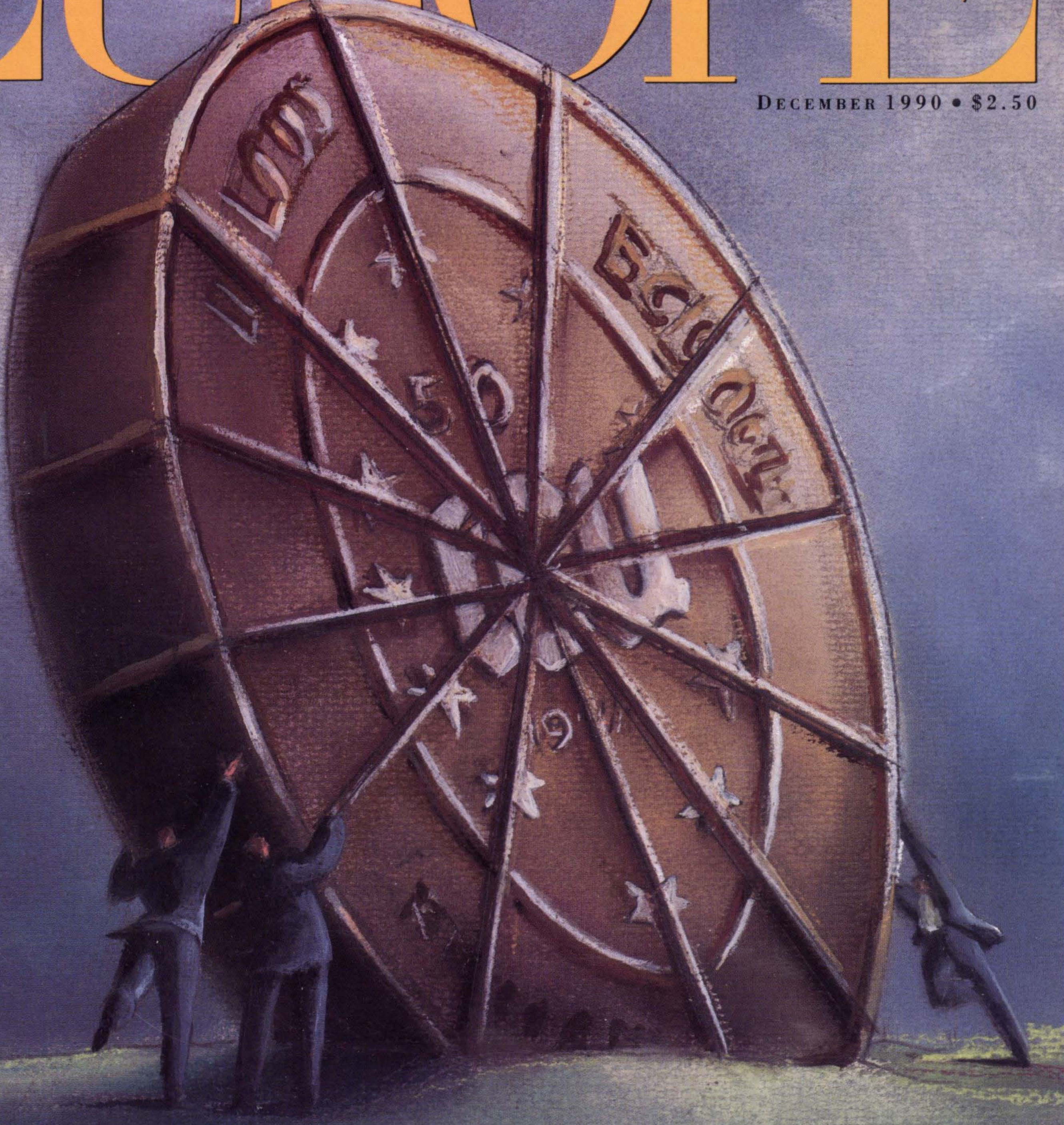


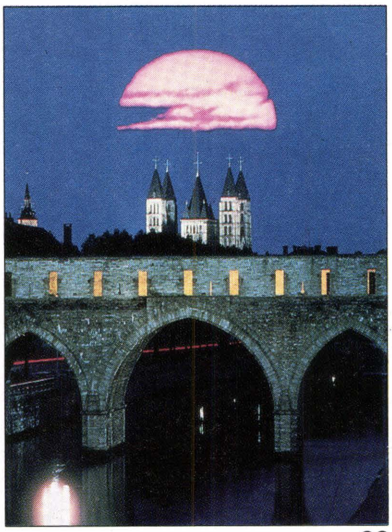
THE ECU A Single Currency For a United Europe

ALSO . . . A PROFILE OF U.K. PRIME MINISTER JOHN MAJOR

DECEMBER 1990 NUMBER 302

EUROPE

MAGAZINE OF THE EUROPEAN COMMUNITY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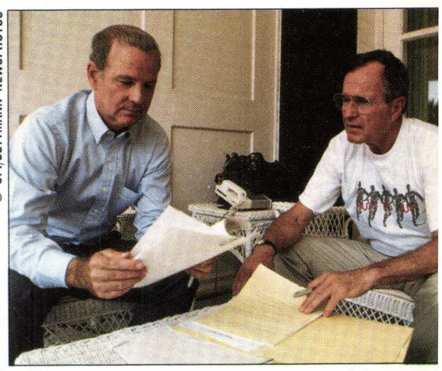
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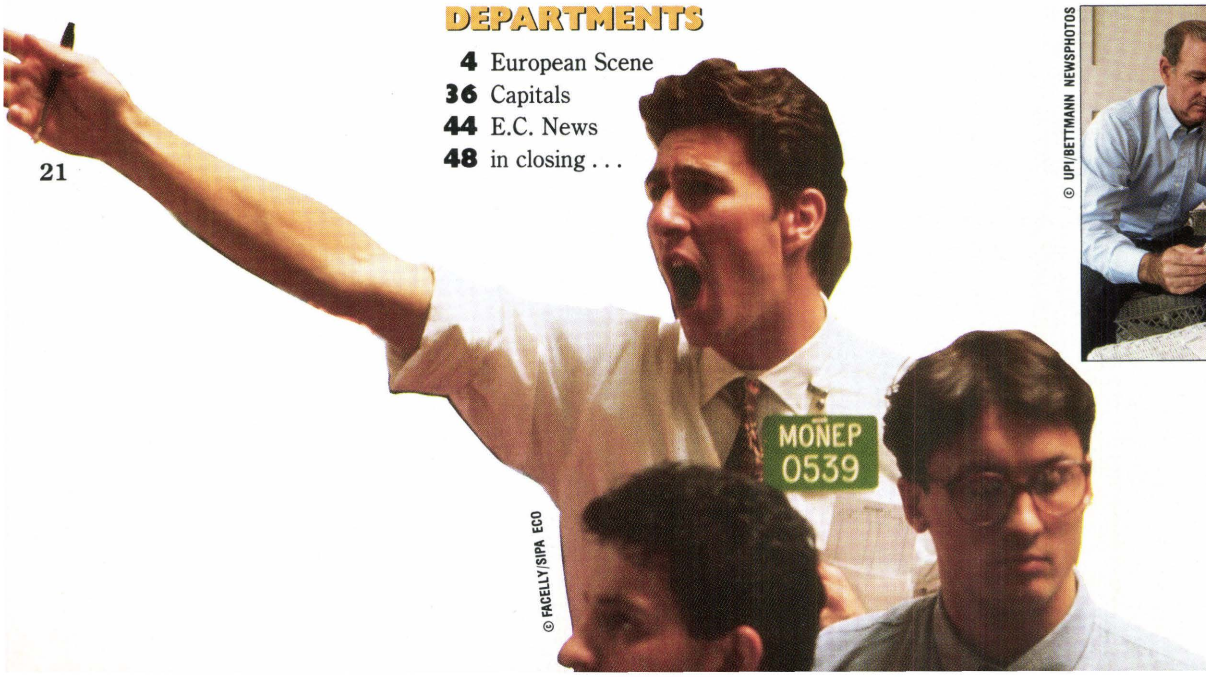

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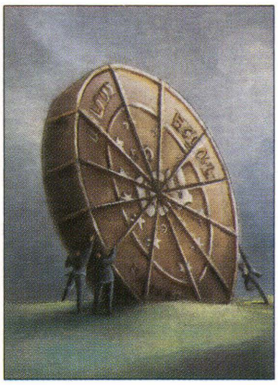
Letter From The Editor

EMU. ECU. EUROFED. POLITICAL union. Until recently, these were only vague terms in the discussions on the future of the European Community. Now the future is upon us, and these terms are no longer merely vague concepts. Economic and monetary union, the European Currency Unit, the European central bank, and European political union are rapidly becoming reality.



COVER: Economic, monetary, and political union is fast becoming the new reality. Illustration: Karen Stolper.

In light of the two historic inter-governmental conferences on economic and monetary union and political union being held in Rome this month, *Europe* presents a special magazine devoted exclusively to these issues.

In *Europe*'s cover story, Reginald Dale takes a close look at the politics behind economic, monetary, and political union, and brings us up to date on how Europe came so far so quickly. Ralph Mehnert outlines the setup and tasks of the newly proposed European central bank, the EuroFed, discusses how it will work, and explains why a central bank will be a tremendous asset for E.C. member states.

Barry Wood traces the ECU's history and analyzes and projects how a single currency will enable the E.C. countries to be more productive and profitable in the future. Wood points out that, although the ECU is not yet a standard currency, many economists predict its use throughout Europe by the mid-1990s. Norbert Walter, Chief Economist for the Deutsche Bank Group, details how EMU and political union will affect banking and business throughout Europe. Walter also discusses the costs involved in rebuilding the former East Germany.

Lionel Barber looks at political union in Europe from America's point of view, as the Bush Administration assesses America's role in the new Europe, and tries to define exactly what political union will mean for future U.S.-E.C. relations.

David Lennon, writing from London, explains that a new era is about to begin in British politics after the resignation of Prime Minister Margaret Thatcher. Lennon looks at the Thatcher years and profiles the new Conservative leadership. He also explains the British alternative proposal for a single currency, known as the "hard ECU."

E.C. Commission President Jacques Delors gives *Europe* his views on EMU, political union, and the EuroFed, and outlines his hopes for the intergovernmental conferences.

Europe also asked all of its correspondents in the 12 E.C. capitals to present the prevailing mood on EMU and political union in their respective cities.

This month's Member State Report focuses on Belgium. In addition to exploring Belgian politics and economics, *Europe* provides a guided tour of this beautiful country.

Robert J Guttman

Robert J. Guttman
Editor-in-Chief

EUROPE

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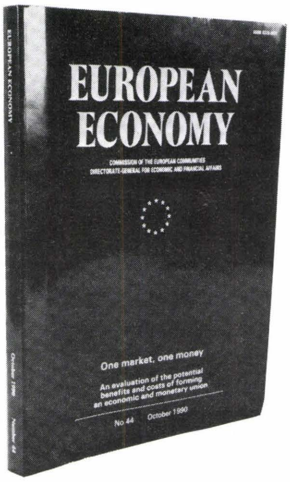
EUROPE: Wealthy, Confident and Unified



One Market One Money European Economy Number 44

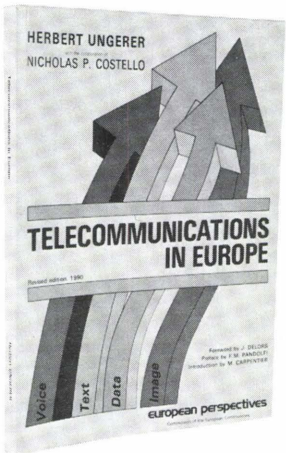
An Evaluation of the Potential Benefits and Costs of Forming an Economic and Monetary Union

The 1992 Single European Market is looming ahead. With a central European bank scheduled to be created by 1994, and hopes of a single European currency before the end of the century, the emergence of a rich, confident and unified Europe on the world marketplace is foreseen as exerting a major force on global competition. The costs as well as benefits of the move to economic monetary union are critically reviewed in this publication.

The monetary union of Europe will be of historic importance. In an era of increasingly polarized economic power, American companies must keep up-to-date with the impending changes that will affect their marketplace, and the marketplace of the world.

This critical report examines the forecasted policy and behavioral changes, the financial and economic impacts, along with the over-all implications for the Community.

1990, 200 pages, paperback, Order No. CB-AR-90-044-EN-C, **$25.00,** Standing Order No. 81400560



Telecommunications in Europe

Free Choices for the User in Europe's 1992 Market

Telecommunications, a truly global industry, has recently become the infrastructure of a wide variety of services, and thus acquired a new role in the world's future development. It is evolving into one of the basic foundations of our increasingly communications-based society.

Telecommunications will be a major factor shaping the European Community market and will, to a great extent, determine Europe's future position in high technology.

This book sets out to give an insight into the main elements of the industry including: digitization; Integrated Broadband Communications; the Community's RACE program; world-wide competition; and the issue of liberalization. It details the predicted changes in technology and the new developments as Europe's 1992 market draws closer. For US companies in the field, this report gives an in-depth review of the characteristics of the European market, as organizations seek out new opportunities for expansion turning to international markets.

1990, 255 pages, paperback, Order No. CM-59-90-346-EN-C, **$13.50,** Standing Order No. 81400284

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EUROPEAN SCENE

U.F.O.s Scare Europe

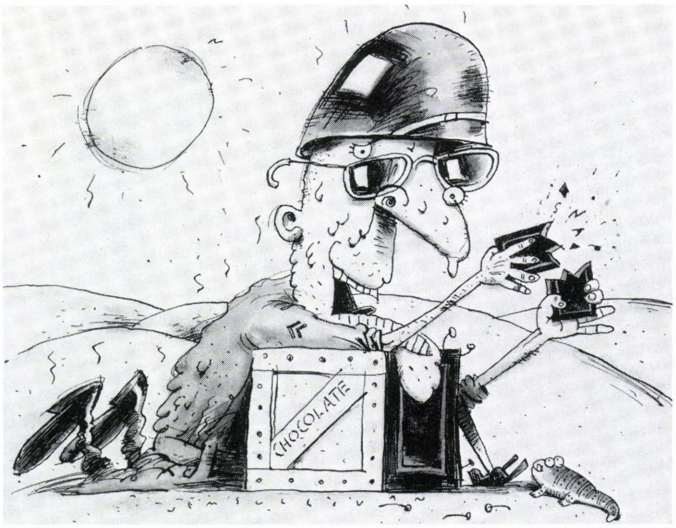
Reports from France, Italy, Switzerland, and Belgium recently brought Europe to the verge of a mysterious U.F.O. scare, when silently moving lights were reported to be moving through the night skies.

In Geneva, a Reuters technician spotted a large orange ball making its way westward from the Jura mountains to the Alps, and several airline pilots reported similar sightings in French air space.

The recorded times of all of the sightings indicated a large phenomenon at a very high altitude . . . .

And, indeed, the French National Center for Space Studies found that the phenomenon was "the third stage of a Soviet booster rocket used on October 3 to launch into orbit a Gorizont-21 type telecommunications satellite." The Center added that "exceptionally clear weather assisted the observation of its re-entry into the atmosphere."

So Europe, worry no more. For the time being, your UFOs are simply "Unharmful Fright-provoking Objects."
—Reuters



JEM SULLIVAN

Will the Swiss Enter the Gulf?

Although Switzerland is militarily neutral in the Gulf crisis, that has not prevented the country from helping in the "burden-sharing" with a very sweet invention: melt-proof chocolate for the soldiers in the hot desert sun.

This may sound too good to be true, but the chocolate's inventor, Claude Giddey, insists that the candy will withstand temperatures as high as 140 degrees Fahrenheit (60 degrees Centigrade).

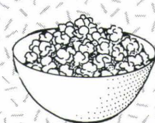
While Giddey remains silent about the chocolate's processing techniques, he claims that "its make-up is the same as any ordinary chocolate." So, to all those soldiers worried about suffering from chocolate withdrawal in the desert heat: Your Swiss chocolate may be on its way.
—Reuters

BUTTERED, PLAIN, OR PACKAGED?

•

Don't be surprised if your next computer equipment purchase is packaged in popcorn.

The Dutch computer firm Corblan International BV recently announced that, despite increased costs, it was packaging its delicate equipment in popcorn rather than expanded polystyrene to protect the environment. But, said Corblan's Jeroen Groot, there were also other uses for the popped corn: "Some people eat it afterward, although we don't recommend it!"*—Reuters*



BONDS FOR SALE!—The buzzword throughout France these days is BOND . . . . No, not as in James Bond, but as in Czarist Russian bond.

Many French citizens are busily rummaging through their attics, basements, and safety deposit boxes for millions of dollars worth of unpaid Czarist bonds that have kept alive for decades the dreams of many French families that one day they may strike it rich.

Although many bondholders lost faith in Moscow long ago—either giving away, destroying, or selling the bonds as souvenirs—the Soviet Union recently, and unexpectedly, agreed to settle the decades-old dispute.

The news brought cheers from the Defense Group of Russian Bondholders, a 40-year-old organization that has frequently demonstrated publicly to press its claims. Nevertheless, French stockbrokers warned that any payment by Moscow would likely fall far short of the face value of the bonds plus interest.

The bonds, some dating back to 1822, were a great success and very profitable to buyers. After the 1917 October Revolution, however, the Soviet Government refused to honor debts inherited from the Czarist regime.

Furious French bondholders, thought to number 1.5 million at the time, rejected a Soviet proposal several years later to repay 15 percent of the value of the bonds in exchange for new French credits. Now that the Soviets are changing their image, many Frenchmen and women can look forward to making money on their bonds . . . if they can find them.

THE NEW Reality

ECONOMIC, MONETARY, AND POLITICAL UNION

The 12 E.C. countries gather in Rome this month for negotiations that carry the same momentous potential as those that brought American leaders to Philadelphia to hammer out a constitution for the United States just over two centuries ago.

The Europeans, like the Americans before them, will be seeking to lay the legal basis for a future economic and political union. And, just as the Americans, they will wrangle over the amount of power they should vest in a central authority and the way in which the institutions of the union should be subjected to democratic control.

Around the table in Rome—as in Philadelphia in May 1787—will be seated federalists and anti-federalists, delegates arguing for greater powers for the central government, and others seeking greater independence for the constituent states. But parallels should not be drawn too closely. The Americans were trying to unite a relatively homogeneous group of young former colonies with a single language and similar cultures and history. The Europeans are struggling to merge proud, but aging, nation states divided by language, culture, history, and centuries of war.

The task facing the Europeans is arguably much more difficult than the challenge the Americans overcame in just under four months in 1787. Whatever emerges from the Rome negotiations, it is unlikely to be a draft constitution for a United States of Europe in anything like its final form.

The more likely outcome is a further irreversible step toward a federally organized Europe, continuing an incremental process that began over 30 years ago with the signing of the six-nation Treaty of Rome in March 1957. Then as now, a massive political deal between France and Germany could once again provide the impetus for advancing the process.

In the 1950s, the fundamental trade-off that launched the E.C. was France's agreement to free trade in industrial products to benefit Germany, in exchange for German recognition of the need to promote and protect French agriculture: It was like an agreement between French wine and cheese and German turbines and machine tools. In retrospect, Germany almost certainly got the better bargain.

This time, the deal, which is still being formed, has an even wider historical sweep: It involves German acceptance of French demands for economic and monetary union, in exchange for French acceptance of German insistence on closer po-

BY REGINALD DALE


KAREN STOLPER

DEALING WITH THE "Democratic Deficit"

The E.C. is frequently criticized by its own citizens for taking too many decisions behind closed doors and without full democratic scrutiny.

Even of the E.C.'s stoutest defenders, only few would dispute the truth of the charge. But the quest for a remedy leads in two opposite directions, reflecting the deep split between those who are striving for a federal Europe and those who want a loose association of powerful nation states.

For anti-federalists, like Britain's former Prime Minister Margaret Thatcher, the answer to this lack of democratic control at the E.C. level is to simply concede fewer powers to the center and maintain the authority of national governments and parliaments. Those wanting to advance toward a federal Europe, on the other hand, like E.C. Commission President Jacques Delors and German Chancellor Helmut Kohl, argue that the democratic controls must be strengthened, notably by reinforcing the Strasbourg-based European Parliament.

The problem is by no means new. In E.C. jargon, it has become known as the Community's "democratic deficit." But with the E.C. now poised to grant more powers to its central institutions, that "deficit" will clearly widen unless there are accompanying steps to strengthen those institutions' democratic accountability. So when representatives of the 12 governments gather in Rome this month to negotiate the next steps to economic and political union, measures to reduce the "deficit" will feature prominently on their agenda.

The approach is likely to be piecemeal rather than radical. So far no dramatic plans exist, for instance, to grant full legislative authority to the European Parliament or for a popularly elected European president.

Despite the progressive move to European integration, which has gathered strength in recent years, the forces that created the "deficit" in the first place have not yet dramatically shifted.

Parliaments in Europe have traditionally gained power by seizing it from authoritarian rulers. If Parliamentarians had waited patiently to be granted greater authority, Europe might still be acknowledging the divine right of kings. But for most of its existence, the European Parliament has taken the historically passive approach of merely asking for greater authority, rather than making a particularly bold or dramatic grab for it.

Over the years, the European Parliament's authority has gradually increased, and it exercises with considerable effect the complicated new rights that allow it to amend E.C. legislation. But national governments and parliaments have been understandably reluctant to voluntarily surrender their authority to Strasbourg.

For their part, the national parliaments have also tried in many ways to reduce the "democratic deficit" by exerting greater control over E.C. decisions. But, at best, a national parliament can only exert influence over its own national government—just one participant in the E.C.'s Council of Ministers, the Community's main decision-making body.

The members of the Council are ministers from national governments—not popular representatives directly elected to that institution. Furthermore, the president and 16 members of the E.C.'s executive Commission are appointed by national governments and not elected at all.

Ultimately, federalists like Delors would like to see a European constitution similar to that of the United States, under which:

- the Commission would become the government, like the U.S. Administration, with an elected president;
- the European Parliament would become a genuinely legislative body along the lines of the U.S. House of Representatives;
- the Council of Ministers would be similar to the U.S. Senate, although perhaps more powerful.

For the time being, however, ambitions are more modest. Proposals currently up for discussion include giving the European Parliament the right to confirm the appointment of Commission members, including the president, and to fire individual Commissioners. At the moment, the Parliament can only dismiss the entire Commission *en bloc,* a blunt instrument it has brandished but never actually used.

The Parliament also wants to be able to initiate E.C. legislation with the Commission—a proposal the Commission is strongly resisting—and to have more say in final decisions currently taken by the Council of Ministers. The Parliament also strongly objects to the way in which the Council makes decisions in private. Negotiations are also under way on how to involve national parliaments more closely in the decision-making process.

France, the United Kingdom, and some others are likely to argue forcefully in Rome that power should stay predominantly with the Council of Ministers—particularly the regular gatherings of European leaders that are beginning to look like embryonic meetings of a European cabinet.

With Germany, the Netherlands, and some of the smaller member states insisting on greater powers for the Parliament, it is probable that at least some steps will be taken to shrink the "deficit." But it seems unlikely that they will be enough to satisfy all the critics.

—Reginald Dale

litical union.

In an extraordinary repetition of history, a third major potential player, Britain, has so far, as in the early 1950s, dealt itself out of the game.

Although Britain has been an E.C. member since 1973, those attitudes were always reflected in the strident anti-federalism of former Prime Minister Margaret Thatcher, who argued that closer integration would endanger Britain's national sovereignty. Her successor, John Major, will almost certainly be more positive toward plans for closer union. But he is by no means a federalist.

To one degree or another, most other E.C. leaders are to be found in the federalist camp. And part of the latest deal, an economic and monetary union (EMU), has already been done without the United Kingdom's approval.

To start the negotiating process, most of the other E.C. states have now more or less explicitly accepted the need for German-style financial discipline as they move toward the shared objective of EMU. They have agreed that the new monetary authority that will manage their economic union will be closely modeled on the West German central bank, the Bundesbank. Like it, the new European central bank—already colloquially known as the Euro-Fed—will be free from political influence and have price stability as its primary objective.

Only with such guarantees will Germany allow its economy and currency to pass from its own national control to joint supervision by the E.C. institutions. Germans do not want their rock-solid German mark to be weakened in an E.C.-wide currency union—one reason why Chancellor Helmut Kohl insisted that the Rome negotiations begin after the German elections on December 2.

Following the widespread understanding that EMU will be modeled largely on the German way of doing things, Kohl is ready to go ahead. But now he wants France to chip in with its side of the bargain—agreeing to push ahead more quickly to political union.

Reflecting his own priorities, French President François Mitterrand has consistently warned that political union will be more difficult than its economic and monetary counterpart. He favors EMU because he believes that, if decisions were taken on an E.C.-wide basis, France would regain some of the influence over its economy that it lost to the German authorities, most notably the Bundesbank, in the 1980s. The French argue that, if economic and monetary decisions were really taken jointly, France and other countries would have more influence than they do under current circumstances, in which they are forced to adapt to unilateral decisions taken in Bonn or Frankfurt.

For France, EMU would thus achieve twin goals: It would increase French weight in E.C. financial decision-making, and would harness the E.C. to the might of the German economy, which will soon become even mightier once the birth pangs of unification are over. In the French view, that, in turn, would leave France free to lead the E.C. politically as Europe's foremost military and political power.

But that is also precisely where a newly assertive Germany is drawing the line. Bonn is now making it clear that, if German economic power is to be merged into the E.C., so must French political power.

And that, argues Bonn, is even more necessary because the newly united Germany has deliberately chosen to exercise its influence through the E.C. institutions, rather than "drifting to the East" as a powerful and destabilizing independent force in Central Europe, France's long-standing fear. It also demonstrates that the Germans, again at the center of world attention, are particularly anxious to establish their democratic credentials by pushing for more democratic accountability in the E.C. institutions as part of the political unification process—a cause in which they have long believed.

Mitterrand is right in one respect: It is much easier to define EMU than political union. Indeed, although the two intergovernmental conferences (IGCs) will proceed on parallel tracks, one economic, one political, the economic conference has been far better prepared, and will probably go much further than its political counterpart.

The E.C.'s leaders have to a certain extent already pre-empted the negotiations on EMU. At the end of the October European Council, also in Rome, the E.C.'s current presiding country, Italy, engineered a dramatic 11-to-one vote in favor of starting Stage Two of EMU at the beginning of 1994. And, although some of the other governments also had their doubts, only Britain formally stood aside.

With the E.C. already in the first of the three planned stages leading to full economic and monetary union, the move to Stage Two would involve another big step in the direction of a federal Europe: setting up the planned European central banking system, which will be much like the Federal Reserve in the United States. And by 1997, within three years of the start of Stage Two, preparations would begin for the move to the third, and final, stage, in which a single European currency would be introduced. Simultaneously, national economic and monetary policies would be coordinated even more tightly and—it is hoped—the differing performances of the member states' economies would converge (in a German direction).

The details of plans for political union are much vaguer. According to the E.C. Commission, one of the main aims of the political talks in Rome should be to increase the number of policy areas that come under E.C. control and to strengthen decision-making in the E.C.'s institutions.

A main element is likely to be the incorporation of foreign policy decisions, and the discussion of defense and security issues, into the E.C. decision-making machinery. Ways in which democratic control over the E.C. institutions can be strengthened will also be on the agenda (see box). But the Rome negotiations are likely to conclude with putting in place further stepping stones to union, rather than union itself.

Even E.C. Commission President Jacques Delors, one of the E.C.'s most ardent federalists, agrees that the time for defining the final phase of political union is not yet ripe, and that the Rome negotiations are more likely to give birth to some kind of interim treaty in the political sector. But, he stresses, the door must not be closed on a federal Europe. He and many others believe that Europe should ultimately have a constitutional structure not unlike that of the United States, with a federal government, legislature and judiciary, and an elected president.

For the federalists, and for their hopes of keeping Europe united, history provides an encouraging precedent: After the American federalists finally won the tough battle over the ratification of the U.S. Constitution, most of the anti-federalist leaders graciously conceded defeat and pledged to honor the will of the majority. €

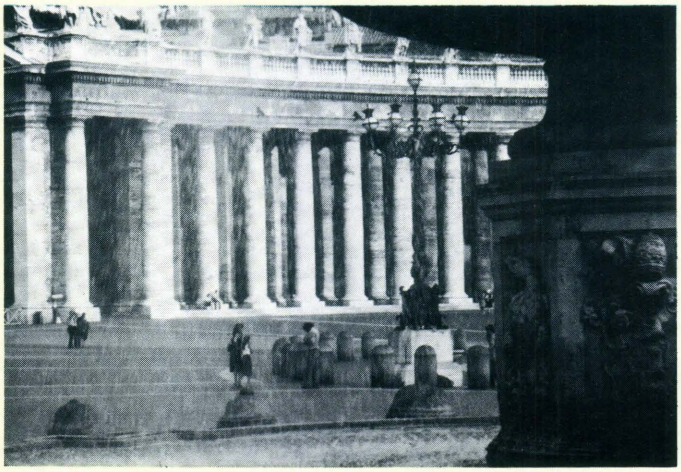
Reginald Dale is Economic and Financial Editor of the *International Herald Tribune* and a contributing editor to *Europe*. He wrote the Member State Report on France for *Europe*'s November 1990 issue.

Travel Tips: When in Rome, do as the Romans do.

Rome, site of the inter-governmental conferences on economic and monetary union, and political union, offers many interesting historic and worthwhile places to visit.

Europe presents some helpful travel tips for those of you attending the E.C. conferences in the Eternal City this month.

All the banal and slightly stereotyped reasons that have made this unique city so famous still hold: The mild climate, the proximity of the sea (which has become clear again thanks to water purification), the beauty of the streets and monuments, the indomitable irony of the inhabitants: These are all precious gifts.


© GENE DEKOVIC
The Vatican is one of the world's best-known tourist attractions.

History
At the end of the last century, Rome became Italy's capital despite itself. Once the centuries of Imperial splendor were over, Rome became a country village studded with artistic jewels. When the brand-new state was created by the northern and Piedmontese Royal House of Savoy in the 1860s, Rome was chosen as the leading city by virtue of its grandiose historical heredity. This, it was thought, would add luster to the newborn Kingdom of Italy. Many mistakes have been made in the 120 years since then.

And yet, one can still fall head over heels in love with Rome. Gilles Martinet, former French Ambassador to Italy, has said: "Rome . . . must be loved unconditionally, even if it can seem like a terrible city. And one lives wonderfully well in Rome."

Culture and Entertainment
Rome remains the paradise of art and culture and offers the most immense reserve of "cultural deposits" in the Western World. In fact, the modern concept of a museum open to the public was created there in 1471, when Pope Sistus IV gave the Roman people an art collection.

Rome is the city of museums, picture galleries, and fountains. It is almost impossible to know for sure how many there are. The Yellow Pages, which by definition are very concise, list 62 palaces, churches, and monuments of primary interest in the historical center of the city alone.

These range from the Vatican Museum with the Sistine Chapel to the National Gallery of Antique Art to archives and historical libraries of interest. The choice is difficult. A tip is to visit the virtually unknown and yet undoubtedly strange **Museum of the Souls in Purgatory** in Lungotevere Prati. It houses a very unusual collection of relics supposedly documenting the relations between the living and the dead. One can see alleged traces left by fire on books, clothing, and wooden tables of persons who have passed on.

Where to stay? Americans who know Rome recommend the **Grand Hotel** on Via Veneto, next to the American Embassy. The Italian Foreign Minister Gianni de Michelis, who hails from Venice, has his Roman headquarters there. But there is something for every pocketbook. The *pensioni,* when chosen with a modicum of attention, help save money and can be very dignified.

The choices of where to eat are infinite. Let yourself be guided by the porter of your hotel. A few suggestions, though, are a must. Those who want to taste true Roman cuisine should try **Piperno,** one of Rome's oldest restaurants. Located in the ancient Jewish ghetto, it is elegant yet intimate, and its fried artichokes are a typical Roman institution.

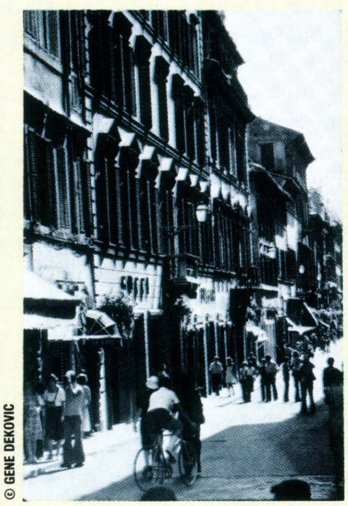
So is the stockfish at **Largo dei Librari,** a place that is more informal, and is known in Rome as "that place with the stockfish." Typically Roman cuisine can also be found at **Perilli,** in the restored old working-class section of Testaccio, and at the **Taverna Giulia** downtown. One thing to remember when eating anywhere in Italy is that you cannot expect to have just a one-course meal. The traditional menu is composed of antipasto, a pasta first course, a second course, a side vegetable, dessert or cheese, and an espresso.

The **Bar della Pace** heads the list of bars and night spots. All nocturnal Rome that counts meets here in a chaotic but interesting mixture of post-yuppies, intellectuals, gallery owners, actors, and young financial whizzes. Other bars worth a visit are the **Bar delle Cornacchie,** the **Hemingway,** and the **Rubirosa.**

One should make use of the night for all it is worth. Evenings in Rome are no longer mythical as in Federico Fellini's film *La Dolce Vita.* But still, as literary critic Franco Cordelli maintains: "Something happens in Rome that doesn't happen in any other Italian city: After a day that almost killed you, you revive at night."

Another trick to enjoying the Eternal City was made famous by one American in Rome whom everyone still remembers: Gregory Peck. In his 1952 film *Roman Holiday,* he and Audrey Hepburn roamed the streets of Rome on a Vespa. Today, the scooter is still the smartest way to beat the traffic and to enjoy one of the most beautiful cities in the world.

Niccolò d'Aquino is the special correspondent for foreign affairs at *Il Mondo.*

The Via Condotti in Rome.

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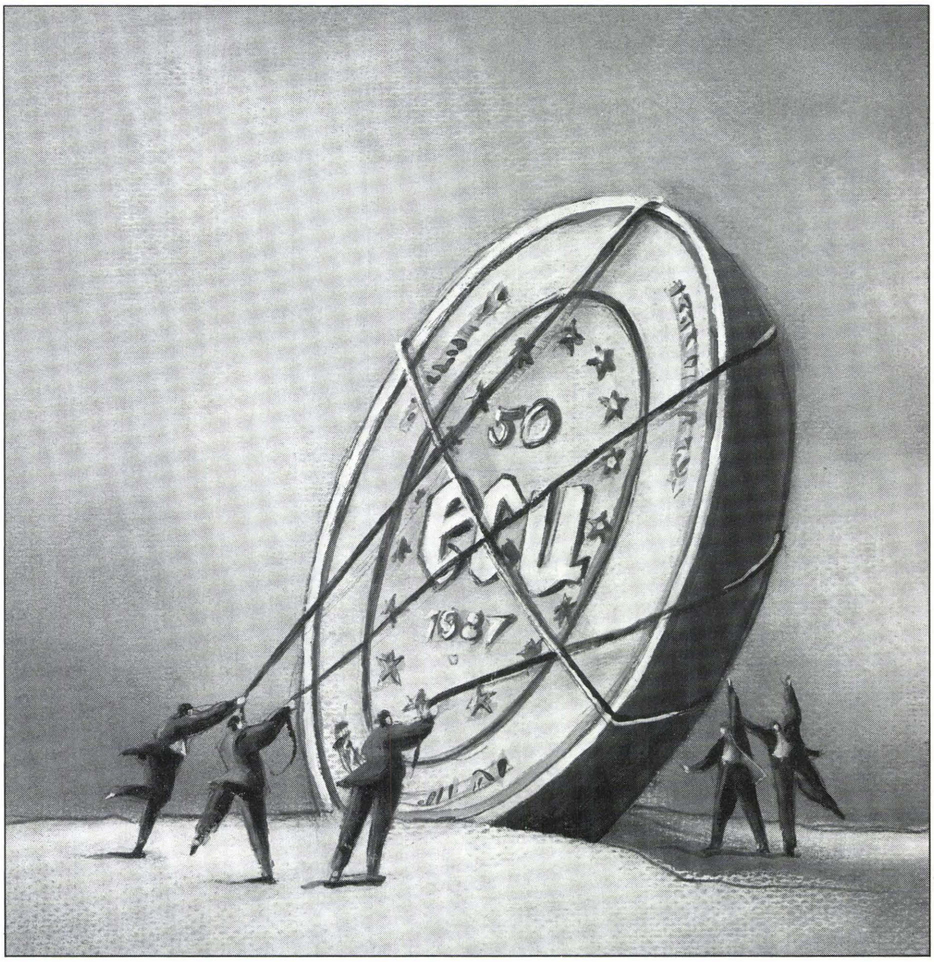
The Emerging Ecu

Tracing the History of Europe's Future Currency



KAREN STOLPER

BARRY D. WOOD

LOOK UP THE WORD "ECU" IN MOST BIG DIC-tionaries and you will find two entries, both derived from the French. The first is "a shield carried by knights in the Middle Ages;" the second, "any of several gold and silver coins of France from the 14th century onward." This monetary connotation stayed around for a long time. There are references to ecus in Molière's plays and the term was fairly common as late as 1800.

Fast forward to 1978. The post-war Bretton Woods system, which linked currencies to a dollar that, in turn, was redeemable in gold, had been dead for several years. With high inflation, sluggish growth, and a weak U.S. president, the dollar was in a free fall on currency markets. Determined to restore monetary stability in Europe, West German Chancellor Helmut Schmidt and French President Valéry Giscard d'Estaing devised a fixed exchange rate system for the European Community.

They needed a unit of account, a denominator for the weighted average of the currencies that would be linked and float together within a narrow band in the European Monetary System (EMS). What better name than "ecu," which had authentic monetary antecedents and could also be an abbreviation for European Currency Unit (ECU). Thus, in 1979, the modern ECU was born. Currently worth about $1.39, the ECU is a basket of all the E.C. currencies linked in the EMS.

Nearly 12 years after its birth, however, the ECU has not yet become a household word or a bank note you can hold in your hand. Think of a European currency and you think of the German mark, which is the anchor for the EMS and comprises 30 percent of the ECU's value. Bundesbank President Karl Otto Pöhl observed in late October that "the ECU has never been able to assume the role for which it was originally designed." In a London speech, he conceded that "the ECU has had an impressive career, but only in the private financial markets" (ECU bonds and commemorative coins), and "almost exclusively in the Euromarket and in countries with relatively high rates of inflation .... Its contribution to the proper functioning of the EMS has remained negligible ... [and] although there have been some attempts to encourage its use, the ECU is of very little significance today as a reserve and intervention instrument of central banks." No sooner had Pöhl uttered these remarks than the October European Council in Rome issued the clearest sign yet that the age of the ECU may be upon us—and soon—by agreeing to a starting date for Stage Two of EMU, the establishment of a European central bank on January 1, 1994 (see article, page 13).

During this critical second stage, the following preconditions for monetary union must be met:

• internal free trade (the 1992 single market program) with full freedom of movement of goods, services, labor, money, and capital;

• a convergence of economic performance and policies, and the stabilization of exchange rates—meaning inflationary disparities among members must greatly diminish;

• the acceptance of binding rules for the transfer of monetary policy to the new central bank, which would then issue a single E.C. currency, the ECU.

A single currency could save $25 billion annually in exchange rate transactions and boost economic growth by up to 5 percent.

The 1989 Delors Committee Report on economic and monetary union set out the three-stage blueprint that is to lead to a single, common E.C. currency. Critics initially chuckled at the idealistic thrust of the report, claiming that member governments would never abandon their monetary policies and national currencies to an E.C. entity. Now, even Committee member Niels Thygesen of the University of Copenhagen concedes that "the idea of monetary union has caught on faster than we expected." He predicts that the ECU will probably replace the national currencies within seven years. A senior E.C. official thinks it possible to have a common currency in 1997 or 1998.

Pat Choate, the author and corporate researcher in Washington, is even more optimistic. He flatly predicts a "common currency within five years." He adds that former British Prime Minister Margaret Thatcher's opposition was irrelevant and that, to safeguard London's position as a financial center, Britain will ultimately embrace monetary union just as it belatedly brought the pound into full participation in the EMS last October. Choate argues that, by promoting stable economic relations in Europe, the ECU is good for the dollar and the United States.

But skeptics remain. One not easily dismissed is Nobel economics laureate Milton Friedman, who asks rhetorically: "Do you really think that E.C. governments will hand over control of their economies to the German Bundesbank or a new central bank it would essentially control? It just isn't going to happen. When it gets right down to it, despite all the lofty commitments, [the member states] just won't give up the power. Those who support [monetary union] do so because they assume they'll control it."

On the Continent, meanwhile, public sentiment appears to be swinging in the ECU's direction. The Paris-based Association for the Monetary Union of Europe recently polled 6,000 adults in all 12 E.C. countries and found that, of those who had an opinion, 61 percent favored the replacement of their national currencies by the ECU within six years. Seventy-six percent approved the creation of a European central bank. In the major countries, pro-ECU sentiment was strongest in France (73 percent) and weakest in Britain (37 percent). Germany was divided, 51 percent in favor, 49 percent opposed.

So, assuming all goes according to plan, what will the ECU look like? There are many ideas. Bertrand De Maigret of the Association of Monetary Union says school children will compete to design the currency, which is likely to differ from country to country, with only one side identical everywhere. "The Dutch," says De Maigret, "can have lots of color on their notes, and the British can still have the Queen." Thygesen of the Delors Committee suggests that eminent Europeans of the past, like Dutch philosopher Erasmus, adorn the ECU, while Choate and others point to Jean Monnet as the most logical and least controversial candidate.

There is, of course, a persuasive economic argument in favor of the ECU. The recent E.C. report ***One Market, One Money*** argues that a single currency will save up to $25 billion annually in exchange transactions, and that economic growth will be boosted by 5 percent as investors are no longer put off by the risk of exchange-rate fluctuations. A single currency would also make it easier for the E.C. to weather outside economic shocks, like the latest oil price rise, with smaller fluctuations in inflation and output.

Finally, in seeking an explanation for this apparent sudden rush toward monetary union, experts identify the collapse of the Berlin Wall and the unification of Germany as a key impetus. It was, says one expert, "as if France and the others saw monetary union as a way to tame a big Germany and assure that it does not completely dominate Europe. We Germans—sensitive to our past—see our future as part of Europe and that our only way forward is with the Community." €

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RALPH J. MEHNERT

EuroFed: Europe's Central Bank

Catalyst for a United Europe

WHILE WORLD ATTENTION HAS FOCUSED on the 1992 single market and the opening of Eastern Europe, a significant and at least equally important institution is developing within the E.C.: the single central bank, or EuroFed, which forms an integral part of economic and monetary union (EMU).

STEPHEN RASKIN

Since 1988, the E.C. has made some landmark decisions regarding the monetary aspects of EMU. The most recent focus has been on the EuroFed and a single E.C. currency, likely to be the European Currency Unit (ECU). This renewed interest and support have catapulted the idea of monetary union beyond the original EMU, and may eventually serve as a catalyst for establishing a true European Union.

In the meantime, the need for the EuroFed and ECU is much more basic, and its institution is becoming vital. It is becoming increasingly evident that, as in the United States in the 18th century, this huge and populous European market should have a single monetary authority supervising monetary policies and issuing a single currency to function properly and efficiently.

There is a consensus in principle regarding the general features of the EuroFed. Essentially, it will be modeled on the German Bundesbank and the Federal Reserve Bank in the United States. For political and organizational reasons, however, a "European Bundesbank" is more likely than a "European Federal Reserve." The German Government, for example, might insist on the Bundesbank model because, in the past, that has provided the very stable German mark and very low inflation rates. The Germans will not be willing to jeopardize this stability by not only surrendering the mark to an unproven currency but also agreeing to a possibly "weak" central bank. In addition, organizational differences, especially the greater political independence of the Bundesbank, might make a "European Bundesbank" preferable. The consensus involves three basic concepts: the EuroFed will be independent, committed to price stability, and subject to democratic accountability.

Although the final features will depend on the political process, the structure of the EuroFed has evolved through a series of official reports and statements, the most authoritative of which was the E.C. Commission's proposal on Stage Two and Stage Three, presented last August.

That proposal set the beginning for Stage Two of EMU (the establishment of the EuroFed) for July 1, 1993. (Stage One started on July 1, 1990.) That timetable was subsequently delayed by E.C. leaders at their October summit in Rome at which they agreed, over the dissent of the United Kingdom, to a starting date of January 1, 1994. Although the national central banks would still retain the responsibility for monetary policies during this stage, this would "test" the EuroFed.

The EuroFed would participate actively in the management of the EMS, taking over the role of the European Monetary Cooperation Fund, and of the foreign exchange reserves. It would also assist in coordinating the activities of the national central banks. Beginning with Stage Three, the EuroFed would be solely responsible for single monetary policy and the single currency.

An amendment to the Treaty of Rome is required under the Single European Act for the EuroFed's "institutionalization." The final proposal suggests the addition of the following provisions, in which the EuroFed would:

- be committed to price stability, for example anti-inflationary policies, and should support the E.C.'s general economic policies;
- be independent from national and E.C. governments;
- be accountable only to the democratic institutions, namely the European Parliament;
- formulate and implement the common monetary policies and issue ECUs;
- be responsible for exchange-rate and reserve management according to the guidelines defined by the Council of Ministers;
- take part in national banking supervision and international monetary cooperation;
- be responsible for, and guarantee, the proper functioning of the payment system and of capital markets.

In addition, two special provisions respond to concerns about the relationship between the EuroFed and the national

The EuroFed will be independent, committed to price stability, and subject to democratic accountability.

governments. They would ensure that the governments could not "use" the EuroFed for their monetary practices. Consequently, the EuroFed would not be able to finance public debts or grant market privileges to public authorities in the placing of debt. It could also not "bail out" financially troubled governments by guaranteeing their public debt.

The main organizational provisions of the EuroFed include the institutional layout of council, board, and president, the relationship between the EuroFed and the national central banks and other E.C. institutions, and the management and ownership of exchange reserves. They also pertain to the instruments for common monetary policies, such as intervention and open-market transactions, and the organization of the EuroFed, such as balance sheets and the status of personnel. These provisions are already included in a draft statute presented by the central bank governors last September, which would be added to the Treaty by secondary legislation.

The Commission's proposals do not detail the three-tier hierarchical structure of the EuroFed. The Report on EMU issued by the Committee for the Study of EMU in April 1989, however, outlined four fundamental points on the institution's structure and organization. First, a federative structure is needed to take into account the E.C.'s political diversity. Second, the EuroFed council, composed of the governors of the E.C. central banks and the members of the EuroFed board, would be responsible for formulating and deciding the broad lines of monetary policies. Third, the EuroFed board, appointed by the European Council (the E.C.'s heads of state and government), and its supporting staff would monitor monetary developments and oversee the implementation of common monetary policies on a day-to-day basis. Fourth, the national central banks would execute operations according to the decisions of the EuroFed council.

This structure is comparable to that of a business corporation. The EuroFed council, similar to the corporate board of directors, formulates the policies. The EuroFed board, comparable to the officers, enforces the policies through the national central banks. The inter-governmental conference in Rome this month will discuss and prepare the Treaty's amendments, which are scheduled to be ratified by the member states before December 31, 1992.

The agreement by the E.C. Council in Rome in October on a starting date for Stage Two also set the stage for a single E.C. currency before the year 2000. This is indicative of the strong and growing support for the EuroFed and ECU.

The focus of the discussions has shifted from general EMU to the EuroFed and ECU. The issue now is not ***whether*** but ***when*** both will be established. Whatever the timetable, however, a number of issues remain to be resolved. Of these, sovereignty, not feasibility, is the most important. The introduction of a single central bank with a single currency implies an unprecedented transfer of sovereign powers, which the member states have, in the past, resisted relinquishing.

Many economists feel that there should be no doubt that the E.C., for economic reasons, must have a EuroFed and a single currency. An economic, and eventually political, entity, in which more than 50 percent of all trade takes place internally, cannot function properly with 12 currencies administered by 12 monetary authorities with varying policies.

More important, however, the E.C. needs the Eurofed and a single currency for political reasons. Their existence will signal a political change with repercussions far beyond economic and monetary union. If the member states can forsake their monetary sovereignty to the common goal, they will also be able to step beyond the single market of 1992. Monetary union will then become the catalyst for transforming Europe's economic union into its political union. €

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FEATURE

Major Proposes Establishing "Hard Ecu"

What Will be the new Leadership's Attitude to a Single Currency?

DAVID LENNON

RELUCTANCE, DOUBLE MESSAGES, AND confusion characterize Britain's hesitant steps toward European monetary cooperation. The overriding impression of British policy toward the E.C. during the past decade is that of a nation being dragged unwillingly into irrevocable pacts with countries that it views with deep suspicion.

The recent dramatic leadership change in Britain is bound to lead to a softening of the tone in the debate between the United Kingdom and Europe. But it is perhaps too early to say in which way the resignation of former British Prime Minister Margaret Thatcher will change the substance of London's position on the key issues. No one in the British Government has any intention of lightly agreeing to surrender national powers without being assured that what is good for Europe will also be good for Britain.

Britain joined the European Monetary System (EMS) in 1979, but stayed out of the Exchange Rate Mechanism (ERM). In 1986, it begrudgingly acceded to the Single European Act, which bound the country to move toward economic and political unity within Western Europe. Thatcher criticized or opposed many proposals for closer integration. Finally, facing deepening recession at home, Britain joined the ERM this October.

Sir Leon Brittan, a former British cabinet minister under Thatcher and now vice-president of the E.C. Commission, declared that, by this decision, Britain "had crossed the Rubicon" toward full European economic and monetary union. But the posture and declarations of the former Prime Minister indicated that she did not believe that any such conclusions should be drawn from this belated decision.

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Former Prime Minister Margaret Thatcher opposed a central European bank and single currency.

The Thatcher position was that she would not accept the idea of greater cooperation inside the E.C. until the agreements yet to be concluded were on paper. This would certainly remain the attitude of many members of the British Government, including new Prime Minister John Major, although he would adopt a less abrasive tone.

Thatcher opposed both Stage Two of the Delors Plan, which calls for the creation of an independent European central bank, and Stage Three, which would create a single European currency. Her message, proclaiming: "A common currency, yes, a single currency, no," will be echoed by her followers, who argue that such a move would remove an integral element of British national sovereignty. The reality of integrated financial markets and the electronic movement of capital would seem to negate those declarations, however.

Behind this posture is the concern that such concessions would remove from the British Government the freedom to make economic and fiscal decisions that are part and parcel of the powers of a government striving to manipulate the nation's economy to its own political ends—sometimes goals as self-serving as re-election.

In an attempt to moderate and slow down Europe's drive toward monetary union and the single European currency unit espoused by E.C. Commission President Jacques Delors, Major, as Thatcher's Chancellor of the Exchequer, produced an alternative proposal. This advocates the establishment of a 13th currency, the "hard ECU." Member states would use this as a common currency, in addition to their own national currencies, as opposed to Delors' proposed single currency.

However, some of the United Kingdom's leading industrial companies, well aware that British trade with other E.C. states is growing in leaps and bounds, have shown a marked lack of enthusiasm for the hard ECU. Twenty years ago, less than one-third of British overseas trade was within the European Community. Today, that business accounts for almost half of Britain's foreign trade, and, by the end of the century, Britain is expected to average two-thirds of its foreign trade with its European partners.

Senior financial officials at a number of large U.K. companies with extensive international operations say they would be unlikely to find any use for the hard ECU in European financial transactions and borrowings. This assessment comes despite Government assurances that this unit would not be subject to the debilitating currency fluctuations that make it so difficult to gauge correctly the success of international trading. Several say their skepticism about the hard ECU is deepened by Britain's lack of commitment to the idea of converting it into a single European currency.

The British Government knows that refusal to climb on the bandwagon of monetary integration could mean a "two-tier" union, in which Britain would be in the second division. Robin Leigh-Pemberton, Governor of the Bank of England (Britain's central bank), said he did not believe there would be a two-tier union, because that "would be difficult procedurally." (This was a carefully coded way of saying that he would deplore such a development.)

Former Chancellor of the Exchequer Nigel Lawson, who considers it a "real tragedy" that his country did not enter the ERM five years ago, recently explained to Parliament that there was a world of difference between Stage Two's goal of "independent national central banks cooperating closely together," and Stage Three, the single currency, which "is something so far down the road that, if it ever happens, we do not need to be concerned about it now."

As Chancellor of the Exchequer, Major consistently stated that the United Kingdom would not play a "wrecking role" at the December inter-governmental conference on EMU. He also said that his proposals for a hard ECU left open the possibility of moving toward a single currency "if that were the wish of the government and of the people."

Opinion polls show that more and more Britons see their nation's future as lying within some form of European union. It is increasingly apparent that, even within the Conservative Party, a growing number of people are questioning the isolationist declarations of Thatcher and her followers, such as her claim that an independent sterling is "[our] most powerful expression of sovereignty." All is still to be fought over in the EMU debate, and Britain will undoubtedly be in the vanguard of those nations determined to ensure that the shape of the new Europe is not to the detriment of the interests of individual nations. €

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"HARD ECU"

The "hard ECU" is Britain's proposal for a new European Currency Unit that would exist alongside other national currencies. In effect, it would be a 13th currency, backed by a central fund, that could serve as a common monetary unit for Europe. In the very long term, it might replace the existing national currencies to become the type of single European currency espoused in the Delors Plan on economic and monetary union.

Under the proposal announced by then Chancellor of the Exchequer John Major in June, the existing ECU would be converted from its present form, that of a composite currency unit, into a currency that would not have its parity devalued in relation to any E.C. currency.

The hard ECU would match the Community currency with the best non-inflationary performance. Its exchange value in terms of national currencies would be guaranteed by the European central banks who would own and manage a new institution, the Hard ECU Bank or European Monetary Fund, which would have sole responsibility for issuing this unit. This institution would provide hard ECUs against the surrender of holdings of national currencies at an exchange rate set at an intervention margin against parity.

With a growing circulation of the hard ECU in relation to national currencies, it would provide a lever for the extension of a collectively agreed non-inflationary monetary policy among member states, which would still retain responsibility for their own national monetary policies.

The pace of development of the hard ECU would be determined by the interaction between the judicious supply of these currency units by the authorities and by market demand for a strong common currency. National central banks would be obliged to repurchase their currencies from the central institution if imbalances arose. This should mean that no country could print excessive amounts of money with impunity, because it would be forced to buy back the debased currency.

The Bank of England has described this as "an evolutionary, market-based approach that would avoid a single currency being imposed on the Community before Europe's economy is ready for it. Its development would depend on whether it is accepted by the market."
—*David Lennon*

The Thatcher Years

The "Iron Lady" Leaves a Legacy

Margaret Thatcher is a conviction politician. As Prime Minister, her single-minded and often ruthless drive to create a new social fabric in Britain based on personal responsibility, freedom of choice, and property ownership, earned her the sobriquet "the Iron Lady." But when her firmness turned into rigidity and conviction became deafness, she was forced to resign after more than 11 years as her country's political leader.

The first woman to hold the post of Prime Minister, she was not content to just *be* something. She was very determined to *do* something, and had a clear vision of the Britain she wanted to create. Her goal was to make people and companies more self-reliant and less dependent on government handouts. To this end, she sold off state-owned companies and cut public spending on health, education, and welfare. As she set about these goals, the Prime Minister made no attempt to preserve national unity, and did not care that she was not liked. She firmly believed that, in politics, fear and respect are more important than affection.

It is a truism to say that Thatcher was much more admired abroad than at home. Former U.S. President Ronald Reagan and, to a lesser extent, President George Bush admired her as a woman of principle. Soviet Premier Mikhail Gorbachev also seemed to get along well with her. But there were many other foreign leaders, especially in Europe, who found her abrasive and strident. A major reason for this was that her political instincts were shaped at a time when the enemy was in Europe and the ally was across the Atlantic. This explains why she was always more comfortable with the governments in Washington than with those in Paris, Bonn, or Rome.

The Falklands War of 1982 made her an international figure. The fierce and passionate determination to fight the Argentinean aggressor—thousands of miles away on a virtually useless piece of rock—startled a world grown supine in the face of naked aggression, both East and West. Her decision to send troops was also hugely popular at home, where it rekindled national pride (some would say jingoism), and won her re-election in 1983.

The military triumph against the Argentinean dictator was followed in 1984–85 by her crushing defeat of the coal miners' union, despite the popular belief that the power of the British trade unions was unshakeable. That victory effectively curbed trade union power in Britain and also put an end to other restrictive practices that had developed over the previous half century to the detriment of the country's industries.

Thatcher thus seemed a warrior premier who, rather than shrink from a battle, actually relished it. "The adrenalin flows when they really come out fighting at me and I fight back and I stand there and I know . . . [I am] wholly on [my] own, no one can help [me]. And I love it."

She loathed socialism. Indeed, one of her worst insults was to call someone a "crypto-socialist." She believed that socialism had been responsible for bringing Britain to its knees by making people dependent on government handouts. Therefore, while battling the dragons of socialism, she was also aiding and encouraging the creators of wealth. Her Government fostered the enterprise culture in which entrepreneurs flourished and were held up as models for British youth. This found its most virulent expression in the naked greed and flashy consumption of the Yuppies.

The liberalization of financial regulations and simplification of the tax system were designed to create a liberal domestic economy in which those with initiative and a willingness to work hard would be rewarded. Inflation and unemployment were rising when she came to power. She declared herself determined to bring down inflation and restore growth. She succeeded in both of these for a while, but inflation has now again soared into double figures, and the economy is slipping ever deeper into a recession.

The very characteristics that had made her such a dominant political figure in Britain and on the world stage were eventually transformed from assets into liabilities. Her belief that she knew what was best for the country, even if everyone else disagreed, finally unseated her. She drifted out of touch with the mood not only of the nation but even of her own Conservative Party. In the end, her own cabinet finally told her she had to go for its own good.

There was a certain irony in Thatcher's being toppled by the very cabinet colleagues, past and present, whom she had often treated with barely veiled contempt. One of the most famous jokes of the Thatcher years has the Prime Minister sitting at a restaurant table with her cabinet colleagues. She has just told the waiter that she will have a steak. "And the vegetables?" the waiter enquired. "Oh, they'll have the same," she snapped back.

Thatcher was probably too divisive to be regarded by history as a great Prime Minister. She certainly was a famous one, however. Love her or hate her—and there were many in each camp—one could never ignore her.

—David Lennon

"From a log cabin to the White House" is one of the corniest political clichés of the American dream—but if Britain's new Prime Minister were American, he would perfectly fulfil that dream, and fit the cliché.

The more modern cliché of American politics, which asks "Jimmy who?" about an unknown running for president, could also apply to the man whom the headlines of a number of British newspapers described as "the man who rose without trace" upon his election to the highest office in the land.

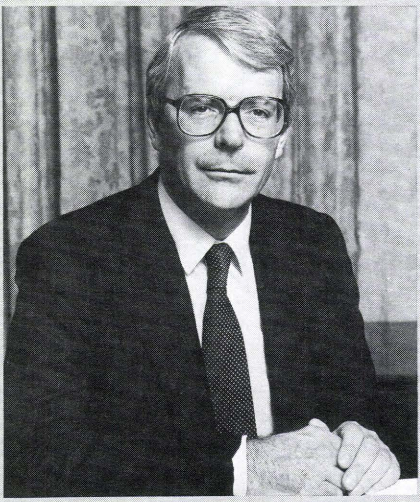
Two resignations led Major to 10 Downing Street, the home of Britain's Prime Ministers. When Nigel Lawson quit the Treasury last year, Major was promoted to cabinet rank and, shortly after, propelled into the job of Chancellor of the Exchequer. The forced resignation of Margaret Thatcher in November opened his way to lead the nation.

John Major was born in humble circumstances, left school at 16, worked as a laborer, was unemployed for nine months, joined a bank, climbed up the corporate structure, became involved in local politics and, at the age of 47, became Britain's youngest Prime Minister in 100 years. Externally, he seems the local bank manager type: quiet, cautious, and steady, the sort of man to whom one would happily entrust one's money, a man of conservative attitudes with a small "c." The headlines proclaimed him "the son of Thatcher," the anointed heir. His pronouncements during the short, but intense, electoral contest for leadership of the ruling Conservative Party—and thus the Office of Prime Minister—were pure "Thatcherism."

Married to a quiet, unassuming woman for 20 years, and father of two children who have never appeared in the public eye, Major seems to be the epitome of the respectable English middle class. His only demonstrated passion is cricket, hardly a game to excite either player or spectator.

So is Major as dull as he appears to the outsider, or is he a complex player who has the potential to thrill the crowds? Those who claim to know him assert that he is as tough as any top class sportsman. Cricket may be regarded as a gentlemanly sport, but its top players are as determined and as ruthlessly single-minded as any linebacker in the NFL.

The exterior of a well-groomed, quietly spoken technocrat hides a self-critical perfectionist who endures much inner nervous tension, according to Washington society astrologer Leticia Parmer. On a somewhat



BRITISH EMBASSY

John Major

Meet the United Kingdom's New Prime Minister

more authoritative note, people who have worked with him in banking and politics say he has a near photographic memory for a briefing paper.

An evolutionist rather than a revolutionist, Major has made no dramatic changes in the cabinet he inherited. He did, however, have enough political horse sense to bring his chief rival for the leadership, former Defense Secretary Michael Heseltine, into the cabinet as Environment Secretary, a job that is more important and wide-ranging in scope than its American counterpart.

About himself, the new Prime Minister says: "Unlike Adam Smith, I am not a moral philosopher. Nor an economist. Nor an intellectual. I am a practical politician." He is also strongly opposed to the modern inclination to put labels on people. "I intensely dislike pigeonholing people. I think they are much more sophisticated than that—and that includes politicians."

Perhaps his most famous comment after becoming Chancellor of the Exchequer was his declaration about economic policy, that "if it isn't hurting, it isn't working." He added that he saw his job as head of the Treasury "as a supply-side engineer in terms of providing incentives and opening up the possibility of people to exercise choice."

Thatcherism? Certainly. But perhaps his application of hard-line, right-wing economic policies will be tempered with a more human, more caring social philosophy. He advocates a "classless society in which there aren't artificial impediments to moving from one particular area to another." His dislike of inflation is couched not only in terms of its effect on the commerce of the nation, but also its impact on the individual: "Inflation is the most socially divisive factor of . . . all."

As for Europe, his one most notable contribution so far has been the creation of the concept of the "hard ECU," a proposal that attempts to bridge the mainstream European desire to move rapidly toward a single currency, and Britain's reluctance to abandon the pound by interposing a parallel currency (see also p. 16). Although originally derided as a British attempt to delay the inevitable single currency, it may yet prove a valuable interim tool on the road to monetary integration.

Major will not be allowed much time to settle into his new job. He is confronted by two immediate and very serious tests. The first of these are this month's inter-governmental talks in Rome. There he will be able to demonstrate how—and if—his attitude toward Europe differs from that of his outspoken predecessor.

He will just have the time to enjoy Christmas with his family before he has to confront the even more explosive issue of the Gulf. Despite his brief, and some say unhappy, three-month stint as Foreign Secretary, when he first joined the cabinet, this is the sort of foreign affairs challenge with which he is far less familiar.

By spring, Britain's new Prime Minister will have had the opportunity to demonstrate his abilities. As he emerges from these tests, he will then have to turn his mind to that most important of all political questions—how to win the next general election, which must be held by June 1992 at the latest.

—David Lennon

FEATURE

Political Union: The View from America

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In the face of momentous political change in Europe, the U.S. and E.C. are stepping up political cooperation. Above: Secretary of State James Baker with E.C. Commission President Jacques Delors.

The Bush Administration Analyzes the new Concept

Lionel Barber

THE WORD ON THE SEVENTH FLOOR OF THE U.S. State Department is: Watch out for December. If all goes according to plan, U.S. Secretary of State James Baker ought to be ready to deliver a keynote foreign policy address on the future of U.S. relations with Europe that is expected to build on his "New Atlanticism" address to the Berlin Press Club in December 1989.

That address was Baker's bold attempt to set out a new architecture for Europe after the fall of the Berlin Wall. In the intervening 12 months, change in the form of German unification and the collapse of communism in Eastern Europe has occurred faster than many dared imagine, and a fresh statement on the trans-Atlantic relationship is now viewed as desirable.

The timing remains delicate, however. Officials involved note that December

1990 also coincides with the the E.C.'s two inter-governmental conferences (IGCs) in Rome, which could launch the Community irrevocably toward economic and political union. Should Baker wait until the results of the IGCs become clear? Or should he proffer a U.S. vision of the new European landscape in the hope of influencing the debate's outcome?

The answer depends on America's attitude toward Europe's goal of monetary union and its more ambitious companion, political union. Is it a threat? Or is it something far enough down the road so as not to require immediate attention? As yet, no one seems too clear.

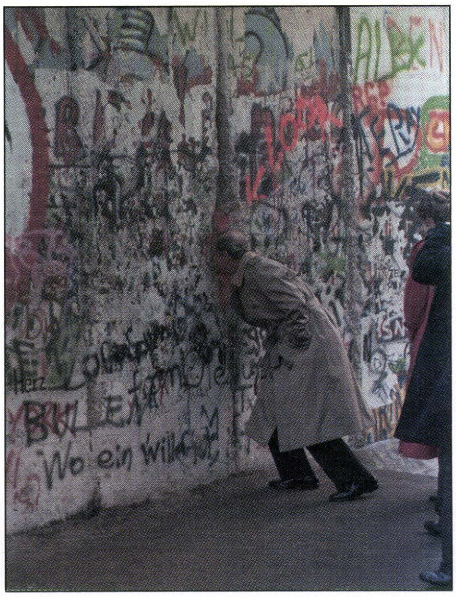
The Administration, at present, remains preoccupied with the Gulf crisis. It is said that only two top officials (Robert Zoellick, Baker's young counselor, and David Gompert, Robert Blackwill's replacement at the National Security Council) are fully engaged in conceptual thinking about the emerging European order and Washington's place in the new scheme of things.

One year after the fall of communism in Eastern Europe, U.S. officials still face the same difficulties: How to fit together institutions such as NATO, CSCE (the Conference on Security and Cooperation in Europe that met in Paris in November), and the E.C. in a manner compatible not only with Europe's own aspirations, but also with American desires to preserve maximum influence on the Continent. A second, paramount, concern is to consolidate the West's strategic gain—the end of Soviet hegemony in Eastern Europe—in line with the E.C.'s desire for deeper integration among its Western European members.

Political cooperation and political union in Europe are concepts that many U.S. officials still find difficult to grasp, since E.C. efforts to coordinate diplomatic and security policies have often failed in the past. The process known as European Political Cooperation (EPC), set up in 1970, suffered from obvious shortcomings such as its dependence on consensus and its lack of supranational authority.

Despite the skepticism, the State Department has stepped up coordination with the E.C., starting with the so-called *troika* process. (Under this arrangement, the foreign minister of the country holding the six-month E.C. presidency forms a *troika* with his predecessor and successor, which represents the Community externally.)

Under Baker's guidance, these contacts have expanded to include bilateral



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James Baker at the Berlin Wall in 1989.

U.S.-E.C. consultation on areas such as terrorism and Latin America. Earlier this year, for example, the Administration proposed U.S.-Japanese-European economic development in Central America and the Caribbean modeled on the so-called Group of 24 approach to Eastern Europe. In the words of one senior U.S. official, this was an effort to "determine whether the Europeans have the interest and the ability to act in areas in which they had not traditionally acted."

The Central American initiative could just be an elaborate smoke screen to obscure Washington's domestic budgetary constraints and to transfer the financial burden to wealthier allies. But, even if the Administration is merely intent on coopting Europe, the basic argument still stands: U.S. treatment of the E.C. as a partner in the foreign policy arena is the first step toward acknowledging the shift toward greater European political integration.

Other clues to this "new thinking" are emerging in Washington. Ever since the 1989 Berlin address, Baker has sought to follow up on his call for "a significantly strengthened set of institutional and consultative links" between the United States and the Community. In keeping with this new partnership idea, President George Bush met with E.C. President Jacques Delors in Washington in November to discuss ways to improve trans-Atlantic dialogue.

Officials make little secret of their desire to forge links with Europe separate from the NATO security relationship that has provided Washington with its main leverage over its allies since 1945. The decline of the Soviet military threat, coupled with the collapse of communism in Eastern Europe, makes it inevitable for the United States to broaden its relationship beyond NATO.

But, as Baker has discovered, it is not easy to define this new relationship and terms of engagement. The U.S. pressure for more explicit references to NATO foundered on French resistance. In the end, the lowest common denominator triumphed. "It's just like one of those old communiqués you used to see between East Germany and Cuba in the 1970s," said one disillusioned diplomat.

Plenty of signs indicate that the United States will find it difficult to adjust to the "New World Order," in which Washington's leadership is open to challenge. French proposals for the creation of the new European Bank for Reconstruction and Development were initially met with skepticism both within the Administration and Congress. At the Houston economic summit last July, differences among the Western allies over aid to the Soviet Union were only barely papered over by George Bush's agreement that each country should do its own thing.

Finally, the United States has reacted impatiently to the E.C.'s inability to go beyond the (initially impressive) response to Iraq's invasion of Kuwait. "You guys need to be careful," said one senior Administration official, in mock repetition of Europe's criticism of the United States. "You're becoming insular."

This kind of criticism could easily grow into serious discord if an issue directly threatening U.S. interests were to flare up. The failure of the General Agreement on Tariffs and Trade's Uruguay Round is the most obvious case in point. For all the talk about a new Europe, common values, and closer institutional links, Washington's support for European political cooperation will soon evaporate if economic and trade relations deteriorate. This point was underlined by Baker in Berlin last year: "We think that Americans will profit from access to a single European market, just as Europeans have long profited from a single American market. However, it is vital to us all that both of these markets remain open—and indeed that both become even more open." €

Lionel Barber is the Washington correspondent for the *Financial Times.* His last article, "A Future Scenario?" appeared in *Europe*'s July/August 1990 issue.

FEATURE

The Future of Europe's Stock Exchanges

Creating A Single E.C. "Bourse?"

COLIN WAUGH

AS E.C. LEADERS CONTINUE TO DEBATE THE form that European economic and monetary union (EMU) will finally take, important regulatory measures already in place are transforming the future of European stock markets and are forcing a pace of change that may eventually lead to the creation of a single E.C. stock exchange.

The recent liberalization of capital controls and the new freedoms of financial institutions to operate across E.C. borders, as contained in the E.C. Commission's proposed Investment Services Directive, have created a special situation in Europe: While international stock markets have experienced setbacks in the past three years, Europe's exchanges have been forging an infrastructure designed to revolutionize trading in securities and to handle dramatically higher volumes than in the past.

Deregulation in national markets has been one impetus behind the recent growth of Europe's bourses. The approaching single market and rapidly increasing competition for a share of the financial services pie have also played a part. Perhaps most significantly, the impending flux of new capital from both European and outside investors is contributing to a rush of adrenalin in the veins of the courtiers from the Old Continent. At a summit in Dublin in November, officials from the E.C.'s 12 national stock exchanges agreed to further rationalize their listing and accounting procedures. Many see this system, called Eurolist, as further facilitating cross-border trading and preventing the fragmented information flow that previously threatened pan-European trading.

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Thanks to liberalized capital controls, Europe's stock exchanges are doing brisk business. Above: London.

The need to accommodate new investor demand and the challenge posed by the influx of outside capital go hand in hand with the technological revolution sweeping through financial markets worldwide. Europe's most established centers, such as London's International Stock Exchange (ISE), currently dominate international securities activity in the Community. Procedures already adopted in Frankfurt, Paris, and other cities, however, which allow for more rapid settlement of transactions and other features, may give these bourses an edge in the future.

Moreover, outside these three big financial centers nestles a vibrant stratum of secondary and regional stock markets, such as Lyon, Munich, and Edinburgh. These bourses are fighting to preserve and develop a niche for themselves, and to exploit what traditional advantages they may have had in the past as they go into a high-tech trading future.

With the United Kingdom's deregulatory "Big Bang" in 1987, a whole new vista opened up for stock exchange dealers in London. They could at last charge whatever commissions they liked and compete for business inside and outside their own accounts simultaneously during a full trading day. (The traditional procedure on the Continent until then had been a single daily auction for each share with dealers not permitted to trade for their own accounts.)

The ensuing climate of lower transaction costs and greater liquidity attracted a significant amount of business away from other European exchanges. At present, an estimated 80 percent of all cross-border trades in European stocks are carried out on SEAQ International, the ISE's trading system.

Consequently, Continental exchanges began changing their own regulations to win back business from London. So far, this struggle has been frustrating, but changes now under way are redressing this imbalance. In France, fixed commissions have been abolished and clients can deal all day using the order display system for stocks listed on the CAC 40 (the Compagnie des Agents de Change is France's equivalent to Standard and Poors in the United States). In addition, a dual market now exists, as in London, on which large blocks of shares can also be traded outside the central exchange.

A similar parallel-type market has been launched in Frankfurt. Among the big three European stock exchanges, this city has most recently thrown off the shackles of regulation and oligopoly in share dealing. Traditionally dominated by Germany's commercial banks, the German stock exchanges today use arguably the fastest and most secure settlement system available in Europe: This allows 100 percent of trades to be settled in two days, as opposed to five days or more elsewhere.

In addition, some see the German Inter-Bank Information System (IBIS) as the leading contender among the currently available unified systems combining quotation, settlement, and trading functions. Next spring a new link, known as BOSS (Borsen Order Service System), will allow individuals to buy stocks by walking into their local bank and placing share transaction orders directly from their accounts to the stock exchange.

Deregulation on national markets has been one impetus behind the recent growth of Europe's bourses.

In terms of future growth, Frankfurt is also well placed to take advantage of developments in Eastern Europe from a strategic and geographic point of view. With Western capital heading for East Germany and the other newly liberalized economies of the former communist bloc, the Federal Republic seems the natural choice for companies seeking to raise funds on the open market.

As the E.C.'s big-name exchanges try to wring out as much business as possible from international institutions and indeed from each other, a score of lesser known financial centers are percolating a brew fit to satisfy more specialist tastes in European securities trading. Among these "second-tier" contenders, cities like Geneva and Edinburgh have a long history of international money management and are consequently well known to institutional investors.

More than 35 percent of investment trust assets in the United Kingdom are managed in Scotland, and in terms of employment, the financial services sector is the fastest-growing in the country. These facts, combined with Edinburgh's strong university city status and proximity to a major financial center, have led people to refer to Scotland's capital as "the Boston of Europe."

The French city of Lyon is the home of the country's second-largest stock exchange. With a market capitalization of nearly 100 billion French francs ($18.7 billion) and a transaction volume of 47 billion French francs ($8.8 billion) in 1989, Lyon is well established as both a regional center and a specialist in bringing new and growing companies to public quotation.

On the E.C.'s northern shores, Danish stock market technicians and marketeers hope that their innovations will make Copenhagen a little more important to Europe's money managers over the next few years. Traditionally a center of bond trading (the fifth-biggest in volume in Europe), the Kobenhavns Fondsbors hopes that its "Project 1993" will establish the Nordic city as a viable competitor for European securities business in the coming era of financial integration.

The future of European securities remains unclear at this point. It may be characterized by dealers sitting in rooms surrounded by different IBIS, SEAQ, CAC, and other screens, gaining access to quotes in different financial centers. An alternative to this scenario might be the creation of a single quotation, execution, and clearing system that could logically lead to the creation of a single E.C. stock exchange.

This latter scenario could be achieved by PIPE (Price Information Project Europe), which was launched in September 1989 by all European exchanges. While originally intended to provide users with standardized information, PIPE could ultimately become an integrated clearing and settlement system for users throughout the Community as well.

The idea of an E.C. stock exchange has influential backers. Régis Rousselle, President of the Paris Bourse, claims that the creation of a European stock exchange should be a natural political development within an integrated E.C. economy. In fact, he recently criticized the Investment Services Directive as being inadequate for the creation of such a market, since it allows regulatory powers to be maintained at the national level.

Indeed, many future risks and opportunities will be influenced by the regulatory environment and approaches by the E.C. governments to their financial services industries. In that vein, for example, share turnover taxes have been abolished over the past year in Spain and the Netherlands.

Dominance in the past by no means guarantees pride of place in the future for traders and stock exchanges in a newly integrated European economy. The trends currently under way in the political, regulatory, and, above all, trading technology areas are set to create new locations and new outcomes in the E.C. financial marketplace of the future. €

Colin Waugh is a freelance writer specializing in financial issues. His last article, *Questions and Answers on Hard Currency* appeared in *Europe's* November 1990 issue.

Norbert Walter

Norbert Walter, Chief Economist of the Deutsche Bank Group, speaks out on economic and monetary union (EMU), the EuroFed, German unification, and investing in the former GDR in an exclusive interview with Europe's *Editor-in-chief Robert J. Guttman in Washington, D.C.*

What would you like to be the result of the intergovernmental conference on EMU in Rome this month?
I would like to see the Twelve go ahead with their commitment [to economic and monetary union] and to decide not only on the criteria but also on the schedule. Deciding on criteria alone doesn't necessarily mean enough for the political process. To get the process going, you need an agenda and a schedule.

What would you like the commitment to be?
First of all, if there is agreement that Europe should head for political integration, I would strongly favor a federal Europe over a centralized and bureaucratic one. The model for me is the Swiss canton, rather than a centralist French or British solution to a European constitution. If this could be agreed upon, I would strongly favor European monetary union, including the single currency and central bank, being completed by the 1990s.

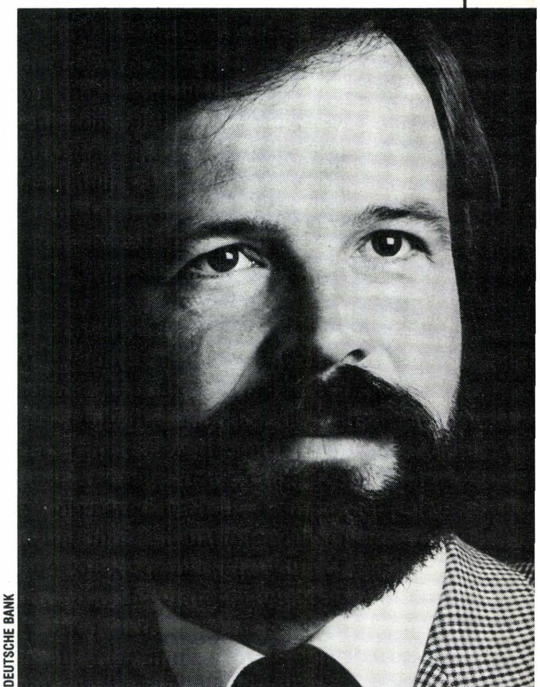
What is your definition of a "federal Europe?"
That only a minimum of political issues be dealt with at the central level. This would include military, foreign, and interior policy, but certainly not cultural policy or economic structures. These should be dealt with only at the national and regional levels.

Do you agree with German Chancellor Helmut Kohl's position that a European central bank should be genuinely independent from the various governments and must pursue a policy geared toward price stability?
Yes. I very much agree with the Delors Report's statement on Stage Three [of EMU], which is very much in line with Helmut Kohl's position. Kohl is just reflecting the view that is held generally in Germany and particularly by the Bundesbank.

Would you like the European central bank to be modeled after the U.S. Federal Reserve or the German Bundesbank?
I think the Federal Reserve is not that different from the Bundesbank. It is generally independent as well, possibly not as much as the Bundesbank, but formal independence does not explain all. The Bundesbank's factual independence has to do with the very strong public support of such autonomy in general. And since the general support for such an independent central bank in Europe is growing, such a solution could be as viable at the European level as it is has been in Germany for the past 45 years.

How do you see this developing? Do you see one central bank or many banks?
The national central banks will be part of this federal system, but they will have to accommodate their European monetary policy in that regard with a majority vote. That's how we will arrive at a European monetary policy. I also think we should have one single European currency right from the start.

Won't Europeans resist giving up their own currencies?
It will be hard, that's true. At some point, however, you have to find out whether it



DEUTSCHE BANK

Deutsche Bank's Chief Economist Speaks out on EMU, EuroFed, and German Unification is feasible to pay the costs of keeping 12 currencies or even more, if you consider a Europe with 20 or possibly 24 members. If we want to become a single economic entity, a single European market, it becomes unacceptable to exchange money at 20 borders and to accept the exchange risks involved with such a solution. Just imagine for a second the reintroduction of 50 currencies in the United States. It seems that the implications would be so strong that Californians and Texans would be quite prepared to discuss a single currency.

Will the single market come into effect on January 1, 1993, and are you optimistic about it?

First of all, we will declare victory in any case. Second, the most important elements of the single market will be completed by then, and those that are still being worked on will not be far behind. Business has decided to embark upon Europe, and although politicians may be lagging behind in one country or another, they are for the most part geared to comply with the process and to fulfill their obligations.

In the single market, how do you see Deutsche Bank establishing a presence throughout the European Community?

We certainly are aiming for a European presence, but we won't be a retail bank to the degree we are in Germany. We will certainly be an investment bank all over Europe. There is no such thing as a European bank for all banking functions throughout Europe. I believe that national banks will continue to dominate the main markets.

How would you define political union? Do you see a centralized foreign policy?

There has to be [a centralized] military and foreign policy, without which, I don't think, we would have the central functions of the state. For that purpose, there has to be a larger budget [and] better democratic representation. In order to ensure the federal character of the system we have to have two chambers, one to represent the European citizen, and the other representing the nation states or the regions.

Would you make the European Parliament more significant than it is now?

It has to become much more important than it is today, otherwise Europeans wouldn't identify themselves with such a body.

Do you feel that it is necessary to have political union before economic and monetary union?

No, I don't, but there should be a commitment in terms of substance and of timetable. I would argue that the next European Parliament elections should increase the importance of [that institution], and the next general election in Europe should be for the new Constitution and for the two new chambers, so that by 1998 we could have something like a Federal Europe.

How optimistic are you that this will happen?

I would argue that we certainly would not find a majority today for such a schedule, but national surveys don't say much about the reality. I think a number of events are very important in pushing us ahead: The breakdown of the postwar economic and political order, the dissolution of the Warsaw Pact and, consequently, the emptiness of NATO, supports a European search for identity and destination. So, vacuum as much as desire are creating the trend toward a more politically and economically cohesive Europe.

Moving on to Eastern Europe: Is Deutsche Bank telling its customers to investigate investing in Eastern Europe and the Soviet Union?

We don't need to, because it's happening. Our customers ask us how to provide them with domestic finance, or, if, as in many cases, they don't need the finance, we try to provide consultation at other levels. We will provide a full banking sector for them in the former East Germany. Our business there is on a very large scale with 140 branches and about 10,000 employees.

How long will it take to bring former East Germans up to West German standards?

In terms of income, I think it will be about five years before they consider themselves on an equal level.

How much will this cost in the end?

Less than the revenue. I'm pretty sure that most of the costs will be paid by the citizens themselves, as was the case in the Federal Republic after 1948. But, of course, there will be a budget deficit, which will be in the order of 100 billion marks this year and 130 billion marks next year. That consequence makes up, say, three-quarters of the unification process. But it's certainly less than the cost of bailing out the Savings and Loans [in the United States], so it seems to me quite an interesting investment. €

A New Frontier Takes Shape

THE PROSPECT OF EUROPEAN ECONOMIC and Monetary Union (EMU) has become a reality: Stage One began on July 1, 1990, and Stage Two will start—after the ratification of changes in the Treaty—in January 1994.

E.C. Commission President Jacques Delors, in exclusive comments for Europe, *presents his views on EMU, the EuroFed, and the ECU.*

For the current development of European integration, progress toward EMU has a double significance. It can be seen as the natural complement of the full realization of the Single European Act and of the 1992 single market. European citizens will only fully benefit from the positive effects of the common market and cooperation if they can use a single currency, and if the member states can reinforce their cooperation, and consequently converge their macroeconomic policies.

To be fully effective, EMU requires a qualitative institutional jump that will bring the Community considerably closer to political union. A new frontier is taking shape—leading toward a European Union—with two imperatives: efficiency of action and democratization of the decision-making process. For EMU, five options must be addressed.

A single monetary policy

This is an essential element of monetary union, required for full credibility and stability.

But what does a single monetary policy mean in terms of the centralization of the monetary institutions? To achieve a single monetary policy simply through a system of coordination between national central banks would not be possible given the day-to-day nature of monetary policy and the need for clarity and consistency for monetary stability. Given the character of the E.C., a federal structure for the European monetary institution seems essential (this is why I suggested the name of EuroFed). The German Bundesbank and the U.S. Federal Reserve offer good examples of efficient monetary institutions on which we can base our ideas.

The content of economic union

Historically, the E.C. has advanced through a process of dynamic disequilibrium. For example, the internal market led to the Single European Act, which promoted the implementation of common policies in related fields. Similarly, monetary union will promote economic union with the same spillover effect.

However, it would be dangerous to

allow the monetary side to proceed more quickly than the economic side. This is especially true for the period in which the consequences of the single market are being felt ever more intensely in member countries. A certain parallelism must be maintained, although there is considerable room for disagreement over its extent and over what constitutes economic union.

Intimately linked with this question is the matter of budgetary constraints: How strong should such constraints be and how should they be exercised? This is clearly not simply a technical question. It has political overtones, but that should not prevent us from thinking about technical solutions, such as the balance between savings and investment or the overall competitiveness of an economy. After all, these concepts are behind our concerns about excessive budget deficits.

A second question concerning economic union is the principle of subsidiarity. What has to be done at the E.C. level and what can remain at the level of member states?

The report of the ad hoc group that I chaired suggested leaving the lion's share of budgetary decisions to the member states. The E.C. budget, for example, is not likely to rise above 8 percent of total public expenditure in the Community in the foreseeable future. This would leave 92 percent of spending decisions in the hands of national authorities. They would therefore maintain the main areas of expenditure, such as social security arrangements, education, defense, culture, and, of course, the corresponding revenue-raising decisions.

This leads to the third question on economic union: How to bring about the necessary coordination between national budget policies and E.C. monetary policy? Although the EuroFed's prime aim of monetary policy will be price stability, it will also have to support the general macroeconomic policy decided by the Community. An institutional solution must be found to manage this consistency requirement between a single monetary policy and a mixture of budget policies.

The 12 member countries have agreed to share a part of their sovereignty on the condition that each region has an equal chance to develop. If it is difficult to foresee the extent to which EMU will facilitate or compromise this goal, this must be taken into account after reviewing the effectiveness of the E.C.'s structural and regional policies during 1991.

EuroFed's democratic and political accountability

There is no doubt that the EuroFed will be independent of instructions from both E.C. and national authorities. This necessary condition adds to the institution's credibility and to its basic objective of price stability. Nevertheless, the EuroFed's accountability to public opinion and other institutions remains a question yet to be answered.

The content of Stage Two of EMU

Stage One is a test of whether the Community can proceed further on EMU. That test takes two forms:

- First, the Committee of Central Bank Governors is to become the principal body to discuss the Community's monetary policies and their coordination, as well as external monetary relations. If the Committee of Governors, which is the embryo of the future EuroFed, does not acquire this influence, it will not be possible to move forward to create a European central bank.
- Second, economic coordination must progress from the simple academic exercise it tends to be at present. For this reason, a new Convergence Decision, setting up a framework for a multilateral surveillance process within the E.C., has been put in place for Stage One.

Stage Two, although it would be a short phase, is necessary on two main grounds, one political, the other technical:

- It gives those countries not in a position to enter EMU immediately the time to catch up with the rest of the Community.
- It gives the EuroFed the necessary learning process, both institutionally (to earn the credibility necessary for an efficient central bank), and technically (to consolidate its policy-making expertise). The public and the markets could also benefit from such a learning process, in which the European Currency Unit (ECU) must play a significant part.

The role of the ECU

EMU requires a single currency for psychological, political, and economic reasons. Only the adoption of a single currency can realize the full benefits of EMU.

For example, transaction costs will not be eliminated without a single currency. Furthermore, if national currencies continue to exist, markets will not easily be convinced that rates have been irrevocably fixed. Exchange risks will therefore remain and interest rates will be higher than necessary. Indeed, business survey evidence shows that firms would overwhelmingly prefer a single currency to fixed exchange rates. The single currency should therefore be adopted as quickly as possible. Once monetary sovereignty is transferred to the EuroFed, there will be nothing to be gained by delaying the move to the single currency.

Just as the E.C. will not choose one of the existing central banks to become the European central bank, so the single currency cannot be one of the national currencies. This must be the ECU. For this reason, the ECU should be allowed to develop both inside and outside the E.C.

Now more than ever before in its history, the E.C. is under pressure to define the level of its ambitions and to take up the responsibilities of a group of wealthy countries, rich in historical, cultural, and material potential. The Community must therefore demonstrate its ability to take up this challenge. €

CHRISTOPHE LAMFALUSSY

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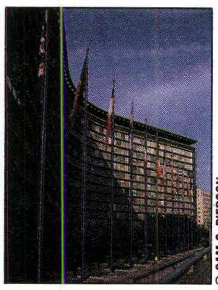

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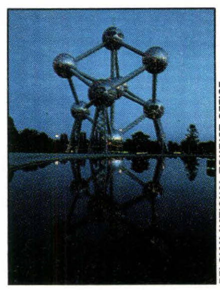
FOR YEARS, THE TINY VILLAGE OF FOURONS has been a thorn in the side of the Belgian Government, drawing attention from the press and foreign correspondents. Why? Because, although Fourons is largely French-speaking, it is administered by Flanders, Belgium's Dutch, or Flemish-speaking, northern half.



BELGIAN NATIONAL TOURIST OFFICE

As Belgium enters the 1990s, federalization has helped the country to overcome its lingering linguistic divisions. From left: The E.C. Commission, the Grand' Place, and the Atomium, in Brussels.

The Country Favors Closer European Union

BELGIUM

Belgium's Plan for a United Europe

When thousands of rebels invaded the north of Rwanda in October, nobody would have expected Europe to get involved in this latest outburst of tribal violence. Yet, a few days after the invasion, the presidents of Kenya, Uganda, and Burundi asked the impossible: If Europe talks about political union, then it should have an army. So could not a contingency of E.C. soldiers be sent to Rwanda as a peacekeeping force?

Back in Brussels, Belgian ministers felt rather uneasy about the idea. They had already tried to convince Rwanda and Uganda that, if it had to keep a close eye on the cease-fire, a force should be drawn directly from the ranks of the Organization of African Unity. Instead, Africans were now pinning their hopes on an army existing only in the imagination of the most optimistic enthusiasts of the future united Europe.

That situation, plus the talk about coordinated European participation in the Persian Gulf, showed E.C. leaders exactly what they will be facing in Rome this month, when they open the Pandora's box of political union. Defense, in fact, will be the hottest of all the political issues. Indeed, pressure may be building on the E.C. to put together an army appropriate for its emerging international role, although few E.C. countries really want to take such a step at this time.

The October meeting of E.C. Foreign Ministers in Asolo, Italy, clearly showed the divergence: Italy, Spain, Portugal, and Belgium were at one end of the spectrum, ready to move toward a common defense policy; France and the Netherlands showed more reluctance; Germany remained silent on the issue; and the United Kingdom, Ireland, and Denmark, asked "to slow the pace on security and defense." French Foreign Minister Roland Dumas declared after the meeting that France would accept transfer of sovereignty to the E.C. "as long as [France] could still decide whether to make peace or war."

This is the sort of dramatic declaration that no Belgian minister would dare risk. Instead, Belgium is more pragmatic, noting in its proposal on political union in March that the "new international context" calls for a common foreign policy, in which defense is an "essential aspect."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Belgian Prime Minister Wilfried Martens.

Joint action in foreign policy and defense is only one of four basic principles included in the Belgian proposal. The second principle would give the E.C.'s Council of Ministers, which directly represents the 12 national Governments, a right to take decisions based on a qualified majority vote. Unanimity—currently needed for all fiscal, labor, and health issues—would be reserved only for decisions regarding new members, changes to its Treaties, or transfers of powers from member states to the Community. This would, Belgium hopes, give the Twelve more flexibility in dealing with such "hot" topics as a common tax policy.

To eliminate what is known in Eurojargon as the "democratic deficit"—the imbalance of power weighted in favor of the Council—Belgium has made a third suggestion: more legitimacy to the European Parliament's 512 deputies. The goal is to make both the Council and the E.C.'s executive body, the Commission, more accountable to the citizens of Europe. One idea, for instance, would be to allow Members of the European Parliament (MEPs) to elect the Commission's president.

A fourth objective concerns "subsidiarity." Belgium proposes that any new treaty incorporate subsidiarity as envisioned by former Italian MEP Altiero Spinelli: "Union works only for those tasks that can be better solved together than separately." Spinelli's famous report on European Union in 1984 was approved in Strasbourg by a majority of 237 deputies, with 43 abstentions, and only 31 votes against it. Six years later, E.C. leaders have started taking the idea seriously.

Since the onset of the Gulf crisis, Belgium's political parties have developed positions on the possibility of a military E.C. force. The socialists, who form part of Prime Minister Wilfried Martens' coalition, envision nothing less than an integrated military command among E.C. states, similar to that of NATO. They also feel that the E.C. should absorb wholesale the functions of the current Western European Union, which loosely groups together the defense structures of nine E.C. member states. However, the Social Christian faction of Martens' coalition has taken a much softer stance: There is no question, for example, of taking new initiatives that would inadvertently alter NATO's role and thus endanger upsetting traditional relations with the United States.

Seeking a compromise between loyalty to Washington and the radical line endorsed by socialists, Belgian politicians might well consider that one way to build a European army would be to give it humanitarian objectives. Said Foreign Affairs Minister Mark Eyskens recently on the situation in Rwanda: "I see a political union in which Europe might eventually accept to dispatch forces to prevent genocides or enforce peaceful relations in the world.

"But this is still premature. I can't envision Danes, Britons, or Italians sending troops under a European banner to act as a buffer between the rebels and government forces in Rwanda."

—*Christophe Lamfalussy*

The village first made headlines in 1986 because its French-speaking mayor, José Happart, consistently refused to take an examination that would have revealed his poor knowledge of Flemish. "Why should I conduct all official acts in Flemish if most people here speak French?" he asked. "Because Fourons belongs to Flanders," retorted the Flemish, insisting on their right to administer affairs on "their" soil in their language.

Angry demonstrators flocked to the village, the Government held late-night meetings to find a solution, and journalists converted Fourons' pubs into press rooms. With its sparse population, the little farming village unwittingly found itself at the center of a national political crisis. Happart, a member of the Socialist Party, became the most revered political leader in polls conducted across Francophone Wallonia—and the most hated in Flanders.

While most foreigners remember the affair as a symbol of Belgium's longstanding linguistic division, radical changes took place in the 1980s. Most dramatic was the federalization of Belgium into separate "communities" during that decade. This provided the French- and Flemish-speaking communities with a firm grip on matters such as their own economy, education, public works, environment, health, and cultural affairs. It also regionalized the national budget. Most of all, it provided Belgium with political stability: Wilfried Martens is now entering his 12th consecutive year as the country's prime minister.

The bad news is that there are now 54 ministers, some of whom share the same responsibilities at the national and regional levels. In a country where taxes are among the highest in Europe, many citizens feel that so much political representation simply costs too much, especially for a population of less than 10 million. Says José-Alain Fralon, former Brussels correspondent for the French daily *Le Monde:* "The danger for Belgium is not that this administrative multiplicity will address only what is strictly necessary, but that it will proliferate. These under-ministers strive for legitimacy and persist in shelling Belgians with useless decrees, unnecessary decisions, and political discourse ground in past disputes."

On the international front, things look brighter. Belgium is seriously attending to its relations with the rest of the world. At the European level, Happart, that former symbol of Fourons, is now a member of the European Parliament. A farm lobbyist, he must now battle with E.C. agricultural issues. Although a firm believer in a "Europe of regions" (as opposed to one of nations), Happart nevertheless maintains a certain skepticism about the problems of language in Europe: After a fierce television debate with one of Belgium's leading Flemish Social-Christians, he went on record admitting that "after all, everybody will speak English in 20 years."

Federalization has given Belgium political stability: Wilfried Martens is now in his 12th consecutive year as the country's Prime Minister. Below: The Belgian Parliament.

BELGIAN NATIONAL TOURIST OFFICE

When it comes to dealing with its former colonies, the Belgian Government, a coalition of Socialists and Social-Christians, has departed in recent months from its formerly soft diplomatic tone. This new approach started last May following press reports of an alleged massacre of students at the University of Lubumbashi in southern Zaire. Belgian Foreign Minister Mark Eyskens requested an immediate international investigation into the affair and suspended cooperation with the former colony. Then in October, Martens, Eyskens, and Defense Minister Guy Coëme had to make a hurried diplomatic "safari" to Kenya, Uganda, and Burundi to smooth out civil unrest in Rwanda, another former Belgian colony.

Belgium is also part of the Western military presence in the Gulf, where it has sent four warships, including two minesweepers. In addition, several Belgian C-130 cargo planes have carried hundreds of Egyptian refugees fleeing from Iraq. Yet Belgians have also been able to maintain a sense of skepticism—and humor—about this military obligation. They were amused by reports that their Gulf-bound Marines complained about beer shortages, or that, at one point, the country's command ship was only able to plow backward through the waves.

Belgium is a staunch supporter of European political union, advocating joint action in foreign policy and defense, and giving more powers to the European Parliament.

Brussels is benefitting from the presence of the E.C. institutions, which brings its industries an annual turnover of $1.3 billion. Below: Brussels.

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Belgians will always maintain their sharp regional disparities and local customs, making it virtually impossible to answer the question: "What is Belgium?"

At the European level, Belgium was the first E.C. nation to put forward a plan outlining the essentials of political union between the 12 E.C. countries. Viewed as a "pragmatic and positive approach" by other E.C. countries, the report was the most tangible sign of Belgium's high ranking among those E.C. states serious about political union, which would imply a legitimate government for the Twelve, a powerful Parliament, and a common foreign policy. Some say that this pro-European approach is because Martens would like to succeed Jacques Delors as E.C. Commission President in 1992, and that he must therefore demonstrate Belgium's loyalty to the construction of Europe. Others argue that Belgium is simply moving to the external and final phase of its own federalization, in which Europe will help the country to refine its regional, federal, and Community relations.

Yet others point to the need for national prestige as a reason for all this Euro-diplomacy. Depicted by NATO strategists as the "soft underbelly" of Europe in the 1970s (due to its reluctance to buy expensive weapons), and undermined by such local feuds as the Fourons affair, Belgium, they say, has lost its international standing. Thus, its European plan and its efforts to take a strong stance in Africa are aimed at reviving Belgium's role in foreign diplomacy.

Belgium's economic picture has changed considerably in the last two years. The 1988 raid by Italian entrepreneur Carlo De Benedetti on the Société Générale de Belgique (SGB), Belgium's largest holding company, made most politicians aware of their country's vulnerable industrial base. After a fierce battle between the Italian tycoon and the French Compagnie Financière de Suez, the "white knight," SGB slipped into Suez' hands. To foot the bill, however, Suez began selling parts of the SGB empire. Last October, for instance, there was talk of selling Fabrique Nationale, Belgium's largest producer of weapons, to GIAT, a French company. Before that, Suez had already ended Belgian independence in such sensitive sectors as energy, defense, telecommunications, space research, and shipping within a matter of months. As though this were not enough, other industries, such as chocolate makers, breweries, and sugar companies—once proud, family-run operations—were also sold to foreign companies.

The general impression was that investors had gone on a wild shopping spree in one of Europe's most open markets. The French made a rush on entire blocks of industries, the Swedish snapped up huge volumes of rental office space in Brussels, and British insurance companies crossed the Channel to make their own acquisitions.

There are compensations, however. Thanks to the E.C. institutions, Brussels now has a heavy concentration of lobbyists, lawyers, experts—and ethnic restaurants. Says former Prime Minister Paul Vanden Boeynants, now president of the Association for the International Promotion of Brussels: "The simple presence of the E.C. Commission in Brussels brings our industries a turnover of $1.3 billion a year. If the European Parliament were to hold its sessions in Brussels, this would add an extra $800 million annually."

Perhaps no E.C. country has gone as far as Belgium in loosening the ties of its own nationalism. All the same, Belgium still remains a country by itself. Only a handful of *rattachistes* (separatists) want Wallonia integrated into adjacent France. And few Flemish people—who are overwhelmingly Catholic—would accept being citizens of a larger and Protestant Netherlands. So Belgians retain their sharp regional disparities and local customs, making it virtually impossible to give a satisfactory answer to the question: "What is Belgium?" €

Christophe Lamfalussy is the foreign affairs correspondent for the Belgian daily *La Libre Belgique*.

Belgium Facts and Figures

Brief History

16th Century: Under Charles V (1500–58), Belgium, the Netherlands, and Luxembourg (Low Countries) formed part of the Burgundian-Habsburg Empire.

1795–1815: France annexed Belgium in 1795 as a result of Napoleon's Revolutionary War. In 1815, following the Congress of Vienna, the country reverted to the Netherlands.

1830–present: An 1830 revolution marked the birth of Belgian statehood. The country officially achieved nationhood in 1831.

Since its independence, Belgium has been troubled by tensions between its northern Dutch-speaking and southern French-speaking communities. It was officially recognized as a bilingual country in 1898 (see also below).

Neutral during both World Wars, Belgium was twice invaded and occupied by Germany. It is a founding member of the European Community.

Business

Main Banks: Générale de Banque; Banque Bruxelles Lambert; Kredietbank.

• Belgium is the seventh-most active financial center in the world, and the fourth-largest in Europe.

Industrial Leaders: Société Générale de Belgique (holding company), Solvay (chemicals), Delhaize (supermarkets), Cockerill (metallurgy), GIB Group (distribution), Acec-Union-Minière (industrial equipment), Ford, Exxon Chemical, Petrofina.

Foreign Trade

Major Trading Partners: Germany, France, the Netherlands, United Kingdom, United States, Italy.

Main Exports: Iron and steel products, chemicals, pharmaceuticals, precious stones, textiles.

Main Imports: Non-electrical machinery, motor vehicles, textiles, chemicals, fuels.

Demographics

Population: 9,928,000 (1989)

Population Density: 320 people per square kilometer, one of the highest figures in the world.

Religion: Roman Catholic: 97 percent

GDP: (1989) BF 6,117,000,000 ($197.3 million)

Currency: Belgian Franc ($1 = 31 Belgian francs: Fall 1990)

Geography

Area: 11,782 square miles (30,519 square kilometers)—about the size of Maryland. Belgium neighbors France, Germany, the Netherlands, Luxembourg. Its 40-mile coast stretches along the Strait of Dover (North Sea).

The Regions: Flanders, population 5.7 million; Wallonia, population 3.1 million; Brussels (capital), population 1 million. A German-speaking population of about 70,000 lives within Wallonia.

Largest Cities: Brussels: 1 million; Antwerp: 500,000; Ghent: 200,000; Charleroi: 200,000; Liège: 200,000; Bruges: 100,000; Namur: 100,000.

Useful Addresses

Embassy Of Belgium
3330 Garfield Street
Washington, D.C. 20008
Tel.: (202) 333-6900

Belgian Consulate Information Office
50 Rockefeller Plaza
New York, N.Y. 10020
Tel.: (212) 586-5110

Belgian-American Chamber Of Commerce
350 Fifth Avenue, Suite 703
New York, N.Y. 10018
Tel.: (212) 967-9898

Belgian National Tourist Office
745 Fifth Avenue
New York, N.Y. 10151
Tel.: (212) 758-8130

Commission Of The European Communities
Rue Archimède 73
1040 Bruxelles
Belgium
Tel.: (011-32-2) 235.38.44

Government

Form Of Government: Constitutional monarchy. Legislative power is shared by the monarch with the Chamber of Representatives and the Senate, whose members are elected every four years. The monarch appoints—and dismisses—ministers. The monarch also signs bills, which must be countersigned by a minister.

Judiciary: The monarch appoints judges for life. The judiciary is independent from the executive and the legislature. The Council of State arbitrates in administrative disputes and advises on all bills and decrees.

Federalization: In 1970, Belgium took the first steps toward federalizing the country. The Constitution was revised as a result of growing tensions between the French- and Dutch-speaking communities. Since 1988, they have had decision-making powers over their respective region's economy, education, environment, health, and cultural affairs.

Head Of State: King Baudoin, married to Queen Fabiola

Prime Minister: Wilfried Martens

Political Parties: The country's political parties represent the same ideological tendencies as those in the rest of Western Europe, but are divided along linguistic lines. Thus there are Flemish- and French-speaking Christian Democratic (called Social Christian), Conservative (called Liberal), Socialist, and Green parties.

Miscellaneous

• Belgium produces over 400 different kinds of beer—more than any other country in the world. An old saying has it that the country has more brewers than mayors.

• Belgium is famous for its fine French Fries, or "frites," and its internationally renowned chocolates and pralines, many of which are still handmade.

• Belgium introduced the world to radio broadcasting. The first broadcasts could be heard as early as 1913.

• Belgium invented the tram in the 19th century, and went on to build tram networks worldwide.

• Europe's first stock exchange, or **bourse**, was set up in Bruges during the 14th century. This, plus the town's experience in trade, made it northern Europe's commercial capital.

A Medieval History Tour

PHOTOS BELGIAN NATIONAL TOURIST OFFICE

Bruges, often called the "Venice of the North," was a wealthy trading town 500 years ago, and has preserved its medieval beauty.

Discovering the Charms of Belgium's Old Cities

Peter S. Greenberg

RECENTLY, A FRIEND RETURNED FROM A vacation in Europe. He had traveled to England, France, and . . . Belgium. Belgium? "It was an accident," he laughed. "We were driving through France and were so close to Belgium that we went there. It was great."

Indeed, most American travelers do not discover Belgium by design. More often than not, they happen upon the country as they explore Europe, and, almost without exception, are pleasantly surprised.

To be sure, Belgium is not high on most travelers' wish lists of European destinations. On the surface, Belgium seems to suffer from both size and density: It is 200 miles long and 100 miles wide (roughly equivalent to the state of Maryland), bordering the North Sea between France and the Netherlands. Yet it has about 10 million people—making it the world's second most densely populated country. Belgium is also the world's most heavily industrialized country, with only 5 percent of its citizens involved in agriculture. Not surprisingly, the country is a victim of image. In European tourist circles, Belgium has always been the stepchild, a grossly undeserved title.

Belgium is filled with beauty, culture, and elegance; it is prosperous and the food is excellent. Quite simply, Belgium is a pleasant, manageable mystery tour of medieval history, art, architecture, and *art de vivre,* all of which the Belgians are more than happy to share with visitors.

At the very center of it all—literally—is Brussels. For a time, it was one of those European cities that exuded a somber, almost impersonal, exterior, in bad need of a face lift. Recently the city did just that, and freshened up a rich heritage. To be sure, Brussels remains an odd combination of the international and the provincial: Cobblestone streets that flank canals where old barges, still hauling freight, and massive steel-and-glass office buildings can be found within a few feet of each other.

The city's churches, museums, baroque guild houses, and public squares are magnificent. The Grand'Place, perhaps the most ornate market square in Europe, boasts the city's town hall (Hôtel de Ville), and the Maison du Roi (King's House), a 16th-century palace in which no king ever lived, and that now houses the City Museum.

Not far from the town hall is the Manneken Pis—a fountain with a small bronze statue of a chubby little boy peeing—is the city's most identifiable monument and a tribute to its sense of humor. Some adamantly believe the local legend that the statue was built by a king who wanted to immortalize his son in the last position in which he saw him just before he died. Today the little kid is often dressed in colorful costumes specially made for him and on display at the City Museum.


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Home to the world's fifth-largest port, Antwerp is a bustling and energetic city. Above: the city's cathedral.

While Brussels remains an expensive city (it competes with Vienna for the title of most expensive European metropolis), it is one of my favorites in the category of gastronomic shrines. My favorite restaurant in Brussels, called **Rugbyman**, has two locations specializing in mussels. **Comme Chez Soi** is also a wonderful dining experience not be missed when visiting Brussels.

Enjoy lunch at **Chez Léon**, an 85-year-old establishment just off the Grand'Place. It is three stories high, noisy, crowded, unpretentious, and efficient. This is not fast food. Lunches at Chez Léon are leisurely affairs of seafood and meat dishes, although mussels are the hands-down favorite. It is also not unusual to see customers arrive with their dogs, which somehow sit quietly while their owners eat (a comforting scene of civilized food and civilized pets). A trip to Chez Léon is a great appetizer for the main course—the Brussels Royal Museum of Fine Arts.

Belgium is also famed for its chocolate, of which per capita consumption is a whopping 16 pounds per year. Chocolate and pralines can be found just about everywhere—from cafés to hotels. (Because it is freshly made, chocolate is not cheap: Many shops sell it at close to $10 per pound.)

Hotels can also be costly. My three favorites are the **Amigo**, which boasts many possibilities, ranging from art-filled salons, a cozy bar, and proximity to the Grand'Place: It is situated right behind the town hall. Then there is the **Métropole**, a large 500-room Beaux-Arts beauty that was recently restored. Finally, there is the **Astoria**, a wonderful period piece with high ceilings and special Louis XVI touches.

Because Belgium is small, it is easy to tour. Both Antwerp and Bruges are less than an hour from Brussels on the highway.

Antwerp is a bustling and beautiful port city. Officially, it may only be the world's fifth-largest port, but it is the busiest one I have ever seen. Some 60,000 barges and 20,000 ocean-going ships tie up each year at its 60 miles of docks.

Antwerp is also a capital of history, diamonds, art galleries, and fashion. This ancient Flemish city is an unexpected surprise, not to mention an almost ideal photo opportunity. Unlike Brussels, Antwerp has not succumbed to the temptation to change, and is home to one of the most beautiful medieval market squares and buildings.

My favorite Belgian city is Bruges, often labeled the "Venice of the North," although the locals often prefer to think of Venice as the "Bruges of the South." The entire city is a tribute to loving and careful restoration, making it seem like a perfectly preserved medieval museum. But it bustles just as it did 500 years ago, when it was a wealthy Renaissance town.

Late afternoon and early evening are the best time to see Bruges, when the tour buses have departed and the city regains its senses. Canal trips—small motorboat tours that lazily circle the city—let you glide under humpbacked bridges and weeping willows.

The food in Bruges is also worth a nod. **De Witte Poorte** is expensive, but the family-run restaurant offers the best fish and game in season. And the best way to work off a heavy lunch is by climbing the 366 steps to the top of the belfry that towers over the city's market. From this vantage point you can truly understand—and admire—the city. €

Peter S. Greenberg, who appears frequently on *Good Morning America,* is a syndicated travel writer in California. His article "Portugal: A Land of Beauty and Tranquillity" appeared in *Europe*'s October 1990 issue.

Season Greetings

Bonne Année

Beste Wensen

Buenas Fiestas

Bom Ano Novo

Buon Natale

Χρονια Πολα

Glückliches Neues Jahr

Different languages are capable of expressing the same thought without sharing the same meaning, even at "Christmas".
Is it 25 December or 1st of January?
In Europe it's most likely to be the latter.
In most places, but not all...

If you are just as confused about what 1992 means, ask us, PRP-PUBLIC RELATIONS PARTNERS, the oldest (1963) established European public affairs organization in Brussels, the capital of Europe.

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CAPITALS

Since the inter-governmental conferences on economic and monetary union (EMU) and political union taking place this month in Rome will so profoundly affect the E.C.'s future, Europe *asked its "Capitals" correspondents for a view of both political and economic union from their respective capital cities.*

The results make for an interesting overview of the differences—and similarities—prevailing in the 12 member states. National concerns range from fears of losing sovereignty to welcoming closer union and a more democratic decision-making process within the E.C. institutions. The range of hopes, concerns, and views also clearly demonstrates just how complicated and intricate the task will be for those working on an outcome that will be acceptable to all.

Whither Neutrality?

DUBLIN—The inter-governmental conference on European political union will be very significant for Ireland because of its unique neutral status in the European Community. Some observers argue that, after 17 years of membership, the outcome of this conference will determine whether Ireland considers neutrality compatible with political union or not. For the Government, on the other hand, the issues are not quite so clear-cut. Under increasing pressure from both the advocates of neutrality and those favoring its abandonment in the cause of closer E.C. integration, it has been trying to play it cool, although the Gulf crisis has made the issue more urgent.

In the case of Ireland, neutrality means that the country is not a member of a military alliance, but this has never prevented its support for the ultimate aim of European union, nor for the foreign policy coordination process known as European Political Cooperation (EPC).

Because of Ireland's neutral status, for example, EPC excludes the military or defense aspects of security, and lays down that these are matters for the North Atlantic Treaty Organization (NATO) or the Western European Union (WEU). The "political and economic" aspects of security, however, are legitimate subjects for EPC discussion, and the Twelve try to coordinate their stances within these two areas at the United Nations or at the 35-nation Conference on Security and Cooperation in Europe (CSCE).

The fact that the timing of the conference on political union coincides with the one on economic and monetary union (EMU) means that there is now an impetus toward closer integration that must involve security issues for the Community. Ireland does not deny that there should be an advance toward a new stage in the so far vaguely defined concept of European union. Like the other member states, however, it had been happy enough to leave it in the realm of good intentions for the time being. The rapid collapse of the communist regimes in Eastern Europe, the unification of Germany, and the Gulf crisis, however, all combined to give this agenda new urgency.

In addition to dealing with security and closer foreign policy coordination, the conference will also discuss ways to increase the efficiency of the institutions and to enlarge the powers of the European Parliament.

Ireland has only 15 Members in the European Parliament out of a total of 518. It is therefore understandable that Ireland is reluctant to tilt the balance of power further toward the European Parliament at the expense of the Council of Ministers, where small countries can more easily seek alliances on sensitive issues. The same is true for the E.C. Commission, in which Ireland has always found a good ally when seeking special treatment for economic problems. Thus Ireland would be unlikely to favor a major transfer of existing powers at that institution's expense.

On institutional questions, therefore, Ireland is likely to call for moderate, rather than radical, reforms. On the security issue, the Irish Government should consider the Italian Presidency's proposal—that all E.C. countries join the WEU alliance—a serious problem for its own status.

Until recently, the Government preferred a security arrangement in the framework of the CSCE that would transcend the existing NATO-Warsaw Pact blocs. But following E.C. Commission President Jacques Delors' proposal that political union should "point the way toward a common security policy, including defense," the Irish Minister for Foreign Affairs, Gerard Collins, suggested that the Government would be pre-

D I R E C T O R Y

pared to consider letting Ireland participate in a security arrangement that was "limited only to the welfare of the Community."

This is a small but significant shift in the official attitude, whose follow-up during the conference on political union will be eagerly awaited.

—JOE CARROLL

More Power to the Parliament

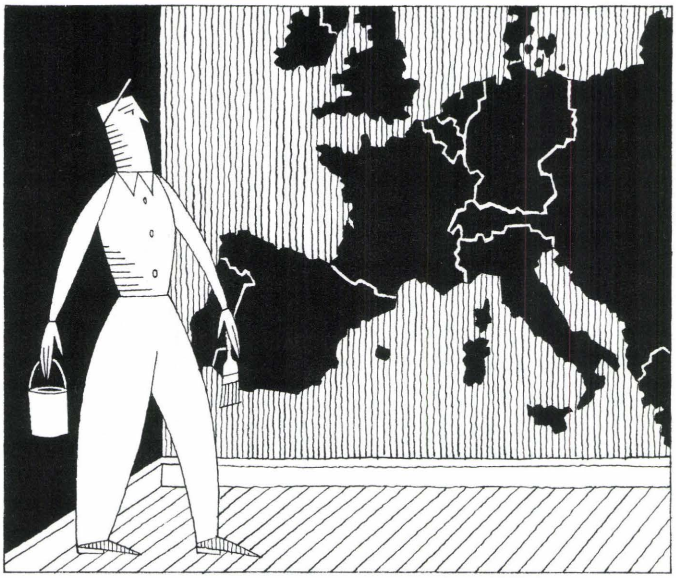
ROME—The surveys all agree: Italy is, theoretically at least, one of the most "European" members among the E.C. countries. Nevertheless, this does not stop it from also being one of the most "disobedient" member states in obeying E.C. law and putting its decrees into practice.

So, while Rome may not be diligent in implementing E.C. directives, this is outweighed by its reiteration of faith in the Community. The same attitude is true of Italy's view of the E.C.'s two next important steps: economic and monetary union (EMU) and political union.

Enthusiasm reigns everywhere, from the political arena (indeed, even the fractured Italian political alliances are all in agreement) to that of general public opinion. Italian Foreign Minister Gianni De Michelis, currently President of the E.C. Council of Ministers, is working very hard on organizing the two inter-governmental conferences in Rome in mid-December, which will lay the groundwork for eventual EMU and political union.

A high-ranking member in the Foreign Affairs Ministry recently told *Europe* that, in the area of security, Italy's prime objective was two-fold: to give the E.C. a common foreign policy and to guarantee a system of unitary security for the Community. In keeping with this last point, De Michelis has now also become the promoter of a proposal that would transfer some defense duties (now under the control of the Western European Union) directly to the Community.

As regards the European Parliament, Italy wants to give it "co-decisive" powers; that is, decision-making powers at least equal to those of the Council of Ministers. Last July, an overwhelming parliamentary majority (including even the Deputies and Senators from the communist opposition) urged the Italian Government to apply itself in a concrete manner to improve the role of the European Parliament in preparation for political union.



A quip from officials at the Italian Foreign Ministry neatly sums up Italy's position: "If we can manage to give the E.C. decision-making powers in foreign policy and in security, we will have achieved three-quarters of European unity."

—NICCOLÒ D'AQUINO

Becoming More Willing Europeans

COPENHAGEN—The broad support in the Danish Parliament for European political, and economic and monetary union is still somewhat new.

For most of the 17 years since Denmark joined the E.C. in 1973, a majority in the Danish Parliament ensured that the country was one of the slowest ships in the European convoy. In fact, until early this year, Denmark was a de facto ally of former Prime Minister Margaret Thatcher, which did not please the liberal-conservative minority Government.

Even as recently as six months ago, the largest Danish political party, the Social Democrats, still had strong reservations about economic and monetary union, especially concerning the goals of a European central bank. And just three months ago, they had similar problems with the pace of political union.

That stance has now changed, however. Although not actually stressed in the debate, one of the obvious reasons for the Social Democratic change of policy on the E.C.'s future is German unification. The party now regards the transfer of sovereignty from the nation state to the E.C. less as a loss of Danish sovereignty than as a means of balancing the strong growth of German influence.

There is a broad consensus in the Danish Parliament that substantial new powers must not be granted to the European Parliament at the expense of the national E.C. parliaments. The Danes would also prefer the Council of Ministers to remain an all-powerful institution; this emphasizes the Danish view of the future of the E.C. as markedly *con*federal, rather than federal.

As a founding member of the European Monetary System, Denmark has always looked favorably at the development toward monetary union. Some months ago, the Social Democratic Party questioned whether the first priority of a European central bank should be price stability (i.e., fighting inflation), or whether the fight against unemployment should be equally important. When Denmark's central bank unofficially called these goals contradictory, it echoed the German Bundesbank. As a result, the major Danish parties accept that the European central bank must be independent, and that price stability must be its first priority.

Like the Federal Reserve of the United States and the German Bundesbank, the Danish central bank has always been very independent, and monetary union will therefore mean business as usual. When the European central bank comes into existence, however, Danish participation in decision-making will *equal* that of the Bundesbank: for, until now, the German bank's decisions have had a strong effect, not only on Germany, but on Denmark too.

—LEIF BECK FALLESEN

E.C. Must Strengthen Institutions

ATHENS—When British Foreign Secretary Douglas Hurd visited Athens in October, he said of his talks on Community affairs: "We identified a good deal of common ground on Stage Two of EMU and had a detailed discussion on political

ILLUSTRATIONS BY JOSEF GAST

union." This statement concealed as much as it revealed. Greece is a keener advocate of political union than the United Kingdom and, while not anxious to rush ahead to EMU, is fully committed to an eventual single currency and central bank.

Constantine Mitsotakis' conservative government shares with its socialist predecessor a wish to strengthen the E.C.'s political institutions, in order to lock Greece more closely into the European family and to further the country's foreign and security interests. Since EMU is a necessary part of this process, Greece supports it, despite reservations—deriving from its own economic weakness—about the timing.

The Government does not expect Greece to be ready to join the Exchange Rate Mechanism (ERM) before mid-1993 at the earliest. For that to happen, inflation, now running at about 23 percent, must first be more than halved. In addition, the public-sector deficit, which reached 19 percent of GDP in 1989, and will not be much less this year, should be reduced to 5 percent of GDP by 1993.

The Greeks therefore accepted January 1, 1994, as the starting date for Stage Two of EMU, as was agreed—by all but the United Kingdom—at the E.C. summit in Rome in October. They also accepted a duration of three years, but in practice will probably take advantage of transitional arrangements before entering the final stage. However, Greek officials say they wholly favor the objectives of EMU "as long as conditions are right for all members to participate equally." Any talk of "two tiers" or "two speeds" is anathema.

On political union, Greece has set out detailed priorities, based on the need "to correct imbalances and operating difficulties" and especially to overcome the so-called "democratic deficit." Thus the Government wants increased legislative and monitoring powers for the European Parliament, including a "right of initiative" should the Commission drag its feet, more executive powers for the Commission, whose president should be elected by the Parliament, and only one Commissioner per E.C. member state.

Athens also proposes that decision-making by the Council of Ministers should be made more effective by eliminating the need for unanimity on all but constitutional and foreign issues. Furthermore, the number of Councils should be reduced to four, with a Political Affairs Council assuming responsibility for external policy and defense. New common policies—on culture, education, and the environment, for example—should be developed, and at least some ministerial meetings should be open to the public.

Like most, but not all, E.C. members, Greece believes that the E.C. would benefit from a common foreign and defense policy—a belief borne out by the Gulf crisis. Four years ago, Athens joined the Western European Union (WEU), and now strongly supports the proposal that the WEU be "absorbed" into the European Community. One reason for Greek support on this issue is the stipulation in the WEU Charter that all members undertake to provide military help to any member facing an armed attack: Once again, national security is the key to Greek thinking.

—PETER THOMPSON

Committed to the E.C.'s Future

LISBON—Portugal was caught by surprise when the United Kingdom, its oldest ally and currently fourth most important trading partner, announced that it was joining the Exchange Rate Mechanism (ERM) of the European Monetary System (EMS). The move left Portugal as one of only two E.C. countries (the other being Greece) outside the currency system, a position with which Lisbon is not particularly happy.

However, Vitor Gaspar of the Finance Ministry's economic studies unit, says: "We're not going to rush in merely because Great Britain has now joined." He and others, including Finance Minister Miguel Beleza, insist that Portuguese inflation, currently at an annual 13 percent, must draw closer to the European norm before Lisbon can participate.

Skeptics, however, believe that the decision will be political and suggest that, like the United Kingdom, Portugal will, when the Government considers it has most to gain from the move, find itself in the currency mechanism. This may even happen before the end of the year.

Meanwhile, Portuguese views on the E.C.'s current rush toward monetary and political union are somewhat mixed. While the man on the street still overwhelmingly supports E.C. membership, the finer details of political union are clearly causing a stir at higher political levels. President Mario Soares, recently addressing a Lisbon conference on "Portugal and the Future European Community," left no doubt about his interpretation of "union:" "It is not a question of ceding or transferring sovereignty, but simply the common administration of power that member states freely agree to share, because they have become so irreversibly intertwined that they are no longer able to administer it individually."

Making clear his disapproval of any prolonged delay by the Lisbon Government on a firm and total commitment to monetary and political union, he appealed for Portugal to move into the "frontline of the process of building Europe, contributing creative positions of its own, at all levels." He added that, while decisions in this area must be carefully weighed, "excessive preoccupation ... must not be allowed to become an alibi for dallying strategies, or, worse, political opportunism." This, he warned, could see Portugal being dragged into the undertow of Europe's new tide.

In Portugal's power-sharing semi-presidential political system, his remarks are clearly designed to influence thinking in the current center-right Social-Democratic Government.

The Government's official response to Brussels' wish to speed up political and monetary union has been cautious. Citing the need for safeguards and balances, it has called for a longer transition period to implement the first phase.

Vitor Martins, Secretary of State for European Integration, has said: "We believe it important to secure greater guarantees for less developed Community members to get aboard the already moving train." He insists that Portugal wants to be in at ground level in the construction of political and monetary union, but that the transition period needs to be sufficiently flexible to enable all members to participate reasonably in the process.

Thus Lisbon's position, Martins concludes, has "much in common with the Commission's, but also a close affinity with Spain's efforts to minimize the risks attached to economic and monetary integration." He adds that, while desirable and even obligatory to building Europe on its present scale, the integration process must be "accompanied by diverse measures to ensure benefits for all member states."

—KEN POTTINGER

Suggesting Practical Compromise

MADRID—Beyond its practical significance, Spain's accession to the European Community in 1986 was also an important symbolic step, representing its emergence from a long period of isolation and a chance to tie its economic fortunes to the Western European mainstream. So it is no surprise that Spain is one of the firmest supporters of political and monetary union. At the same time, it is also a defender of compromise to ensure that no single nation or region gets left behind.

The desire to avoid a "two-speed" or "two-tier" Europe led Spain to propose delaying Stage Two of monetary union for a year, until 1994. Although Spain's Economics Minister Carlos Solchaga first presented this idea at the June 1989 Madrid E.C. summit, it was undersigned by the E.C. Council of Ministers in Rome only this October.

While Spain favors an E.C. central bank and single currency, its opinion at the political level is that they would infringe on the sovereignty of the Community's basic unit—the nation-state. While Spain favors closer political union, it does not foresee citizens in all 12 member countries voting for a single, powerful E.C. government.

Socialist Prime Minister Felipe González has won a great deal of acceptance for his concept of Community citizenship, which he considers, along with political and monetary union, a third pillar of the future European Community.

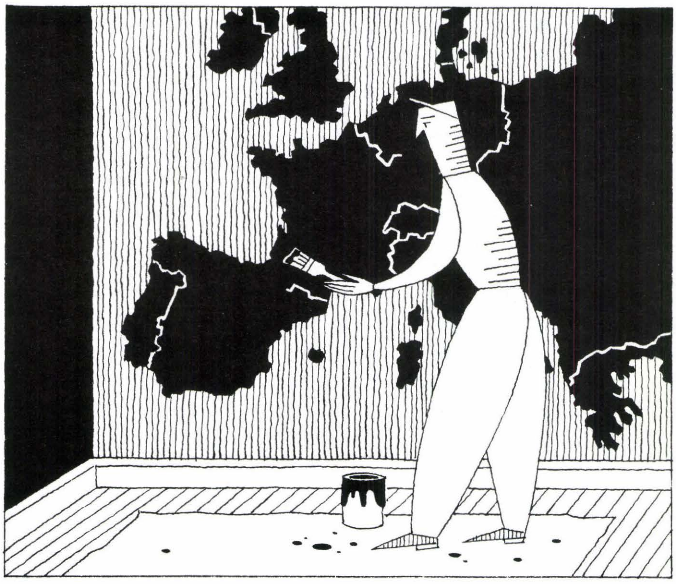
Where the European Parliament is concerned, Spain suggests one and the same electoral system for all member states. At present, the institution's members are elected on the basis of the electoral system of the country from which they originate.

Further, González envisions a Community of citizens who hold an E.C. passport in addition to that of their home nation. The E.C. passport would give them the right to circulate freely within the E.C., to live or work in whichever member nation they choose, and to vote in municipal elections in their adopted country. Outside the E.C., the passport would assure them the protection of the diplomatic missions of any and all E.C. countries.

—Richard Lorant

Stability is Key to EMU

BONN—German unification has diverted attention from developments in the European Community. Indeed, the intensifying discussions in Brussels on a speedy realization of Stage Two of economic and monetary union (EMU) went almost unnoticed by the German public, whose thoughts and opinions on the topic are vague.



Until the October E.C. summit in Rome, there was a fair amount of warring within Germany on EMU. While Foreign Minister Hans-Dietrich Genscher had advocated an early date for Stage Two of EMU (January 1, 1993), Finance Minister Theo Waigel and Bundesbank President Karl-Otto Pöhl had been vigorously demanding a longer preparatory phase.

Chancellor Helmut Kohl finally clarified the German position, when, just before the October summit, he declared himself in favor of a starting date of January 1, 1994. He emphasized, however, that he would agree to a European central bank only if it was genuinely independent of the various governments and pursued a policy geared to monetary stability.

Pöhl had argued that EMU should not be rushed, and recommended proceeding carefully and conscientiously, since it involved "very far-reaching changes to the present economic and monetary constitution." Pöhl could envisage replacing the German mark and transferring the independent Bundesbank's powers "to a Community institution [only] if it could guarantee that what is being proposed is at least as good as what we have today." According to Pöhl, this would be in the interests of Germany and of its European partners.

The Federation of German Industries (BDI) emphatically supports Pöhl's and Kohl's insistence on the importance of monetary stability, which BDI president, Tyll Necker, calls "more important than a single currency." He agrees that the unity process must continue, but that "the step-by-step establishment of monetary union signifies the irrevocable fixing of exchange rates in the E.C., with the possibility of replacing national currencies by a single currency. He who wants Europe's success must pursue a policy of political and economic stability; the most important pillar is monetary stability."

Both Necker and Pöhl agree that stability cannot be safeguarded by monetary policy alone, and that the deep-seated differences that still exist throughout the E.C. must be done away with. These are reflected in the divergent costs and prices, huge deficits in the national budgets of individual countries, and massive external disequilibria.

—Wanda Menke-Glückert

"Yes" to EMU, Political Union

AMSTERDAM—As the intergovernmental conference on political union approaches, Dutch aspirations and hopes for such a structure are becoming more clear: The Netherlands wants the E.C.'s political dimension to be commensurate with its economic weight and powers.

For political union to function efficiently, the Netherlands favors a stronger role for both the European Parliament and the E.C. Commission. This, it suggests, could be achieved through closer cooperation between the two institutions. Amsterdam also argues that, in an E.C. with an increasing number of members, the Commission should have only one member per country (currently Germany, Italy, France, and the United Kingdom have two members each, the other member states have one). The European Parliament should also have a say in the appointment of the Commission's president.

In the area of monetary union, the Netherlands sees the future European central bank as an independent institution with greater independence from the national governments.

LISBON

President *Mario Soares*, 66, the popularly elected Head of State, has been in the forefront of Portugal's democratic political scene for the past 16 years—and shows no sign of moving out of the limelight: He recently announced he would run for a second term as president in an election that is virtually a foregone conclusion.

Soares is a politician in the fast dwindling style of the grand old postwar European figures. A self-classified Democratic Socialist, Republican, and non-believer in a Roman Catholic country with strong monarchist tendencies, his name and face are known in virtually every part of the nation.

Unabashedly bourgeois, he has a passion for writing, for paintings, and for books, collecting the latter two so avidly that his Lisbon apartment (where he insists on living despite comfortable accommodation made available to him at the Presidential Palace), is bursting at the seams.

Soares trained as a lawyer but was forced into exile by the then dictator Antonio Salazar, for outspoken, anti fascist campaigning. Returning days after soldiers ousted the dictatorship in April 1974, he fought tirelessly to install democracy in Portugal at a time when power was on the streets and the country was teetering on the brink of a Marxist putsch.

His career as a senior democratic politician has decisively marked virtually every aspect of life in Portugal since 1974. He crowned it with a narrow victory in 1986 to become head of state in the power-sharing semi-presidential Portuguese system. If re-elected in January 1991, Soares, perhaps more than any other figure, could be regarded as the father of modern Portuguese democracy.

BONN

Among German Chamber of Commerce presidents, *Heinz Malangré*, 60, is an exception. Not only does he compose music, write poetry, and lead a choir; he is also busily preparing Aachen's industrial region for the future.

A cooperation treaty concluded between that city's Technical University and Chamber of Commerce at Malangré's initiative, for example, made Aachen's Technology Center one of the most successful in Germany. Now, Malangré is bringing about cooperation with the newly established Dresden Chamber of Commerce. The Saxon business community undoubtedly wants to profit from his experience as a president of the German-Belgian-Luxembourg Chamber of Commerce and as member of the executive board of the German-French Chamber of Commerce in Paris.

PARIS

In his latest cabinet shuffle, French President *François Mitterrand* named *Elisabeth Guigou*, 44, to replace *Edith Cresson*, 56, as European Affairs Minister. Guigou, a blue-eyed blond who combines looks, ambition, and intelligence in impressive proportions, earned her ministerial stripes by serving as Mitterrand's top adviser on European affairs over the last six years.

Her rise to political prominence has been swift and sure. Born in 1946 in Marrakesh, Morocco, she went to France to study and graduated in 1974 from the top university for political high-flyers—the elite Ecole Nationale d'Administration. Seven years later, her sure-footed way had brought her via the Treasury and the Finance Ministry to Mitterrand's side as one of his personal advisers—a role in which she quickly made herself indispensable.

She has the smooth perfection—and impenetrability—of a marble statue. Colleagues say that she never speaks about her private life with husband Jean-Louis Guigou, a professor of economics, and her 10-year-old son Edouard. She prefers to talk about her work as "Madame Europe:" "I have only one very simple, preconceived idea," she says, "that we must build Europe. The rest is simply a question of how we can do it best."

ATHENS

Constantine Karamanlis, Greece's 83-year-old president, was prime minister from 1955–63 and again—following the seven-year military dictatorship—from 1974–80, when he was elected to a five-year term as president. When New Democracy (the party he founded in 1974) returned to office last spring, he was re-elected to this largely ceremonial post for a second term. "In Greece," he said recently, "we have the bad habit that each government, upon coming to power, tries to overturn the achievements of its predecessor." He went on to praise the present government, but since he always chooses his words carefully, he must have given the prime minister, *Constantine Mitsotakis*, pause for thought.

MADRID

General Francisco Franco must be turning over in his grave. At least that's what a number of reporters "overheard" people saying when Soviet President *Mikhail Gorbachev* and his wife, *Raisa*, rode through Madrid in the Generalissimo's vintage Rolls Royce en route to his former residence, the El Pardo Palace, where they spent two nights as guests of *King Juan Carlos* and *Queen Sofia*.

Newspapers published the image of the Soviet flag hanging over the very balcony from which Franco, until just 15 years ago, denounced communists and the Judeo-Masonic conspiracy. Spanish television covered the visit live, including Gorbachev wading into cheering crowds.

But the visit went beyond symbolism. The Spanish Government extended a $1.5-billion credit line to help the ailing Soviet economy and pledged to support the Soviets in European fora, including the European Community.

DUBLIN

The majority of Ireland's voting public must be singing "Here's to you, Mrs. Robinson," after the November 6 presidential election results declared *Mary Robinson*, 46, the country's first woman president.

Following a campaign loaded with such controversial issues as liberalization of divorce, contraception, and homosexuality laws, Robinson rode to victory with 53 percent of the vote against her main opponent, *Brian Lenihan*. Elected on the anniversary of the opening of the Berlin Wall, Robinson remarked in her victory speech: "Something has crumbled away in Ireland, too."

Nominated by the Irish Labor Party, with the support of other left-wing parties in the Dail (the Irish Parliament), Robinson, a lawyer and mother of three, has always been known to break new ground: At 25, she became the youngest ever Professor of Law at Dublin's Trinity College and was elected to the Senate where she served until 1989.

Robinson will be inaugurated on December 3 for a seven-year term.

The Dutch employers' and trade unions' advisory body to the government on social and economic matters points out that European monetary union "is of great political and economic importance. To be successful, a European central bank and one European currency are necessary. Such a European bank must be an independent authority that can also act politically, but is subject to parliamentary control." The group added that the European Parliament and the E.C. Commission should also be granted specific authority in monetary and budgetary matters.

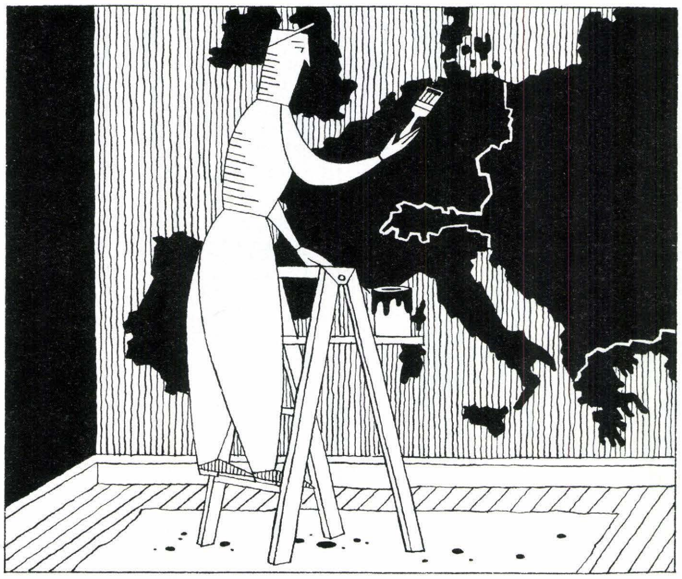
In a recent article in the Netherlands' leading daily, *NRC Handelsblad,* Dutch Prime Minister Ruud Lubbers noted that "European political union will be a modest, but important, step toward reducing the so-called 'democratic deficit' and democratic control on European government and administration." He added that a European constitution would probably only come into force in the late 1990s.

—NEL SLIS

Union Must Respect National Identity

LONDON—Europe has proved to be the most divisive issue in British politics this year, and former Prime Minister Margaret Thatcher's handling of European questions sparked the challenge to her leadership that led to her dramatic resignation and sent shock waves through Britain and Europe.

While the contest to replace one of the most distinctive leaders Britain has produced this century focused on domestic issues, such as taxation and the ability to win an election for the Conservative Party, Britain's attitudes toward Europe also featured strongly during the close-fought leadership campaign. All the contestants—former Chancellor of the Exchequer and now Prime Minister John Major, Foreign Secretary Douglas Hurd, and former Defense Minister Michael Heseltine—spoke at length about their vision of Europe: Major talked of continuation of the Thatcher line. Hurd, as befits a former diplomat, urged a softer tone. Heseltine urged Britain to play a more constructive role in Europe.



Britain is a proudly independent nation that fought battles in Europe twice this century to defend its freedom. Now it is being asked to voluntarily give up some of its sovereignty in favor of European political union. Some resent the idea, others fear subservience to faceless bureaucrats in Brussels.

The most vociferous, and some would say strident, expression of these fears and resentments came from Thatcher. Her constant "noes" to proposals for closer economic and political ties within the E.C. irritated not only many within her own party but also the political leaders of other European states. Nevertheless, these sentiments still find an echo at home.

The kernel of the Thatcherite objections against faster E.C. and political union can be easily summarized: It is one thing to join a common trading bloc to find markets for one's goods and services, but quite another to let a bunch of foreigners limit one's economic, and eventually political, freedom to run one's country as one sees fit. Then there is the additional worry that political integration would subsume national characteristics, that Britain would lose its distinctive character. For this reason, Thatcher, and those who adhere to her political philosophy, vehemently insist that any political reform within the E.C. must respect "national identities."

However, the deepening divisions within the Conservative Party over Europe produced the deadly challenge to her leadership from within a parliamentary party split by the former Prime Minister's hostile attitude toward greater integration.

Heseltine, who led the challenge to the Prime Minister on the very issue of her negative attitude toward Europe, poured scorn on fears, which he considers unfounded, that increasing economic integration means loss of national identity. He insisted that no European country will abandon its "cultural, social, religious, and patriotic instincts," just because of closer cooperation within the Community.

The Labor Party has been very careful in its pronouncements on the plan for economic, monetary, and political union. It feels that most Britons are suspicious of E.C. federalism, but also recognizes that most people believe they will get a better deal by being a full member of the Euro-club.

Labor is edging toward supporting a European central bank (the recent opinion poll found that 65 percent of Labor politicians favor a single currency) and is dropping hints that economic and monetary union could be a desirable long-term goal. Party leader Neil Kinnock has, for example, ridiculed the Thatcher Government's "hard ECU" proposal (see also p. 16) as an "illusionist trick" that could prove the fastest road to a single currency by driving out its rivals.

Greater political union within Europe is now on the agenda as never before, and the new Prime Minister will have to follow much of the Thatcher agenda in demanding what it will mean in practical terms. He will insist that details be spelled out before any intent to move toward greater political union can be declared.

—DAVID LENNON

A Cautious Approach

PARIS—The road to a united Europe is like "the path of the plowman; it takes a long time." Those words by French President François Mitterrand, spoken in early October, do not have the passionate ring of his April cry for the kind of European political union that he launched in unison with German Chancellor Helmut Kohl. The French attitude these days underlines that, while still committed to the *concept* of a United States of Europe, France has become more cautious in its *approach.*

Proclaiming lofty ideals is one thing, achieving them quite another. Part of the problem is the term "political union." It is vague enough to have been scoffed at by former Prime Minister Margaret Thatcher and to have even been criticized by no less a European than E.C. Commission President Jacques Delors. France takes it to mean that, in addition to EMU—already well under way—the E.C. would also be united by common policies in foreign affairs and security.

So far, so good. Not many E.C. members, except, inevitably, the United Kingdom, balk at the notion of a European union of this kind. However, when it comes to deciding just *how* to achieve it, France starts to look decidedly ambivalent, and perhaps less committed to European federalism than at first appears.

On the one hand, it is willing to democratize European government, to give *supranational* institutions like the Commission, the E.C.'s main executive body, and the presently feeble European Parliament, more clout. France also favors strengthening the already powerful Council of Ministers, the fledgling senate of Europe.

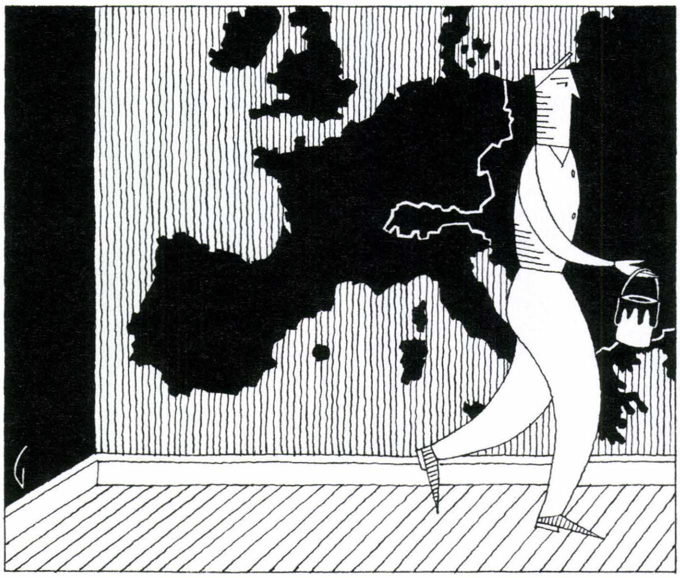
But when it comes to new areas of E.C. business—EMU, foreign affairs, and security—which will become increasingly important in the future, France wants decisions to be taken in *inter-governmental* fashion, at the level of the European Council (Euro-speak for the heads of state and government summits that currently take place at least twice a year).

The E.C. Commission and strongly federalist countries, like Germany and Italy, are not at all happy with the French attitude, which, they argue, seems as though France is trying to have it both ways. Even Delors, although a Frenchman, has bluntly said: "One cannot push for integration regarding EMU, and then want just inter-governmental cooperation when it comes to [other areas like] foreign policy."

France, for its part, sees no inherent contradiction in campaigning for a united Europe while simultaneously protecting its sovereignty. As French Foreign Affairs Minister Roland Dumas recently pointed out: "Political union is meant to strengthen the E.C., not weaken its members."

It looks as though this month's inter-governmental conference in Rome, which will try to shape a new political structure for Europe that will satisfy everyone, has its work cut out for it.

—ESTER LAUSHWAY



Gung-Ho About European Union

LUXEMBOURG—Luxembourg Prime Minister Jacques Santer backs a swift move to full economic, monetary, and political union.

Together with the Christian Democratic leaders from five other E.C. countries (Italy's Giulio Andreotti, Germany's Helmut Kohl, the Netherlands' Ruud Lubbers, Greece's Constantine Mitsotakis, and Belgium's Wilfried Martens), Santer has agreed to a new federal constitution for Europe that would go even beyond E.C. Commission proposals. Signed by the six leaders at the end of November in Dublin, this document will form the basis of their negotiating positions at the inter-governmental conferences this month.

The proposed constitution backs the creation of an E.C. security and defense policy. Initially, the E.C. would take over the responsibility of the Western European Union, which already coordinates the defense policies of nine E.C. member states, including Luxembourg. Later, these functions would be fully transferred to the E.C. institutions, eventually leading to the possible establishment of a pan-European army.

The document also calls for full economic and monetary union, with a single currency to be put in place by 1997. Under the plan, the E.C. would control setting joint economic guidelines, and a central E.C. authority would regulate interest and exchange rates, and the amount of money in circulation.

At the political level, Luxembourg also supports doing away with an individual member state's right to veto E.C. decisions. Thus, all future negotiations at the level of the Council of Ministers would be based on qualified majority votes.

As the smallest E.C. country, Luxembourg has everything to gain from a stronger European union, which would greatly increase its clout internationally. When Luxembourg takes over the presidency of the E.C. Council of Ministers next January, Santer is expected to push strongly for a rapid move toward full European union.

—DENISE CLAVELOUX

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E.C. NEWS

EFTA

Sweden, Norway Inch Toward E.C. Membership

SWEDISH PRIME MINISTER Ingvar Carlsson's recent announcememnt that his Social Democratic Government would seek parliamentary support to take Sweden into the European Community marked the first time that any governing party in Sweden has expressed a clear position on E.C. membership. The announcement was made while the country was undergoing a serious currency crisis, but the government denied that this switch of policy came as a result of that crisis.

Until now, the Swedish Social Democratic Party has always cited Sweden's neutrality as the main obstacle impeding E.C. membership. The fall of communism in Eastern Europe, the collapse of the Warsaw Pact, and the transformation of NATO from a military to a primarily political alliance, have dramatically changed the preconditions for Swedish neutrality, however. Under the new circumstances, Sweden could both keep its neutrality and join the E.C., a senior party official pointed out.

Norway's conservative-led coalition government collapsed at the end of October over the question of ties with the European Community. The Center Party, which represents the farming lobby and firmly opposes EC membership, quit the government because it could no longer support a party favoring eventual E.C. accession.

The Center Party subsequently formed a minority government with the Labor Party, because, it said, Labor had never publicly expressed its intention to bring Norway into the Community. Ironically, Labor almost immediately proposed to reverse its European policy upon re-entering government, and new Prime Minister Gro Harlem Brundtland told Parliament that the country could speed up a decision on whether to join the Community. In 1972, a national referendum narrowly defeated the country's accession to the Community.

Switzerland is Thinking European

"EUROPE INITIATIVE," A group of Swiss politicians, business leaders, and journalists, recently launched a petition that could compel the Swiss Government to hold a referendum on negotiating E.C. membership.

The group maintains that the Swiss have been excluded from the debate over their country's changing role in Europe, and that "uncertainty is becoming rife."

Switzerland has never ruled out the possibility of E.C. membership. However, it is a neutral country and has stated that it would only join if the E.C. developed federal political structures more compatible with the Swiss system of government.

A 1988 poll showed popular opinion was evenly divided for and against membership.

Swiss Foreign Minister René Felber recently warned that, if E.C. membership were put to a vote too quickly, it could be rejected, making it impossible to raise the issue again in the near future.—*Reuters*

MONETARY UNION

Strong Popular Support for ECU, Central Bank

A POLL RECENTLY CARRIED out by the Association for the Monetary Union of Europe to measure the support for the replacement of national currencies by the ECU has found a large majority of Europeans favoring a single currency.

Only 39 percent of those questioned opposed a single currency. The highest proportion of favorable opinions came from Greece (80 percent) and Luxembourg (79 percent), followed by Belgium (76 percent), Spain (75 percent), Ireland (74 percent), France (73 percent), and Italy (66 percent).

A slim majority was recorded in the Netherlands and Germany, with figures of 56 percent and 51 percent, respectively. In the United Kingdom and Denmark, on the other hand, only 37 percent and 31 percent, respectively, of those asked, favored the cause.

When asked for their opinion on the consequences of ECU use, major concerns were monetary stability and reinforcement of the single market, followed by consumer concerns (such as easier travel, savings on exchange costs). Loss of sovereignty came last in all countries, including the United Kingdom.

Support for a European central bank was also very strong. E.C.-wide, 76 percent of those questioned were in favor of such an institution.
—*Reuters*

TRANSPORTATION

France, U.K. Linked by "Chunnel"

ON OCTOBER 30, 1990, THE United Kingdom and the Continent were linked for the first time since the Ice Age by a two-inch wide core in the Channel Tunnel being constructed between England and France.

British and French engineers celebrated the event with champagne at the time, but the official commemoration will be held in January.

The tunnel, which should be completed and ready for rail traffic by 1993, is expected to benefit both sides with increased business transactions. The link was hailed by Thatcher, before her resignation, as a "very exciting moment . . . an example of what Europe is about. It is Europe in practice."

FOREIGN AFFAIRS

E.C. Worried About Hostages

IN NOVEMBER, THE E.C. appealed to Moslem and non-aligned nations to press Iraq to accept U.N. mediation in the hostage issue. The 12 E.C. Foreign Ministers met with their counterparts from five North African countries and urged them to use their good relations with Iraq in the cause of humanity.

The E.C. is becoming increasingly irritated at the flood of self-appointed emissaries who have flown to Iraq to convince President Saddam Hussein to release their countrymen. The desire to reverse that situation led the E.C. Foreign Ministers to restate their commitment not to negotiate individually with Iraq and to discourage personal missions to the country.

U.S.,E.C. Institutionalize Their Relations

U.S. PRESIDENT GEORGE Bush met with E.C. Commission President Jacques Delors and Italian Prime Minister Giulio Andreotti, in Washington, D.C. in mid-November to discuss the future of U.S.-E.C. relations in light of current events, such as the Gulf situation and the Uruguay Round, and the E.C.'s more prominent international role.

High-level contacts between U.S. and E.C. officials have increased markedly since political and economic reform in Eastern Europe first got under way. This meeting of heads of state and government was the first of its kind, however.

A new "Declaration on E.C.-U.S. Relations" will make these presidential get-togethers a regular occurrence. Released in Brussels, Rome, and Washington on November 23, the Declaration specifies the level and regularity of other high-level bilateral meetings, which together form a mechanism for consultation designed to enhance future E.C.-U.S. relations on matters of common interest.

EUROPEAN AFFAIRS

Kohl Wins All-German Election

ON DECEMBER 2, IN THE first all-German election since the 1930s, Chancellor Helmut Kohl was elected to his third four-year term. Kohl's Christian Democratic Union (CDU) and Bavarian sister party, the CSU, gained 43.8 percent. The liberal Free Democrats, the CDU's coalition partner, gained 11 percent. The Social Democrats, in their worst showing since 1957, gained 33.5 percent.

—Reuters

BUSINESS

European Business Assesses Single Market Progress

DESPITE RECENT PRAISE BY European business leaders on the E.C.'s progress toward a single market, they were quick to point out the problems that remain in areas ranging from taxation to political accountability.

David Benyon, chairman of the chemical company ICI Europe, told a conference sponsored by the Club de Bruxelles research group that the enormous amount of progress made thus far was "far beyond the most optimistic forecasts" projected five years ago. Nevertheless, he continued, companies must still deal with barriers hurting their businesses, such as unnecessary paperwork, because of the different national value-added tax systems.

Alain Raoux of France's Groupe Elf-Aquitane was concerned with the E.C.'s reaction to energy issues arising from the Gulf crisis, and that the E.C. was not moving fast enough to adopt a common energy policy.

Julian Oliver, a vice-president of American Express Europe, called the free movement of capital the most important achievement of the single market, but referred to a Commission proposal to regulate access of business to data about individuals as "heavily regulatory and bureaucratic."

Oliver also called on the E.C. to develop more open decision-making as it moves toward political union, calling it "nonsense" to make decisions of major interest to business "behind closed doors."

Giles Merritt, a director of Club de Bruxelles, said that only 40 percent of the single market proposals needing unanimous approval by member governments—such as taxation matters—have been approved thus far.

Europe is Hit With Merger Fever

MERGER FEVER IS spreading across Europe as businesses rush to prepare themselves for what will be a highly competitive single market beginning in 1993.

• The E.C. Commission recently approved the merger of *Air France* and two other French airlines, UTA and *Air Inter,* to create one of the largest carriers in the Western Hemisphere. The merged airline will have annual sales of $11.3 billion and will operate 200 aircraft.

In exchange for the Commission's approval, the French Government agreed for the first time to open its air market to competition.

The deal is likely to set a precedent for the long awaited decision on the three-way link-up between ***British Airways, KLM Royal Dutch Airlines,*** and ***Sabena*** of Belgium.

• Another major link-up approved by the Commission in November was the far-reaching alliance between ***Renault*** of France and ***Volvo*** of Sweden, a combination that will create the world's biggest heavy truck-maker, ahead of ***Daimler-Benz*** of Germany, and the seventh-largest automobile manufacturer.

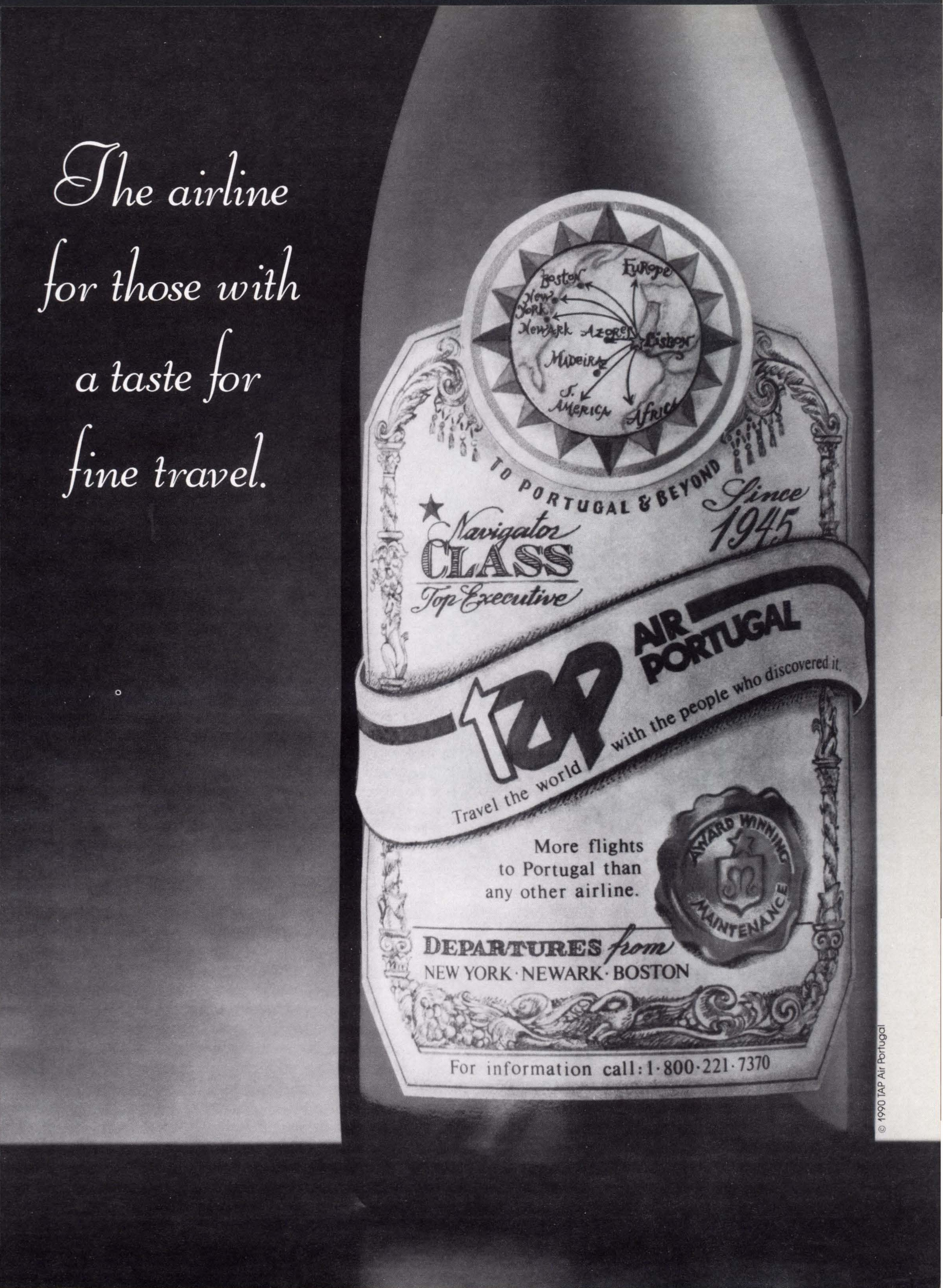
Renault will take a 25-percent stake in Volvo's car operations and a 10-percent holding in the Volvo parent company. Volvo will take a 20-percent stake in the Renault parent company, which includes the Renault car operations, with an option to take a further 5 percent within three years.

European banks and insurers are also getting into the act as the liberalization of Europe's financial services industry increases competition and trims profits. They are linking to secure their home markets while establishing a basis for expansion abroad.

• That trend was highlighted in November by the announcement that Dutch insurers ***Nationale-Nederlanden NV*** and ***NMB Postbank Groep NV*** plan to merge, one of the biggest deals of its kind to date.

The move follows a number of similar mergers across Europe, including the recent link-up between VSB, the Dutch savings bank group, and ***Amev,*** the third-ranked Dutch insurer.

Other noteworthy mergers to take place in recent weeks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The European Monetary System

The European Monetary System (EMS) was established in March 1979 to create "a zone of monetary stability in Europe." Developed at the initiative of French President Valéry Giscard d'Estaing and German Chancellor Helmut Schmidt, both former finance ministers, the European Monetary System combined formal commitments for more stable exchange rates with less formal efforts to achieve domestic monetary and price stability.

All nine E.C. Governments joined the EMS (as would the three newer members) depositing 20 percent of their gold and dollar assets with the European Monetary Cooperation Fund in exchange for an equivalent amount of European Currency Units (ECUs). The United Kingdom declined to join the system's joint currency float, the Exchange-Rate Mechanism (ERM), under which currencies can fluctuate only within certain limits against each other. Spain joined the ERM in 1989, and Britain followed in October 1990. Portugal and Greece are currently still outside the ERM.

Horst Ungerer, an International Monetary Fund expert on the European Monetary System, identifies three distinct phases in the system's 11 years of operation. The first, from 1979–83, was a period of trial and orientation marked by continued economic divergencies (especially inflation) among participants. Because of these divergencies, currency values were realigned seven times during this four-year period.

The second phase extended from early 1983–87. This was a time of consolidation, during which a consensus emerged on the overriding priority of internal monetary stability attained through appropriate domestic policy adjustments. This phase began when French President François Mitterrand reversed his expansionary economic policies and instead targeted price stability on the German model. It was during this period that the German mark became the anchor of the EMS.

During the current third phase, there has been remarkable stability within the European Monetary System as evidenced by a three-year absence (to January 1990) of any currency realignments. The system proved its capacity to weather shocks, including the 1987 Wall Street crash, the dollar's renewed decline, and this year's sharp rise in oil prices. The emphasis during this phase shifted to the broader issue of monetary unification. Stimulated by the single market program, the Community established the Delors Committee, whose far reaching 1989 report is the basis for current moves to establish a single common currency.

—Barry D. Wood

include:

• ***Imperial Chemical Industry*** (ICI), which currently has a 50-percent stake in the ***Tioxide Group,*** has proposed to take over the remaining 50 percent of Tioxide's shares to gain total control of the company.

• The heavily indebted British group ***Cookson*** is selling its ***CGA-Cookson Graphic Arts*** division to ***International Paper*** for $100 million.

• French companies ***Aerospatiale*** and ***Dassault, German Aerospace*** and the Italian ***Elenia*** have created the joint affiliate company ***Euro Hermèspace SA,*** entrusted with implementing the second stage of the development program for the European spacecraft Hermès.

• ***Moulinex,*** the French electrical household equipment maker, confirmed recently that it is in discussions to take over the German firm ***Krups.*** Moulinex also plans to open an assembly plant in Poland in 1991 to meet a growing demand from Eastern European countries for household electrical appliances.

• The Italian carmaker ***Fiat-Auto*** has offered to invest almost $2 billion in the Polish car industry in exchange for exclusive rights to build cars in Poland.

EUROPEAN AFFAIRS

Andreotti is Awarded Monnet Prize

GIULIO ANDREOTTI, ITALY'S Prime Minister and currently President of the European Council, was recently awarded the 1990 Jean Monnet Prize by the Jean Monnet Foundation for Europe.

Andreotti was awarded the prize for "his essential contribution to the formation and consolidation of the European Community, to its opening to Eastern Europe, and to the development of a solidarity and equal partnership with the United States."

The jury of the Monnet Prize, chaired by the President of the French Senate, also praised Andreotti for having contributed "in a federalist spirit to the coming into being of the Single Act" and "for his constant striving to give the European parliamentary assembly the role of Parliament in line with the democratic evolution of the European Community."

CSCE

A New Era Begins As Cold War Ends

WITH COMPARISONS IN THE air to the 1815 Congress of Vienna and the 1919 Versailles Peace Conference, 36 heads of state and government of the NATO and Warsaw Pact countries met in Paris on November 19–21 to sign an historic arms control agreement, and to signal the official end to the cold war by concluding a successful Conference on Security and Cooperation in Europe (CSCE).

The leaders signed the most far-reaching arms accord agreement ever. Formally known as the Treaty on Conventional Forces in Europe, it will send thousands of tanks, armored vehicles, artillery pieces, and warplanes to the scrap heap. Each alliance will be allowed 20,000 tanks, 30,000 armored vehicles, 20,000 artillery pieces, 6,800 combat aircraft, and 2,000 attack helicopters in Europe. The treaty will also limit or destroy many categories of non-nuclear weapons in Europe.

After the signing, U.S. President George Bush remarked that "a continent frozen in hostility for so long has become a continent of revolutionary change." French President François Mitterrand, stated that "this treaty is the most concrete demonstration of the fact that countries that long threatened or menaced each other are now determined to base their relations on cooperation and security."

E.C. Commission President Jacques Delors, who also attended the conference, stated that "the Community feels deeply involved in this exalting and promising venture."

The CSCE meeting concluded with the signing of a "Charter of Paris for a New Europe." This calls for the creation of an all-European assembly involving parliamentarians from all members, and annual meetings of foreign ministers, as a council.

—Reuters

the COMMUNITY BOOKSHELF

☐ **The Community Bookshelf November-December A Human Face for Europe.** *European Documentation 4/1990, Commission, Brussels, 1990, 63 pages.* Brochure on citizen's rights and the role of the Community in promoting human, civil, social and economic rights. **Free**

☐ **The Community Charter of Fundamental Social Rights for Workers.** *European File No. 6/90, Commission, Brussels, May 1990, 11 pages.* Summary of the program for implementing the Social Charter. **Free**

☐ **The European Community Transport Policy in the Approach to 1992.** *European File No. 9/90, Commission, Brussels, August-September 1990,* 11 pages. **Free**

☐ **Community Development Policy: An Unknown Quantity?** *European File No. 10/90, Commission, Brussels, August-September 1990, 11 pages.* Review of Community policies and programs for aid to developing countries in the Third World. **Free**

☐ **Europe Against Cancer: 1990-1994 Second Action Plan.** *European File No. 11-12/90, Commission, Brussels, September 1990, 22 pages.* **Free**

☐ **A Community of Twelve: Key Figures.** *European File No. 3-4/89, Commission, Brussels, March 1989, 31 pages.* Reprint of a set of graphs and charts profiling the EC and its member states. Covers population, standard of living, employment, the economy, the EC in the world, and the EC budget. **Free**

☐ **The Review of Esprit 1984-1988.** *Commission, Brussels, 1989, 39 pages.* Report of the ESPRIT Review Board on the achievements of the research program for the information technology industry. **Free**

☐ **Joint Research Centre Annual Report 1989.** *EUR 12954, Joint Research Centre, Ispra, 1990, 124 pages.* Description of the research programs in the Joint Research Centres of the EC and their funding. Includes an organization chart. **Free**

☐ **European Banks: The Moment of Truth.** *European Affairs No. 3/90, Elsevier, Amsterdam, 1990, 107 pages.* Article on changes in financial services in Europe. Also includes articles on political and economic change in the Soviet Union, Euro-lobbying, and the EMU. **Free**

☐ **Audio-Visual Production in the Single Market.** *Commission, Brussels, 1990, 206 pages.* A study of the television market in Europe. Features areas such as cable television, programming content, satellite hook-ups, and the impact of technological change—particularly the introduction of high definition television. Includes data on advertising, market estimates, and legislation. **$12.90**

☐ **Report on Social Developments 1988.** *Commission, Brussels, 1990, 226 pages.* Explores principal developments of the social sector on both the Community and Member State level. Information on employment, vocational training, education, industrial relations, labor law, wages and incomes, living conditions, social security, and industrial health and safety. **$20.00**

☐ **Community Labour Force Survey: A User's Guide.** *Statistical Office, Luxembourg, 60 pages.* Presents detailed results of the E.C.'s 1988 Labor Force Survey. Tables show statistics on population and work activity, employment, working time, unemployment and work search. More specific categories include employment population ratios by age groups and duration of search for work. **$13.50**

☐ **Community Law.** *Offprint from the XXIIIrd General Report on the Activities of the European Communities, Commission, Brussels, 1990, 27 pages.* Details chapter five of the Community Law. Highlights: general matters, interpretation and application of the substantive rules of the Community Law, and computerization of Community Law. Annex included. **$6.00**

☐ **Evaluation of Employment Enterprise Zones. Final Report to the Commission of the European Communities,** *Commission, Brussels, 1990, 115 pages.* Gives a comparative overview of the enterprise and employment zones of France, Belgium, and the U.K. In addition, the publication discusses the methodologies used to gather the data and presents an analysis of face-to-face and telephone interviews. Maps and annexes are included. **$18.00**

☐ **Radiological Exposure of the Population of the European Community from Radioactivity in North European Marine Waters: Project Marina.** *Commission, Brussels, 1990, 566 pages.* A report that determines whether the population of the European Community was exposed to any radiation which may have been released from experiments in North European waters. **$54.00**

☐ **Subcontracting Terminology: Wood Sector.** *Commission, Brussels, 1990, 865 pages.* A linguistic support tool for individuals operating in the wood and wood-based sector. It contains nomenclatures of products, working and production machinery, nomenclature relating to the control of characteristics of wood, and company file card. Data appears in nine languages. **$84.00**

☐ **Insurance: Community Measures Adopted or Proposed; Situation as of March, 1990.** *Commission, Luxembourg, 1990, 372 pages.* Lists proposals and adopted insurance measures as of March 1990. Includes regulations and administrative provisions on auto, health, and life insurance, as well as proposals to put laws into force. **$47.00**

☐ **Government Financing of Research and Development 1980-1988.** *Statistical Office, Luxembourg, 1990, 113 pages.* An overview of government financing of research and development in the European Communities from 1980 to 1987. Provides data in trends in budget appropriations, changes in spending, and features special to each E.C. member state. It also examines cooperation in the E.C. framework. **$51.00**

☐ **International Trade in Services: EUR12 1979 to 1986.** *Statistical Office, Luxembourg, 1989, 188 pages.* As the world's largest importer and exporter of services, it is important for the European Community to have accurate data for this trade. This volume contains an analysis of statistics on international trade in services from 1979-1986. **$17.50**

☐ **European Inventory of Existing Commercial Chemical Substances.** *Official Journal Series C-146-A, Office of Official Publications, Luxembourg, June 1990, 2,000 pages.* A listing of chemicals approved in the community for market use. Deals with the approval and labelling of dangerous substances as amended by directive 79/831/EEC. **$275.00**

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What A Masquerade!

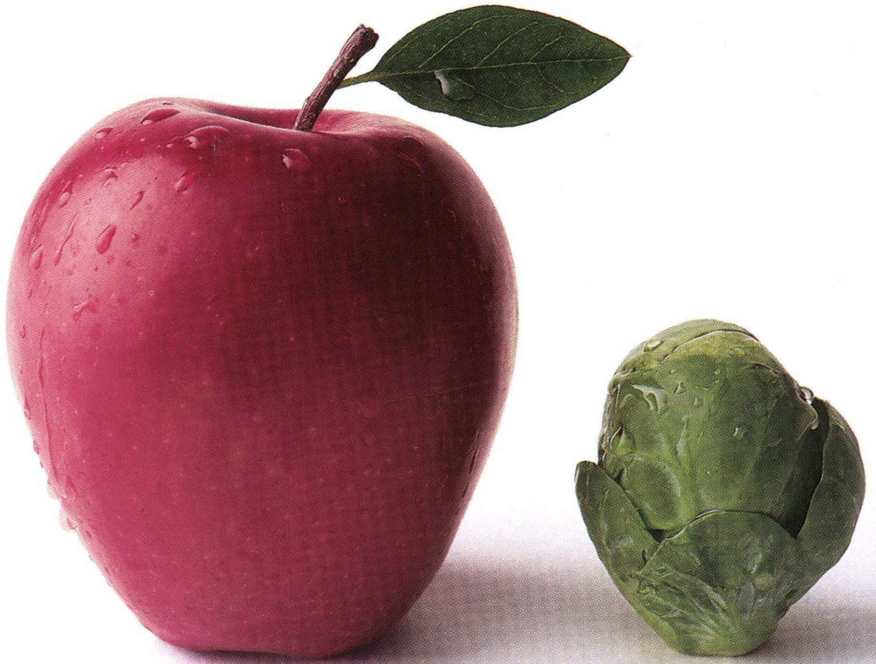
BELGIAN NATIONAL TOURIST OFFICE

in closing . . .

Belgian carnivals are a peculiar blend of religious tradition, folk history, and local custom. Their origins, dating back millennia before Christianity, lie in pagan sun worship and springtime fertility rites.

The "modern" carnival, with a religious background, was promoted by Gent-born Emperor Charles V in the 16th century to illustrate the romance and grandeur of Roman Catholicism. Since then, the carnival season peaks on Mardi Gras, the day before Lent (Ash Wednesday), although some local festivities take place throughout the summer.

The ancient town of Binche is the Belgian carnival capital. Its carnival processions feature the "Gilles," pictured here, a male-restricted society. Their elaborate costumes include ostrich-feathered hats weighing up to eight pounds.



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