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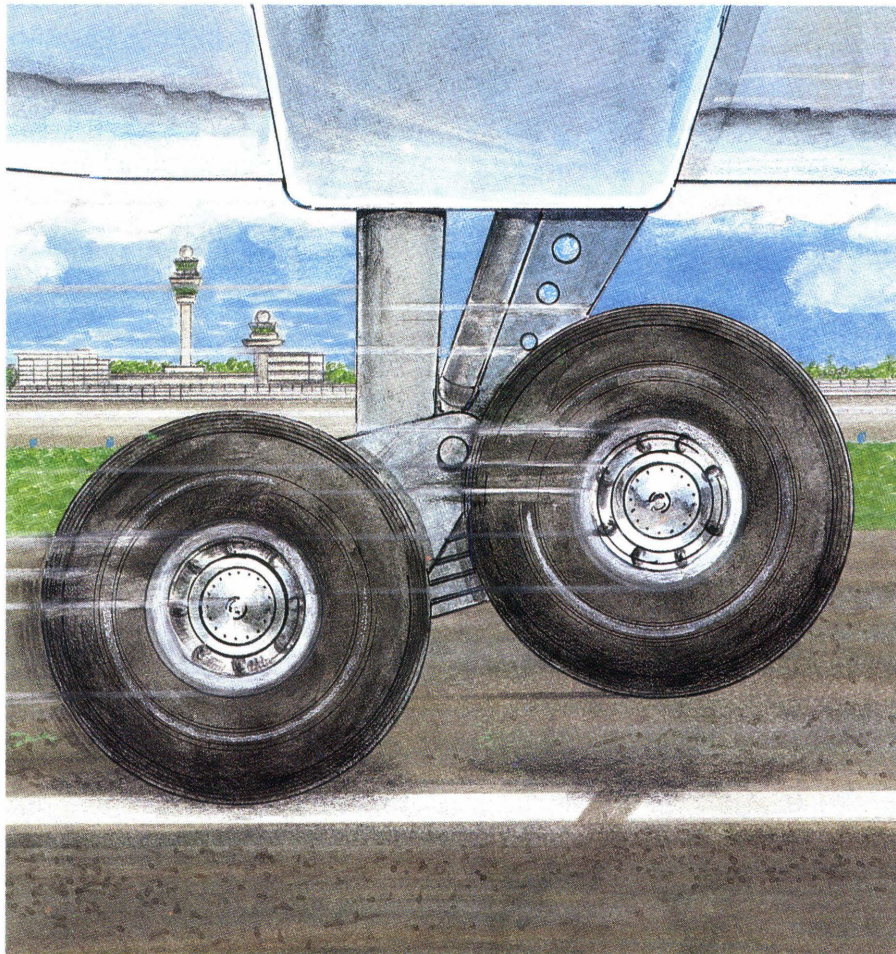
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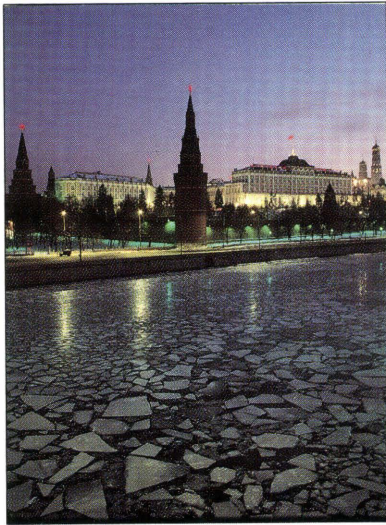
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EUROPE

MAGAZINE OF THE EUROPEAN COMMUNITY



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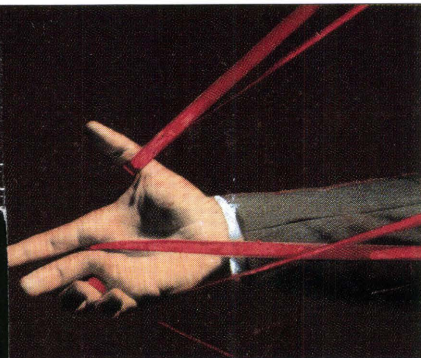
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Letter From The Editor

BOTH THE E.C. AND THE

United States are redefining their relations with the Kremlin, a very difficult task since the Soviet Union is also in the process of redefining itself.

As the Soviet Union struggles to put food on the shelves, the E.C., its individual member nations, and the United States are sending large amounts of aid to the Soviet people.

In this month's cover story, Michael Emerson, Head of the E.C. Delegation in Moscow, talks candidly about the economic conditions in the Soviet Union and about E.C.-Soviet relations since the E.C. opened an office in Moscow in February.

Colleen O'Connor, who writes for the *Dallas Morning News* from Germany, discusses the large amounts of "Gorbaid" that individuals and governments are sending to the Soviet Union, even though people feel that *perestroika* is on hold or, worse, has gone backward in the last few months.

Amy Kaslow, a reporter for the *Christian Science Monitor*, points out differences between the United States and the E.C. in their relations with the Soviet Union. At present, Europeans seem more sympathetic to Mikhail Gorbachev than their American coun-

terparts.

For another perspective on events in the Soviet Union, *Europe* spoke with Stasys Lozoraitis, the Lithuanian Chargé d'Affaires to the United States, about his views on recent events in the Baltics and the March 17 referendum.

Robert Haslach and Roger Reinsch wonder whether doing business in the Soviet Union is an oxymoron, as they discuss the difficulties facing Western firms trying to establish there.

The European Bank for Reconstruction and Development opens in London this month, and *Europe* presents remarks from Bank President Jacques Attali on the Bank's objectives and goals.

Peter Thompson, the Athens correspondent for *The Independent*, looks at the upheaval in the Balkans and how that will affect the other European nations. In his Member State Report on Greece, Thompson looks at the new austerity program being undertaken by Prime Minister Constantine Mitsotakis. *Europe* also looks at the key political "movers and shakers" in Greece in its new "Profiles" section.

I encourage your comments and letters on topics discussed in *Europe*.



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EUROPE

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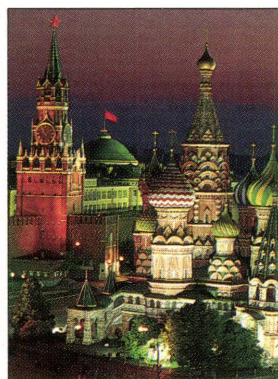
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Second class postage paid at Washington, D.C.

Postmaster: Please send change of address forms to *EUROPE*, P.O. Box 2115, Knoxville, IA 50197-2115.

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



The U.S. and E.C. re-define their relations with the Kremlin.

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EUROPEAN SCENE

Hard Times for the Ultimate Spy-Mobile

What would "James Bond" or Prince Charles be without one? Elite car maker Aston Martin Lagonda Ltd. certainly has an impressive clientele, but even such celebrities can't drive more than one sleek sports car at one time.



The British luxury car maker, now 75-percent owned by Ford, isn't quite so chipper or quick off the mark these days. Hit by economic recession and a 10-percent luxury tax in the United States, the company is finding belt-tightening to be the order of the day. To that effect, Aston Martin recently announced that it would cut production from five or six cars per week to four, and trim its staff by 90 people.

Although it is sad for the company, who can blame the customers? These days, an Aston Virage starts at around \$240,000—the price of a very comfortable—and definitely more roomy and permanent—family home!

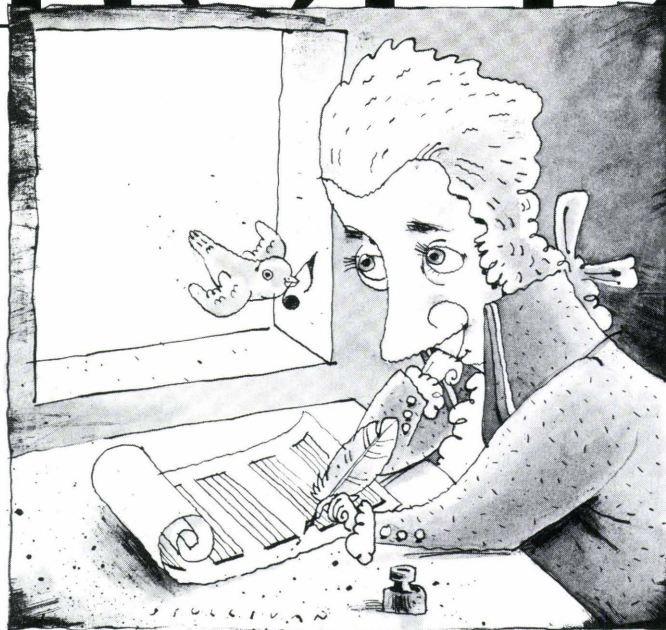


ILLUSTRATION BY JEN SULLIVAN

Mad on Mozart

The 200th anniversary of Mozart's death is being celebrated worldwide.

From Salzburg to Vienna, Prague, New York, and Washington, calendars of events are exploding with concerts, films, and seminars to celebrate both the famous and more obscure of Mozart's works. Even the Smithsonian has succumbed to Amadeus' charms: Together with the American-Austrian Society of Washington, it is staging a two-month-long program honoring the European composer that kicked off this month.

And what better time to get into Mozart trivia than on the occasion of this anniversary? In

that spirit, Joseph Solman's new book, *Mozartiana: Two Centuries of Notes, Quotes, and Anecdotes about Wolfgang Amadeus Mozart*, is a wonderful primer.

What inspired this brilliant composer? Some music experts, intrigued by his lesser known works, think that his piece called *Musikalischer Spass* ("A Musical Joke") was, in fact, a tribute to a beloved pet starling, whose ability to carry a tune and imitate long phrases of both words and music made it Mozart's beloved pet for years. The experts cannot agree, however, on whether Mozart composed for the starling or the starling composed for Mozart . . .

"GO TRABI GO"—The new German film "Go Trabi Go" has now immortalized unification on the screen. Needless to say, the film's leading star is the Trabant, the small, unattractive East German car that was the subject of Western ridicule when it first appeared on West German "autobahns."

"Go Trabi Go" tells the story of an East German teacher finally able to realize his life-long dream—to travel from Weimar to Naples, Italy, following the same itinerary his literary hero Wolfgang Goethe had taken some 200 years previously. He, his wife, daughter, and treasured Trabi "George" set out on a most action-packed trip, in which the lovable little car survives a series of adventures, and its owners various cultural east-west differences.

"Go Trabi Go," one of the most successful recent German films, is particularly popular among former East Germans, for whom it is a rare opportunity to escape the not-so-funny realities of their shattered economy for a few hours.

OH, C'EST DELICIEUX!—The French, long known for their fine art and gourmet food, have added a new twist to those attributes by turning food into a true art form.

French Minister of Culture Jack Lang's recent announcement at

the Jeu de Paume museum that the old royal bowling hall and former Impressionist museum would reopen in June, was accompanied by a sumptuous 80-foot-long buffet. Guests, however, did not quite know how to attack

the cornucopia of colorful vegetables, with its meticulous arrangement of radishes, lettuce leaves, rosebud-shaped crêpes, quails' eggs, and cucumber circles: It was hanging from a wall.

Since the Jeu de Paume will

become a contemporary art center, the buffet was a modern work of art on display. The artistic hors d'oeuvres, now fortunately no longer in evidence, will set the tone for the next phase in the museum's unique history.

Reuters contributed to these news reports.

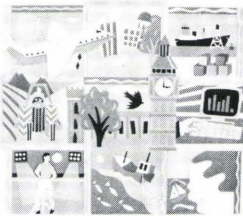
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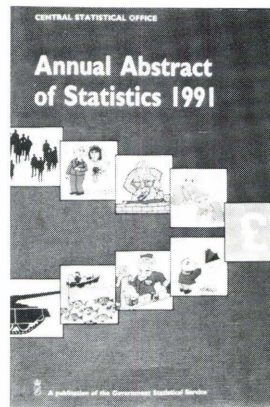
social affairs, arts and sports and more. Dispersed with tables, color photographs, maps and illustrations, this annual offers concise reports and reviews on life and times in the British Isles. For a captivating insight into British society, its economy and everyday life, this book is invaluable.

1991, Hardback, ISBN 0-11-701550-4, \$40.00

Commonwealth Yearbook, 1991

Bursting with facts and figures about each member nation of the Commonwealth comprising one quarter of the world's total population. Their social, political and economic condition vitally affect not only their own people, but much of the rest of the world. The yearbook covers these countries in turn, outlining their history, geography, constitution, government, trade and internal policy. The information provided is succinct as well as comprehensive.

May 1991, Paperback, ISBN 0-11-591709-8, \$49.95



Annual Abstract of Statistics, 1991

Factual in content, this user-friendly reference guide is crammed with tables on every aspect of economic, social and industrial life in the United Kingdom. Subjects covered include: population, social services, climate conditions, the judicial system, education, defense, industry, agriculture,

finance, transport, communications and more. There are over 350 tables generally giving data for the last eleven years covering just about every subject.

Listed below are some of the many revealing statistics in this publication:

- Surpassed only by Germany, the United States is the second largest exporter to the United Kingdom.
- Since 1980, the value of UK exports has doubled and exports to the US alone have nearly tripled.
- Education statistics show that the number of women earning degrees has grown 50 percent since 1978.

The annual is the most frequently quoted source of statistics about Britain.

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Redefining Relations with the KREMLIN

Dealing with the Soviets

In these days of post-cold war planning, Western confidence in the East's reduced security threats has been checked by the Soviet Union's instability and its potential to disrupt reforms elsewhere in the region.

□ Soviet hard-liners—including the army, the KGB, and Communist Party loyalists whose views of the West harken back to the cold war—are distrustful of progress already made toward East-West disarmament, leading the United States and the E.C., recent converts to Soviet leader Mikhail Gorbachev's earnest reforms efforts, to question their own beliefs.

The priority for Washington and Brussels now is to construct a sound joint defense structure, rather than to design skeletal military arrangements on the European continent. The two diverge on many points, however, including continued financial support for Gorbachev and the make-up of the new Western security order.

The Bush Administration sees Soviet reforms backsliding in every area. Gorbachev has been unable to counter strong resistance to his plans for economic liberalization, and to keep the same kind of orthodoxy that has been on the rampage in the Baltics. The hard-line approach toward independence-seeking republics has once again put the Soviet Army and the KGB at the forefront of the Kremlin's policies, leading Washington to fear that any progress U.S. Secretary of State James Baker made on disarmament talks with former Soviet Foreign Minister Eduard Shevardnadze, has been lost.

President George Bush's recent letter to Gorbachev underscores Washington's suspicions. Bush asserts that ratification of the Conventional Forces in Europe (CFE) treaty—which the United States, the Soviet Union, and 20 other countries signed last spring—is in jeopardy due to the Soviet military's revision-

ism concerning Soviet disarmament. Bush has threatened that, unless the Soviets agree to interpret the CFE agreement to the letter—which would require Gorbachev to reign in the military—further discussions on limiting non-conventional, nuclear forces (the START talks) cannot go forward.

During recent visits to Moscow, Britain's Prime Minister John Major and Germany's Chancellor Helmut Kohl also objected to Moscow's reversal, but to no avail.

Overall, the E.C. is more inclined to give Soviet leaders the benefit of the doubt concerning reform. The obvious reason is proximity. With the Soviet Union at its doorstep, Western Europe can ill afford to challenge Gorbachev's efforts only to find chaos as the alternative. E.C. officials see little choice at this juncture, although they do not rule out a tougher response if Soviet reform regresses further.

Michael Mandelbaum, director of the East-West Studies Project at the Council on Foreign Relations, says that "the E.C. is likely to be much more sympathetic to Mikhail Gorbachev, and more willing [than the United States] to go further with him . . ." stressing that European assistance will be more forthcoming (see sidebar). Germany, for example, with 350,000 Soviet troops reluctant to exit its borders, has tried to encourage Soviet acceptance of German unification by doling out aid and credits to Moscow.

Certainly Europe has more at stake—even beyond security questions—in forging strong ties with Soviet reformers. Successful Soviet *perestroika* means potential big business for Europeans. In concert with the E.C.'s goal of establishing close working relations with the Soviets, the E.C. Commission formally opened a delegation in Moscow on February 15 of this year.

U.S., E.C. Aid to the Soviet Union

•

The United States has taken a more strident stand than the E.C. on giving aid to the Soviet Union and responding to other trouble spots of civil disorder.

The E.C., after suspending aid in the wake of the Soviet Army's violent repression of democracy movements in Lithuania and Latvia, and after Soviet President Mikhail Gorbachev had complained to European leaders that the West was exerting pressure on Moscow by fueling secessionist movements in the republics, finally released a \$1-billion emergency aid package to the Soviet Union in February. The E.C. has refrained from pursuing relations with individual Soviet republics because they fear such developments would incur Moscow's wrath.

Ever mindful of the remaining Soviet troops on European soil (in the former East Germany, Hungary, and Czechoslovakia), Europeans are treading lightly on civil unrest in the Soviet Union. "In the interest of stability, we support Gorbachev so he can pull the republics together under a new constitution. If he uses oppression after the [March 17] referendum, then that support must come under severe scrutiny," says James Elles, Member of the European Parliament and spokesman for the European Parliament's budget committee.

According to Elles, the E.C. promotes regional security by encouraging reform in the East. "We'll give \$1.2 billion in 1991 assistance to Eastern Europe to help set up a strong framework for democracy," he says.

The United States is still in limbo over sending aid to Gorbachev. In recent months, Washington has been host to



leaders from several Soviet republics, including Lithuania and Latvia. Leaders from these rebellious republics have solicited U.S. assistance and implored the Bush Administration to exert influence on Moscow to loosen its grip on the republics. The pleas have not fallen on deaf ears.

Republican Senator Robert Dole of Kansas recently introduced a bill on Capitol Hill that "directs the Bush Administration to channel aid to republics on the road to democracy—and simultaneously to deny aid to the communist central government in Moscow and Belgrade and wherever else governments are still mired in Stalinism."

Dole recently wrote that "we have no business even considering aid to Gorbachev's government while the central government tries to intimidate Armenia, Moldavia, Georgia, and the Ukraine, and while hard-liners in the Kremlin continue to suppress the democratic movement inside the country."

In recent months, the U.S. State Department has encouraged contact with Baltic leaders. A strong measure of Washington's support for the republics' independence movements was the transfer of U.S. medical aid directly to the Ukraine and the Baltics.

U.S. business seems to have at least partially eluded U.S. restrictions. In December, the Bush Administration waived legislation blocking trade ties with Moscow for six months. The U.S. Export-Import Bank (ExIm), which issues loans, insurance, and guarantees to U.S. exporters, recently opened lines for selected projects in the Soviet Union. ExIm financing is limited to \$300 million, but the U.S. agency is carefully examining U.S. exporters' requests, which now total over \$1 billion.

—Amy Kaslow

One dominant area in which Europe hopes to benefit from closer ties with Moscow is energy. The E.C. Council of Ministers has proposed an energy charter that would create an Energy Community to include the Soviet Union, an important source of Europe's oil and gas. A conference to translate the charter into a series of accords is scheduled for this fall. By then, E.C. officials hope, obstacles to further East-West cooperation—such as civil unrest in Soviet republics—will have abated.

But as national discord in the Soviet Union festers, the West forges ahead with security planning. The 35-nation Conference on Security and Cooperation in Europe (CSCE), an evolving defense arrangement, may give way to more pressing demands for military security in Western Europe.

The Gulf War was a spur to the security discussion. Iraq's aggression came as East-West tensions were diffusing and NATO members contemplated ways to reduce the organization's military structure.

The war demonstrated the very uneven nature of the West's defense posture, particularly outside NATO's realm. While America's unique ability to lead militarily and with immediacy has been cheered, Europeans were frustrated by their inability to muster a common military response.

While one of the Gulf War's legacies was the realization of the importance of building a common European defense, the turmoil on the Eastern part of the Continent—from the Soviet Union to the Balkans—is now spurring Western Europe to form a cogent defense policy. "The search is on to make our [defense] action more coherent, although this is tempered by the reluctance of countries to yield their sovereignty," says James Elles, a British Member of the European Parliament.

The Bush Administration and Congress solicit increased European burden sharing for Western security interests. Toward that end, U.S. and E.C. officials signed the Trans-Atlantic Declaration last November, which in part laid the groundwork for the two to eventually share responsibilities equally for a common security policy.

European leaders readily concede that

taking on practical and financial tasks for security, both on and off the Continent, is long overdue. While the Community's treaty excludes it from dealing with defense, E.C. Commission President Jacques Delors recently spoke about it for the first time in six years.

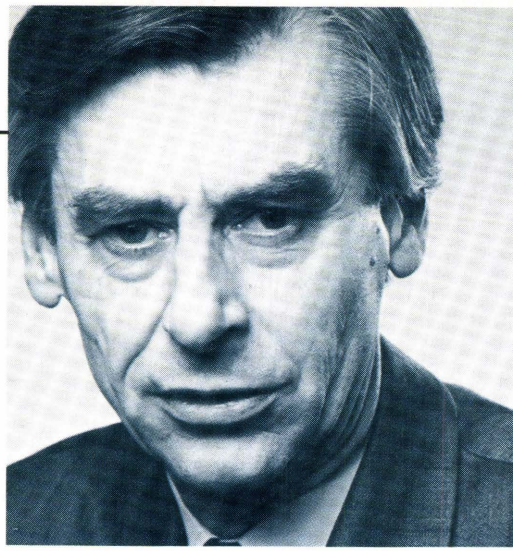
At London's International Institute for Strategic Studies, he charged that "the people of Europe, lulled by material prosperity . . . need to be told that democracy and freedom have a price Once it became obvious that the [Gulf] situation would have to be resolved by armed combat, the Community had neither the institutional machinery nor the military force that would have allowed it to act as a community. Are the Twelve prepared to learn from this experience?"

His proposal that the Western European Union (WEU), which includes nine of the E.C.'s 12 members, implement a common defense policy, has had a stinging effect on the U.S. State Department. It fears that, as an exclusively European body, the WEU will operate outside NATO's territorial purview, and sees the WEU as a potential detraction from NATO's central command. Delors, on the other hand, defends it as an essential pillar to the Atlantic alliance. He says that Europeans must determine their common interests to confirm the Continent's "attachment to the Atlantic Alliance and its objectives, and to shoulder a larger part of the burden . . . [which] is surely what the Americans have always wanted."

Helmut Sonnenfeldt, security analyst and guest scholar at the Brookings Institution, cautions U.S. policymakers "not to fight this battle," and put Europe's security at risk by reducing U.S. interest in maintaining troops there. Elles agrees: "Britain, Germany, and France—who all view the WEU as a link between the E.C. and NATO—have assessed America's presence as essential to our security arrangements. We shouldn't do anything that detracts from the Atlantic alliance, which served us very well in the past and could serve us quite well in the future."

A senior E.C. official takes Europe's role even a step further. He says that questionable Soviet reform "means a strong need for a European defense on the Continent, and the WEU can ensure burden sharing." €

Amy Kaslow reports on domestic and international economics for the *Christian Science Monitor*.



Michael Emerson
discusses

E.C.-Soviet Relations

**The E.C.'s head of Delegation
to Moscow speaks out
on economic conditions
in the U.S.S.R.**

Michael Emerson, Head of the E.C. Delegation in Moscow, spoke with Europe's Editor-in-Chief Robert J. Guttman about E.C.-Soviet relations, the March 17 referendum, and overall conditions in the Soviet Union today.

You are the first E.C. Head of Delegation in Moscow. Why has the E.C. decided to have a representative in the Soviet Union at this time? What are the official relations between the E.C. and the Soviet Union?

Why open this delegation now? The answer that I have encountered in Moscow is not so much "why?," but "about time too!" With the present reorganization of the political and economic map of Europe, it was becoming

an increasingly gaping anomaly that the E.C., the largest bloc in terms of population and economic weight, was not represented in the Soviet Union, the largest single country of our Continent.

Our official relations, at a substantive level, are governed by a "Trade and Cooperative Agreement" signed in December 1989. The main point about this agreement is that it has a long and broad agenda of possible domains of cooperation. We are beginning to exploit its vast potential.

At the diplomatic level, this delegation formally opened on February 15, 1991. The head of delegation is accredited as ambassador to the Soviet Government at head-of-state level.

INTERVIEW

Stasys Lozoraitis, the Lithuanian *Chargé d'Affaires* to the United States, spoke to Europe's *Editor-in-Chief*, Robert J. Guttman, about the political situation in Lithuania, the economic situation in the Soviet Union, and the referendum vote.

What is your assessment of the March 17 referendum results?

It will not be very important for the Soviet Union's future. At this point, you can't save, enhance, or improve anything in the Soviet Union with the help of the referendum. The economic situation is a horror story and nothing can be done about it. That is my conviction and many experts will tell you the same thing.

In a way, Boris Yeltsin's position has been strengthened by the referendum: He was not defeated, and Mikhail Gorbachev didn't win because the majority was not large enough. The referendum can't change the natural course of history, which is the disintegration of the Soviet Union.

Why does the natural course of history indicate a disintegration?

There is no glue. Nothing holds it together except, possibly, fear. But it is not held together by religion, language, history, ideology, economic well-being, or an economic vision of the future.

In these modern times, this huge territory can no longer be governed from Moscow. If you cannot do it centrally, you must decentralize, which means that you give liberty and freedom to the peripheral territories. That means that, sooner or later, they will first become autonomous and then independent.

Is there a new spirit of independence in the Soviet Union today?

A few weeks ago, 500,000 Russians demonstrated in Moscow against the January killings in Lithuania. This is—and should be—the new spirit. Further, we are giving food to the miners now on strike, and to Moscow and Leningrad. These cities have promised us help if something happens. Yeltsin has also recognized the Baltic states' independence. This is the new spirit in the Soviet Union, and it should be strengthened by the West.

Can Lithuania survive economically as an independent state?

That's the question. The Soviet Union is a drowning elephant. We are tied to it, but we don't want to drown with it. We have to cut the ties and save ourselves.

Our economy is in shambles, producing things that can be exported only to the Soviet Union, which buys everything in rubles. We produce old computers that couldn't be sold anywhere else. We must, therefore, reorient our economy toward the West, and learn to make products—and we can make anything, even high-technology items—that we can sell in the West, and for which we can earn hard currency. Then we can go to the Soviets and say: "Now we will pay for your crude oil and raw materials with hard currency." We are not doing that now because we don't have hard currency, and 95 percent of the hard currency we do earn goes to Moscow.

What is happening with Gorbachev today?

At this point, the only thing that can help the Soviet Union is a free market—with limitations. Gorbachev never had a master plan or the courage to go to the bottom of the problem. The only plan—and although naive, it is still a plan you can read, understand, and discuss—is Yeltsin's 500-Day Plan.

Five hundred days—it is sheer madness, but it is a plan. At least you can sit down and start talking. You can't talk about anything with Gorbachev. He says: "Yes, I want freedom—but not of the press; I want privatization—but not of the land; I want a free market—but not of cotton or of this or that."

This is not the way to do it. Gorbachev doesn't give people any vision or concrete feeling that something is being done to improve the economic situation.

But Gorbachev has brought about reforms, hasn't he?

He has brought about some reforms that strengthened his position. Everybody thought that, when he was strong enough, he would do something about the economic system. He didn't.

Will civil war break out in the Soviet Union?

No, I don't think so, because the country's too large. Shootings may occur, however, because the water in the Soviet kettle is

boiling. Gorbachev wants to put the lid on the water, but we are no longer in the 19th century: The 19th-century mentality no longer works. One can no longer solve things with paratroopers and tanks.

You must negotiate. We Lithuanians want to do so. If we sit down with Gorbachev and start negotiating with him, he might tell us his problems. He might say: "Look, gentlemen, I need a year for this or that." We might be very understanding and do something to help. But until he has appointed negotiating delegations, we can't really start.

It seems that people are speaking out in the Soviet Union. Isn't there still a fear that the Red Army could pressure you?

We live dangling in the air every day. You get used to it.

We successfully organized a certain reaction and a certain resistance. The more Western Europe is alert and sends signals that force should not be used, the better our chances of avoiding confrontation and bloodshed.

The E.C. is going ahead with its aid to the Soviet Union. Do you approve?

We don't say that it should be stopped completely, but some conditions should be attached.

What would you like to say to E.C. leaders?

I would say: "Let's not forget that Lithuania is part of the European continent and that whatever happens anywhere in the world is important to America and Europe. People should react to struggles for autonomy, for human rights, for independence, and so on. We have a huge opportunity now to create something new in Eastern Europe. We are also part of Eastern Europe and are delighted that Poland, Hungary, and Czechoslovakia are helping us. To help Lithuania doesn't mean to wage war—economically or militarily war—against Gorbachev."

I would also say: "Gorbachev is not the only man in the Soviet Union ready to collaborate with you. Don't put all your hopes on Gorbachev. Be wise, be realistic. You must realize that there are democratically minded people in the Soviet Union who are also very important and with whom you have to have relations."

Are you satisfied that the E.C. aid package to the Soviet Union will be used effectively and that food will reach the people as intended?

The E.C. aid package has four components.

- First, a small amount of medical humanitarian assistance, worth three million ECU (\$4 million), has already been delivered by non-governmental organizations to needy institutions.

- Second, 250 million ECU (\$335 million) have been made available in the form of food aid grants. The Commission has paid particular attention to get the addresses of direct beneficiary institutions (hospitals, schools, and local authority welfare programs) so that these grants are delivered there directly by E.C. transporters. The commodities are not being put into government warehouses.

- Third, 500 million ECU (\$670 million) in credit guarantees are destined for food imports. This is regarded as a mixed commercial and balance-of-payments support operation, and the food distribution is the responsibility of the importer. These two food aid components will be executed in the next few months.

- Fourth, 400 million ECU (\$536 million) in grants will go toward technical assistance in domains such as energy, transportation, food distribution, financial institutions, and training for the market economy. This component is now being prepared, and is likely to become operational in the second half of 1991.

While these operations are not easy to execute, we are beginning to realize that, with perseverance and care, reasonable objectives can be met.

What are your overall impressions of current conditions in the Soviet Union?

The material conditions for the population are very tough, even in urban areas such as Moscow, that do not have the problems of inter-ethnic tension as do many of the republics. The people show enormous philosophical endurance. Hunger seems to be avoided, at least on a larger scale, but economic disruption resulting from political strife has become very serious. Two examples: Steel production now suffers because of coal miners' strikes. Textile production in the Russian Federation has also gone down because, in the hope of achieving higher prices abroad, cotton from Uzbekistan is being withheld from inter-republic sales.

Do you see a continuing interest on the part of

E.C. companies to invest in the Soviet Union?

The interest is certainly there on the part of all companies taking a long-term view. However, the unsettled political climate and slow pace of reform mean that many companies prefer to avoid exposure to large financial risks. Our delegation will certainly have increasing contact with E.C. business interests here as our operation builds up. We are here to support them.

What is your assessment of the March 17 national referendum?

The referendum yielded complex results, but nonetheless gives several clear messages. Six small and peripheral republics refused to participate, in the sense that their governments did not organize ballots, although small fractions of their populations did manage to vote. In the Russian Federation, 76 percent of voters supported Gorbachev's question ("Do you favor a renewed union . . .?"), while 70 percent supported Yelstin's question ("Do you favor election of a president of the Russian Federation by direct universal suffrage?"). While Gorbachev's question only received around 50 percent in Moscow and Leningrad, it got much greater support further to the East. Siberia, the Pacific areas, and the Central Asian republics greatly supported the Gorbachev question. In the Ukraine and Khazakstan, very high percentages replied positively to a reformulation of the Gorbachev question, which more strongly accentuated the sovereignty of the individual republic within the Union.

Will the European Energy Charter work vis-a-vis the Soviet Union?

This question is hardly less than asking if the Soviet economy will succeed. The European Energy Charter, proposed by the Commission in February 1991, but still to be negotiated, aims at something like the old Monnet-Schuman approach embodied in the European Coal and Steel Community: Choose an important sector of complementary interests, and establish a legal framework for trade and investment.

To succeed in this, the Soviets will, *inter alia*, have to clarify the issue of property rights and taxation between the Union, the Republics, and the regions governing natural resources. This should normally follow on from adoption of the proposed Union-Republic Treaty.

Could you ever foresee the Soviet Union as a member of the European Community?

Indulging in long-term political speculation, I would be more inclined to pursue a vision of two enormous blocs, the E.C. and the Soviet Union, that would become increasingly convergent in their politico-economic-judicial systems. Both would become single markets and economic and monetary unions with strongly decentralized and democratic constitutions, but with a select number of key union functions. The external relations between the two blocs would become deep and wide-ranging. The stability of this relationship would become a major feature in the political architecture of Europe for decades and generations.

Do the Soviets have the will and the capabilities to achieve a successful market economy?

The dichotomy between the actual economic performance of the Soviet Union and its potential is staggering. Any development economist would recognize that the basic human capital and the natural resource endowments are massively positive. But, after 70 years of political isolation, and six years of halting progress in the economic field, the Union's cohesion and self-confidence are low. The younger political and professional leaders know pretty clearly in which direction they want to go—to complete the move to the market economy, to be open internationally, and to be "part of Europe." But the old guard is still important. The conservatives do not have an alternative economic strategy, but complicate the process, to say the least. The will to move (quickly) to a market economy surely differs from the Baltics at one end of the spectrum through Russia to the Central Asian republics at the other end.

Why did the Soviets allow the Eastern European nations to achieve freedom in 1989, but resist allowing some of the same to their own republics?

The political distinction between states outside the Union, and republics within it is important. Underlying this point is the extent of the patchwork of minority ethnic groups within all the Union republics, and the fact that a large proportion of inter-republican frontiers within the Union are disputed.

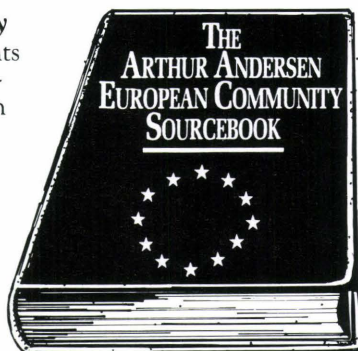
The Soviet Union is truly a Pandora's Box, which the secession of a few small republics would risk opening wholesale.

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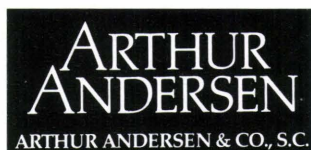
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Doing Business in the Soviet Union

AT A RECENT ECONOMIC CONFERENCE IN Leningrad, I found that, while the Soviet Union has seen great economic and political liberalization, a free-market economy has not emerged. I left the Soviet Union with great reservations about the ability of the average Westerner to conduct a profitable business in the Soviet Union, a feeling that has been reinforced by recent unrest.

The greatest obstacle to free enterprise is the Soviet Union's state-run economy, which has instilled in people a specific behavior radically different from that in the West. The absence of a profit motive and inefficiencies inherent in the state system create problems daily, such as shortages in consumer goods and inefficient service, which make long lines a fact of life for almost everything.

For example, it took five hours to purchase a train ticket from Leningrad to Helsinki, not because hordes of people were traveling that day, but because of the grossly inefficient system: The ticket office clerk saw only up to three people per hour. When I reached the office, the clerk wrote my destination on a piece of paper. I took that paper to the cashier, where I waited—in another line—to pay. Finally armed with a receipt, I returned to the ticket office line. When I reached the ticket clerk a second time, I waited while she manually typed out my ticket. To compound such inefficiencies, the bureaucracy only allows people to buy travel tickets one day, and not more than eight days, before traveling.

Since free enterprise has not fully blossomed, Soviet citizens have limited options for engaging in business. Currently, the most common form of free enterprise for them is the cooperative, a business

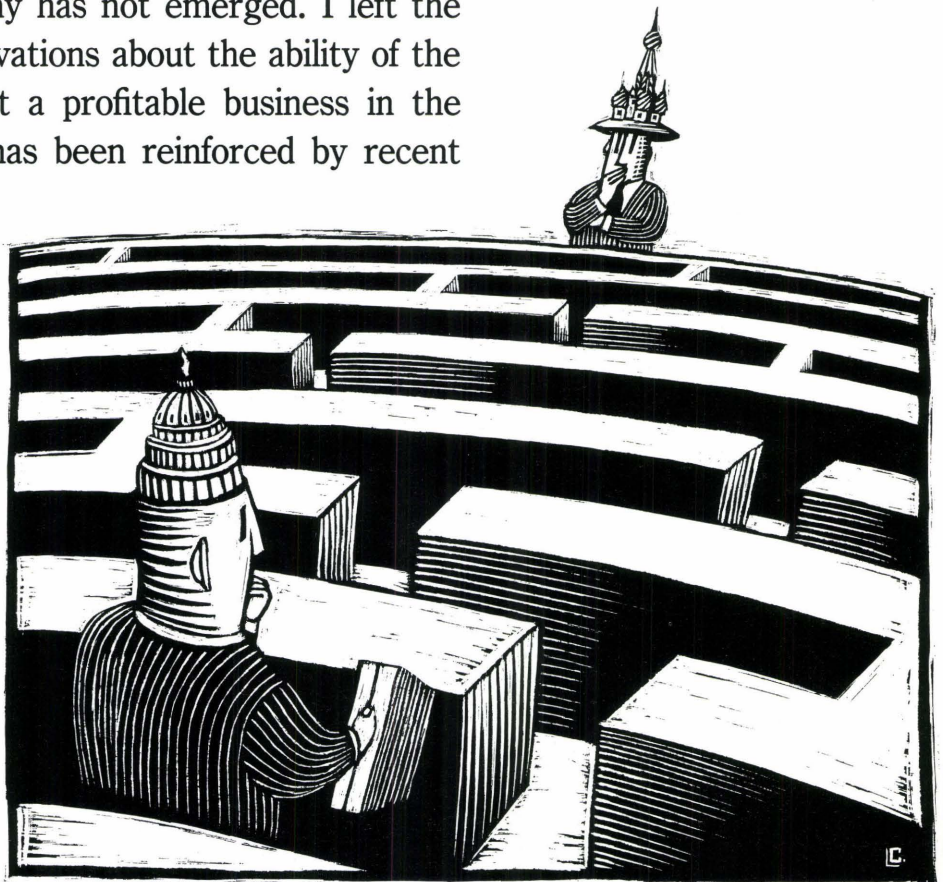


ILLUSTRATION BY DAVID CHEN

owned by a limited number of people who must be employees of the enterprise. Westerners cannot organize cooperatives because they are strictly limited to Soviet citizens.

A cooperative must conduct business very differently from its Western counterpart because it is subject to inherent problems of the Soviet system—lack of goods and quality, no marketing knowl-

The Obstacles to Free Enterprise

edge, poor service, and internal corruption. In short, the cooperative is a terribly rudimentary form of free enterprise that distinguishes itself mainly through prices substantially higher than those in state-run stores, determined by the govern-

partner to own more than 49 percent of the enterprise and allow the director or chairman of the board to be a non-Soviet.

At first glance, the joint venture appears to provide the means for Westerners to conduct business in the Soviet

uum, without laws governing contracts, commercial papers, banking or finance, securities, copyright or patent protection, and so on. Although the Western legal system is sometimes disliked, no true business would engage in business in



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Shortages in goods and inefficient service are inherent to the Soviet state-run economy, making long lines a fact of life.

The greatest obstacle to free enterprise is the Soviet Union's state-run economy. The absence of a profit motive and inefficiencies in the state system create daily problems, like shortages in consumer goods and inefficient service, making long lines a fact of life for almost everything.

ment.

One co-op director illustrated the basic cultural attitude. After hearing a detailed explanation of general business operations in the United States, she responded: "Who tells the corporation what to do?"—referring to the Soviet system of the central planning agency administering the government's economic plan. That attitude was confirmed by others. When I asked "average" working-class Soviets why nothing seemed to work in the Soviet Union, the standard response was: "We are waiting for someone to tell us what to do."

The co-op director also told of the rampant corruption ingrained in the Soviet culture. She explained that, while a store in Leningrad might have a contract to buy a truckload of chickens at a stated price, the "mafia" would divert the chickens to a store paying a higher price—despite the contract, and with little legal recourse for such actions.

Westerners can only conduct business in the Soviet Union through joint ventures between them and a Soviet government agency. Joint venture laws are new and constantly evolving, but still clearly reflect the planned-economy mentality over the free enterprise attitude. Two recent changes now permit the foreign

Union. This is only partially correct, however, since the Soviets view the joint venture as a way to provide hard currency for the central government. In fact, most joint ventures are open mainly to serve Western tourists with hard currency. These include hotels, stores in hotels, and restaurants, and are usually inaccessible to the average Soviet citizen because goods and services must be paid for with hard currency, and prices are as high, if not higher, than comparable goods and services in the West.

However, some Western companies, although mainly large multinationals, do thrive. Pepsi Cola has been established in the Soviet Union for years and has worked out complex methods of moving profit, generally countertrade, out of that country. McDonald's created its own infrastructure to guarantee quality and basic accessibility to supplies, and also developed a plan to take its profit out of the country. Pizza Hut is relatively new, but company officials spent about five years developing an acceptable business plan.

If, despite the obstacles, Westerners are still determined to do business in the Soviet Union, they must consider one other important point—the Soviet Union's inadequate legal system. Private enterprise exists entirely in a legal vac-

a country with no legal tradition to protect interests and provide guidelines for correct legal behavior.

The Soviet Union has some civil codes to address a few of the above mentioned areas of law, but, as a whole, has no legal tradition to interpret such statutes to protect economic expectations of the free enterprise system. The entire legal community knows only the government-controlled economy where, in an economic dispute, the government is both plaintiff and defendant.

Even if a civil code to reflect free enterprise were created, it is impossible to know how judges and attorneys would interpret such a code. Remarked one Russian attorney about the Russian legal system: "To compare Russian law to Western law is like comparing a three-year-old to an adult."

That same analogy applies to the state of free enterprise in the Soviet Union, and with the recent unsettled political situation, the best advice to a Westerner considering doing business in the Soviet Union is to "sit this one out a while." €

Roger W. Reinsch is an associate professor of business law at Emporia State University.

Whither Free Enterprise?

The Difficulties for Western Investors in the Soviet Union

ROBERT HASLACH ■

NOT TOO LONG AGO, MANY WESTERN COMPANIES were hopeful for the future of their joint ventures with Soviet partners; now they only hope that the check may, indeed, be put in the mail soon. Those with little experience in dealing with the Soviet Union have found their receivables aging far beyond 120 days; some have been waiting for a year to receive payment for goods supplied.

Even those with the greatest experience are tempering late-1980s optimism with new 1990s caution. Doing business in the Soviet Union has taxed the patience of even the most flexible Western firms. Centralism, crime, currency, and contacts: These four ideas shape the economics of the Soviet Union, where the very meaning of the word "business" is unclear and where businesses as we understand them do not exist.

Still, thousands of Western businesses have flocked to the Soviet Union since 1987, hoping to create joint business ventures with local partners. How have they fared? In brief: A few have done well, but most are still floundering.

Centralism. Centralized political control over the republics has required command economic control. When Soviet President Mikhail Gorbachev first implemented *perestroika*, local governments interpreted that to mean their right to assert greater economic powers and profits. Consequently, they changed or ignored delivery dates in Moscow's contracts with factories under their jurisdiction and asserted their control over their own economy.

By September 1990, Gorbachev was forced to issue an embarrassing order to require compliance with contracts, including reassertion of on-time deliveries,

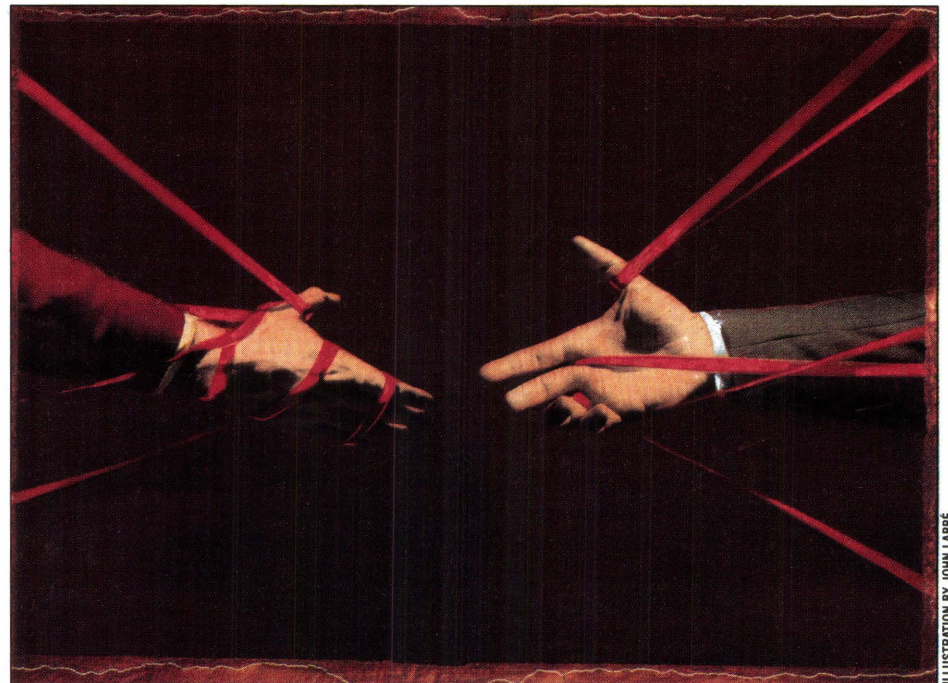


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seizure by the central government of rolling stock to enforce delivery, and heavy fines on those who held back products already sold on contract. Since fines were payable to local governments, Moscow hoped to bring bureaucrats far from Moscow back from the dangerous path of economic self-determination.

One month later, the Russian and Ukrainian legislatures claimed a veto

right over Soviet legislation. At issue was control over export revenues. Gorbachev told a labor union congress in Moscow that the collapse of the federal structure of government was the gravest danger facing the Soviet Union.

been clear that there are vastly too many rubles in a country where barter is more valuable than cash. The true mark of personal wealth is access to desirable goods and services, not the ruble. The practice of shopping by invitation only is

rency reform" returned about 8 billion rubles to the Treasury.

Contacts. Alongside the reality of Soviet racketeers, the Soviet Union has a well-connected and entrenched business class: the military production and defense industry, which enjoys virtual monopoly over the production of many consumer goods, including television sets, sewing machines, VCRs, vacuum cleaners, refrigerators, and washing machines. It is with this classic monopoly that Western companies must compete. It holds the competitive advantage of controlling the production and distribution system, the regulatory institutions, and the economic police. Its ability to suppress assertions of political and economic independence, either militarily with loss of life, as in the Baltic States, or politically and bureaucratically, as in the Ukraine and Russia, is a true measure both of its power and its fear.

Centralism, crime, currency, and contacts all merged at the beginning of 1991 when Gorbachev published a presidential decree on economic crime. This decree gives the KGB warrantless rights of search and seizure over the real estate, premises, warehouses and supplies, bank accounts, and books of all domestic and foreign businesses in the Soviet Union. Officials may now enter the premises of any enterprise at will to verify compliance with consumer protection laws on production and transportation of goods, and to take evidence for analysis. They do not need a warrant or the permission of those involved to demand that banks and credit institutions give them the files on foreign business deals.

Far-reaching bureaucratization of all aspects of society, the planned economy's structural shortages of raw materials and products, and the fictional value of the ruble have made possible the flourishing of a second economic system, the "Shadow Economy" of gray and black market trade, the defense industry's home court. Their ability to operate within this economy with inter-factory swaps and bartering to obtain raw materials otherwise unavailable is a key advantage over foreign joint ventures. The power of the foreign joint venture to create a demand-driven economy in the Western image has not yet been tested. €



When Gorbachev introduced perestroika, local governments took that to mean their right to assert greater economic powers.

Crime. Western ideas of economic crime have nothing in common with the official or popular Soviet view. Personal prosperity is not the reward for diligence, ingenuity, and luck, but rather the outward and visible sign of either position or corruption. The difference between legitimate profit or theft is not clear in the Soviet Union, as a number of foreign joint ventures have learned.

For example, last year the Kiev press accused Femtek, Tambrands U.K.'s joint venture to manufacture sanitary napkins and tampons in the Ukraine, of illegal practices. Despite the blessing of Moscow and the Ukraine, city officials were trying to force it out of business for "profiteering and tax evasion."

Moreover, last year's food shortage was, in fact, due to a shift in distribution channels: Products that government stores do not have for sale below cost can be found on the open market, largely due to the corruption of government store managers. Only the city police appear ignorant of the fact that the Rizhsky farmer's market offers goods once, but no longer, available in stores.

Currency. Legal tender and valuable currency are not the same thing in the Soviet Union as in the West. It has long

so entrenched that big factories cut deals with retailers for special shopping days for their workers. When the goods arrive, union officials at the plant hand out coupons entitling workers to enter the shop and buy. Moscow made \$2.5 billion in such restricted sales in 1989. The coupons and rights to the coupons, naturally, are valuable black market commodities.

Soviet Prime Minister Valentin Pavlov celebrated the beginning of 1991 with currency reform to shrink the vast money supply. Citizens were given three days to exchange up to 1,000 rubles of henceforth worthless 50- and 100-ruble banknotes. A cap of 500 rubles or two month's income was placed on all bank withdrawals. Along with shrinking the money supply, the government hoped to shake cash out of the cooperatives, largely to satisfy those who believed that all Soviet private enterprise is owned by "the Mafia." (As *Izvestia* satirist Yuri Makarov noted, however, true Soviet criminals scorn the ruble and banks and hold their liquidity at home in gems, gold, and hard currencies.)

Pavlov, of course, is the same man who, as head of the Treasury last year, printed 24 billion rubles rather than the 10 billion rubles planned for. His "cur-

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Robert Haslach is a frequent contributor to *Europe*. His article "The Western European Union" appeared in *Europe's* January/February 1991 issue.

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An International Institution of the Third Kind



Jacques Attali, the President of the EBRD, outlines the Bank's tasks and goals

The purpose of the European Bank for Reconstruction and Development (EBRD) is to foster the transition toward open-market economies and to promote private and entrepreneurial initiative in the countries of Central and Eastern Europe. The EBRD will begin its operations in London this month.

Jacques Attali, formerly an adviser to French President François Mitterrand, will be the Bank's President. In an address to the Foreign Policy Association in New York last month, he outlined the EBRD's tasks and goals. Excerpts from that speech follow.

The European Bank for Reconstruction and Development could be called an international institution of the third kind, since, in building it, member countries were able to bear in mind and incorporate the remarkable features of existing international organizations. Institutions of the first kind include the post-war international financial institutions—the World Bank, the International Finance Corporation, the International Monetary Fund (IMF); organizations of the second kind are the institutions of the European Communities. Thus, the EBRD will be a source of lending and of joint projects, and will contain the principle of adaptability that one finds in the Treaty of Rome.

In creating an institution of the third kind, the EBRD goes further, in the following sense. First, its charter stipulates that its purpose is to support transition to market economies, and in doing so it will be the first international institution to act as a merchant bank. Second, its action is subject to unprecedented democratic conditionality; and third, for the first time, there is long-term conditionality, because the EBRD must support environ-

mentally sound and sustainable principles in all its actions. This means that the EBRD will endeavor to help the countries of Central and Eastern Europe integrate into the world economy, while helping to strengthen democratic institutions, respect for human rights and for the environment.

The EBRD is the first institution in which Eastern European countries, including the Soviet Union, are fully fledged members, with equal rights and responsibilities, along with Western European and other countries from around the world that wish to help the development under way.

The Bank will not be a replication of existing traditional institutions. It will use different techniques, and act in both the private and public sectors. It will lend and invest in equity, cofinance with the multilateral institutions, with commercial and investment banks, and through other sources of funds. It will operate through joint ventures, and will guarantee and underwrite issues and securities. We will have a capital of 10 billion ECU (\$13.4 billion) for a clearly circumscribed field of action, and the EBRD will be able to invest up to three billion ECU (\$4 billion) in equity.

At least 60 percent of the Bank's loans and equity investment will go to the private sector, to financial intermediaries that will on-lend to the private sector, or to public companies to help make them more competitive and ready for privatization. Up to 40 percent of loans and equity investments may go to the public sector, in particular to areas such as physical and financial infrastructure and the environment, essential to economic development and the transition to a market economy.

The problems of transition to a market economy are complex, and many things

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taken for granted in the West cannot be taken for granted in Central and Eastern Europe.

- There are many shortages in areas such as accounting, management, banking, distribution, and services. Technical assistance and training will therefore be a priority.

- The institutions of a market economy must also be created. The history of Europe has shown that a market can operate effectively only if a legal and institutional framework exists to organize, monitor, and channel market forces. The EBRD will advise governments in this field, and help to establish laws, institutions, and instruments. A number of preliminary contacts have already been made in this respect.

- Infrastructure projects, transportation, telecommunications and energy networks, urban planning, and environmental rehabilitation, without which a market economy cannot function effectively, will be a major focus for the European Bank. It will closely cooperate with the E.C., the European Investment Bank, the World Bank, and private banks and companies in developing these projects.

- Another priority is to strengthen financial institutions. Mobilizing savings and channeling them toward productive investment, establishing trust between the public and the banking sector, straightening out and recapitalizing balance sheets and accounts, training personnel, designing new strategies, and improving management and efficiency are some of the fundamental aspects of a healthy financial infrastructure. The EBRD will help governments solve these problems, and will participate actively in the establishment of financial institutions, capital markets, and regulatory bodies necessary for an economy to function.

- Industrial restructuring and privatiza-

tion is another important aspect. The Bank will help governments and companies plan and prepare for these operations, and will work closely with the international financial community in engineering them. It will participate in both debt and equity financing, as well as through mutual funds to help manage the shift from public to private ownership. The Bank's presence in such projects will attract potential investors and enhance their confidence.

The Bank will not act alone or seek to act for others. Rather, its purpose is to create favorable conditions so that private banks and companies may more easily enter the Central and Eastern European markets. We wish to be a door-opener and a catalyst, not to replace or displace others.

We will also be coming to the market. We intend to make two or three benchmark issues this year, to develop our liquidity and establish good relations with investors. The first issue may be denominated in ECU, an important currency for the development of Eastern Europe. In the coming weeks, we will consult many banks for their ideas on the best way to approach the capital markets.

I believe that the establishment of the European Bank for Reconstruction and Development is significant in that it marks the end of the cold war era. Former enemies have been able to sit at the same table as equals and discuss something other than arms control. Its existence ratifies the end of a given type of conflict and demonstrates that law can prevail over violence. Its example may hasten the end of other conflicts, where there is an equal need for enemies to sit down to build a common, peaceful, and democratic future together. €

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The Future of E.C.-Soviet Relations



The E.C. and its member states are sending aid to the Soviet Union in the hope that this will support efforts to establish a democratic framework. Here: A German food shipment arrives in Leningrad.

Despite Political Instability, the West Continues Aid

WHILE EUROPEAN LEADERS WERE quick to condemn the Soviet Union immediately after the violent Baltic repression last January, few governments actively demonstrated support of the breakaway republics by officially recognizing them.

The Gulf War was a weightier factor than the crackdown in the Baltics in Gorbachev's continuing favor abroad with the European and U.S. governments.

President George Bush desperately needed to count Moscow among the Coalition allies, and was therefore leery of canceling financial aid. As one Soviet em-

Eastern Europe and NATO

With the military alliance of the Warsaw Pact officially defunct since April 1, the problem of European unity has been dramatically exacerbated. Although the Eastern European countries have successfully severed the last bond to the Soviet Union, they now find themselves in danger of isolation—sitting in the heart of the Continent, unaligned and in limbo, wedged between the precarious Soviet Union and powerful Western Europe. Insecurity over the security vacuum is palpable.

In March, President Vaclav Havel of Czechoslovakia visited NATO, and, in a speech to its Foreign Ministers and Ambassadors, requested closer relations between Eastern Europe and NATO. The West, he said, “cannot remain indifferent to what is happening in countries that, by being constantly encouraged by the Western democracies, have finally shaken off the totalitarian regimes.”

As Havel hinted, Eastern Europe’s new isolation means potential trouble for the European Community. Unless Eastern Europe finds a way to connect with the prevailing institutional structures, it risks being forced to return to the dangerous system that existed between the two world wars, when rival states formed alliances by seeking out the “enemy of my enemy.”

Eastern Europeans are now working to avoid such a system. They have talked of creating new structures—such as a possible regional alliance of Poland, Hungary, and Czechoslovakia—under the umbrella of the Conference on Security and Cooperation in Europe (CSCE).

But hopes were dampened when Eastern European leaders noted the CSCE’s futile condemnation of Soviet force in the Baltics. Therefore, many have begun to seek closer links to NATO, even though membership is considered unlikely at this point. Having lost the protection of the Warsaw Pact, Hungary wants to join NATO as soon as possible, Czechoslovakia has already agreed to expand information exchange and military observers. Poland also says it wants some relationship with NATO.

But both NATO officials and E.C. members are aware of the inherent prob-



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Lenin's theory of a planned economy failed to produce consumer goods for the average Soviet citizen, and is proving a stumbling block for Gorbachev's attempts at economic liberalization. Here: Red Square.

lems, particularly the alarm that would register in Moscow if NATO’s frontier continues to move eastward—as it already has with German unification. At best, Eastern Europe can expect closer political contacts and exchanges from NATO.

Because security is so difficult to arrange, many former Soviet Bloc countries are quickly moving toward association with the European Community. Last February, Polish Prime Minister Jan Bielecki said that his country needed specific reassurance of full E.C. membership at the end of its difficult shock therapy economic reforms. “Kind words are fine,” he said, but “step-by-step, what’s-to-be-done instructions on gaining entry are critical.”

“Theoretically speaking,” says Nico Wegter, E.C. spokesman for external relations, “we have an open house here. All the European nations—from eastern, central, or southern Europe—are invited to join. But they have to fulfill the conditions of membership. Practically speaking, these terms would be out of the question for Eastern European countries right now. They couldn’t meet them. But we are not excluding possible membership in the future.”

In the meantime, the E.C. nations want to concentrate on “instruments to insure a closer relationship,” explains Wegter. “We have had trade and economic relations with all these countries for the past two years,” he adds. “Negotiations are now under way with Poland, Hungary, and Czechoslovakia for association agreements that provide a tangible basis for intensive cooperation. Not just in trade, but in environmental matters, monetary policy, and political cooperation. There would be a broad framework. Hopefully we will finalize this before the end of the year.”

It is possible that similar association agreements will soon be offered to Bulgaria and Romania, but the E.C. is still waiting for a stronger commitment to political and economic reform.

In the meantime, the Eastern European leaders grow increasingly alarmed. “Our countries are dangerously sliding into a political, economic, and security vacuum,” Havel warned NATO. “The old imposed political, economic, and security ties have collapsed, yet new ones are developing slowly and with difficulty.”

—Colleen O'Connor

issary said to James Sherr, lecturer in international relations at Lincoln College, Oxford: "If your 'high principle' over the Baltics topples Gorbachev, those who replace him will not stop with the Baltics. They will move to Europe and the Gulf. You may not be 100 percent pleased with our cooperation today, but would you be happier if we shared our photo and signals intelligence with Iraq and resupplied her through Iran?"

Europe, too, had its reasons for supporting Gorbachev—including the sizable number of Soviet troops still remaining on the Continent. There are still about 380,000 Soviet troops in Germany, 50,000 in Poland, 20,000 in Czechoslovakia, and 20,000 in Hungary.

So, although Gorbachev is no longer the hero of the Western world, he is supported by the European Community. World leaders have traveled halfway across Europe to the Kremlin, hoping to stave off political chaos in the gravely unstable Soviet Union. First came the *troika* of E.C. Foreign Ministers in late February, in which the current President of the Council of Ministers, Jacques Poos, was accompanied by the Dutch and Italian Foreign Ministers, Hans van den Broek and Gianni De Michelis. Britain's Prime Minister, John Major, visited Moscow three weeks later, adding his seal of approval. And the French Government said it believed that, despite everything, Gorbachev was still a reformer at heart.

At about the same time, the European Parliament was updating its opinion on the Soviet Union. Immediately after the Baltic repressions, it swiftly blocked a \$1-billion food aid package to the Soviet Union and promised to slow execution of a \$550-million technical assistance grant. But six weeks later, it voted to restore the food aid.

Even before the unrest in the Baltics, Bush had some "big problems" with extending aid to a country that had spent considerable sums of money on the military and aided anti-American regimes. He eventually announced, however, that the United States would back Soviet loans up to \$1 billion. The E.C. promised its aforementioned \$1 billion in food aid; Canada gave \$150 million in credit; Spain gave \$1.53 billion in credit; and France gave \$1 billion in credit. India donated nearly one million metric tons of wheat, and Australia offered millions of surplus sheep. By the time the bitter Russian winter with its catastrophic shortages was in full sway, the so-called "Gorbaid" was pouring in from 24 countries and

relief organizations.

The E.C. has been a leader in providing food aid and technical assistance to the Soviet Union. Among the E.C. member states, Germany has made the most generous rescue efforts of all. Ultimately, the

Concerning the future of E.C.-Soviet relations, E.C. spokesperson Nico Wegter is as uncertain as anyone else.

"We have a bilateral trade and economic agreement being implemented. We don't want to suspend that. But if the economic and political reforms are no longer pursued, and the tendency is to go in the other direction, there might be a point in freezing such an agreement."

German Government pledged nearly \$10 billion, plus enough meat, milk, and medicine for 10 million people for a month. On television, Kohl told the Germans that they owed Gorbachev a debt of gratitude for backing German unity. Even Germany's soccer clubs joined in the effort, with the richest clubs raising more than one million German marks (about \$650,000). It was the largest private relief program in Germany's post-war history, and became the country's *cause célèbre*.

Then came the Baltic crackdowns and the instant reappraisal of the political propriety of "Gorbaid." A majority of world leaders, fearing that a cancellation of Western aid would topple Gorbachev and push the Soviet Union over the brink into hard-line communism, issued condemnations of Moscow instead of official support for the Baltic republics.

For Germany, there were political considerations, such as concern about the Soviet promise to remove its troops from the eastern part of Germany, and worry over the still pending Soviet ratification of the German unification treaty, which could only enter into force once the So-

viet Union had signed.

The European Parliament reached much the same conclusion as Germany last month, when it freed the blocked \$1 billion in food aid, but not the money allotted for technical aid. "The technical assistance program is still pending," explained Nico Wegter, E.C. spokesman for external relations. "First, we'd like to see more clarity in the state of reforms in the Soviet Union. If we're going to assist, we have to know whom we're going to assist. There are so many uncertainties. It's risky in our view, and counterproductive."

As for the future of E.C.-Soviet relations, Wegter is as uncertain as anyone else. "Generally speaking, we have a bilateral trade and economic agreement that's being implemented," he said. "We don't want to suspend that. We don't see reasons to suspend that. But if the economic and political reforms are no longer pursued, and the tendency is to go in the other direction, there might be a point in freezing such an agreement."

The situation rests with Gorbachev, as it has all along. The March 17 referendum on the future of the Soviet Union showed that 76 percent of the voters wanted to preserve the country as a renewed federation—in essence, voting for Gorbachev's continued leadership. But that result was far short of an overwhelming victory, especially since six republics boycotted the ballot. Moreover, in the few months since the upheavals in Lithuania, unrest has now spread to Georgia, where the nationalist government accuses Moscow of fomenting discontent among its ethnic minority of 90,000 Ossetians. Already, 40 people have died. Striking miners and the failure of the Soviet economy to satisfy customer demands are adding to the current unrest.

Meanwhile, Europe continues to watch events in the Soviet Union unfold—and waits. €

Colleen O'Connor, a freelance writer based in Cologne, also writes for the *Dallas Morning News*. Her article "Germany's Immigration Dilemma" appeared in *Europe's* March 1991 issue.

The Moscow-Hollywood Connection

LIKE THE POLITICIANS, HOLLYWOOD ALSO has reasons to follow internal developments in the Soviet Union. Buoyed initially by *glasnost* and then encouraged further by the smooth Moscow production work on *The Russia House*, U.S. film companies are working on several hundred million dollars worth of movies involving the Soviet Union for the years ahead. Any disruption of the *glasnost* process now, in the view of Hollywood insiders, would leave several U.S. studios holding a very big bag and cause major overhauls in production schedules.



The filming of "The Russia House" in the Soviet Union was a breakthrough in U.S.-Soviet film relations.

The Role of the Soviet Union in American Film

DON DEWEY ■

Not that relations between the two countries' film industries have ever been a model of harmony. Aside from all the pressures brought to bear by the Red Scare and the cold war, numerous artistic and cultural differences have also haunted ties. Somewhat symptomatically, the most significant instance of willful film cooperation between the nations re-

mains *The Blue Bird*—the 1976 disaster that started off as the first U.S.-Soviet coproduction and ended as a daily series of bulletins from Leningrad about American stars becoming sick on Russian food and throwing tantrums over the work habits of Soviet crews.

More positive was the filming of *The Kiss of Mary Pickford* in the late 1920s. The only purely Soviet film with American stars in its cast, *Kiss* was a comedy inspired by the enormous popularity in Europe of Pickford and her husband Douglas Fairbanks—an acclaim that prompted mob scenes in Moscow, Warsaw, and other capitals whenever the couple toured the Continent.

Playing off this adulation, the picture tells the story of a ticket taker in a Moscow cinema who spends his days admitting patrons to Fairbanks' *The Mark of Zorro* while having to compete with the screen star's swashbuckling image for his girlfriend's affections. Reading about a visit by Pickford and Fairbanks, the ticket taker decides to see what his rival is made of in person. After a series of misadventures, he ends up with Pickford, receives a kiss on the cheek from her, and is almost trampled by a crowd of autograph

seekers. His reaction? "How can a man kissed by Mary Pickford not be okay?" Needless to say, Pickford's kiss elevates the ticket taker in the eyes of his girlfriend, and the two live happily ever after.

The Kiss of Mary Pickford was made during a relatively benign period in U.S.-Soviet relations, and before the full onset of the turmoil and persecutions that would mark the reign of Joseph Stalin. But, at the very height of the purges in the 1930s, one of the most durable of all Soviet film characters—the happy tractor driver—was midwived by American movie studios, and particularly by Walt Disney.

Determined to use the film medium as an instrument for consolidating his power, Stalin dispatched Boris Shumyatsky to Hollywood in 1935 for a firsthand investigation of the American industry's international success. Shumyatsky concluded that Hollywood owed its power to cartoons and musicals that not only sought to distract audiences from the realities of the Depression, but also stressed the kind of moralistic qualities that coincided with the priorities of Stalin's Five-Year Plan. With the dictator's blessing on the idea, the state trust launched a series of expensive musicals that emphasized the goodness to be found in characters like peasants, industrial workers, or military men, who always had the human complexity of Mickey Mouse.

Another significant meeting ground for the U.S. and Soviet film industries was the work of Sergei Eisenstein. In the 1920s, the director's sophisticated montage cutting so impressed American moviemakers that they kept metronomes on both sets and in editing rooms to be sure that they adhered to his rhythms. It was therefore not surprising that Hollywood kept after Eisenstein to work in the United States—or that he finally accepted an invitation from Paramount in 1930. Fiasco atop debacle subsequently ensued, leading Eisenstein to comment years later that his mistreatment at the hands of Stalin's censors and bureaucrats was no worse than his short-lived contacts with Americans.

Two other notable Russians—Olga Baclanova and Maria Ouspenskaya—found their way to Hollywood after defecting from a 1923 U.S. tour of the Moscow Art Theater. They both devoted their first years in America to the stage. Then, in 1928, Baclanova appeared as Emil Janning's co-star in the leaden morality tale *Street of Sin*, and went on to

star in several similar features over the next few years. But her outsized acting style (even more than her accent) dated her in the talkies, in which her only noteworthy appearance was that of the exotic trapeze artist who marries a circus

U.S. and Soviet film producers hope that the days of the clichéd and ideologically unsound characters they have shown in each others' movies are numbered.

midget for his money in the 1932 cult classic *Freaks*.

Ouspenskaya remained in New York as a stage actress and drama teacher until 1936, when she went to Hollywood to become one of the industry's busiest character actresses for more than a decade. Accent and all, she portrayed one central European (never a Russian) after another in everything from prestigious productions like *Dodsworth* (1936) to low-budget horror features like *The Wolf Man* (1941).

Ouspenskaya's greatest impact on the United States, however, was her teaching of acting before going to California. Her students in New York included Group Theater and Actors Studio founder Lee Strasberg, who molded Marlon Brando, Paul Newman, Al Pacino, and just about every major screen actor over the last half-century.

It seems possible to distinguish six periods in Hollywood's treatment of, first, Russia, and then, the Soviet Union:

- In the 1910s to early 1920s, "progressive" aristocrats and White Russian armies still seemed like possible alternatives to the Bolsheviks. A typical film of the period was the 1917 *Fall of the Romanovs*, which laid all evil at the doorstep of Rasputin, depicted the royals as well-meaning dupes, and portrayed rebellious workers and peasants as a rabble that would only make matters worse.

- By the late 1920s, Stalin's economic programs were starting to succeed and it had become evident that the Bolsheviks were not simply going to disappear. Films like Josef von Sternberg's *The Last Command* (1928) and Berthold Viertel's *The Spy* (1931), portrayed unalloyed nostalgia for the Romanovs and distaste for the Bolsheviks.

- In the 1930s, U.S. diplomatic recognition of the Soviet Union and growing threats posed by Hitler and Mussolini influenced U.S. films. While towering above other films of the genre as finely crafted entertainment, *Ninotchka* (1939) remained typical in its more bemused, patronizing view of Soviet ideologues.

- During World War II, when the Soviets were an American ally, films like *The Song of Russia* and *North Star*, both made in 1943, idealized the Soviets as noble partners in the great struggle. They were locked away or drastically re-edited within a few years.

- Between the late 1940s and early 1970s, when McCarthyism and the cold war dictated U.S.-Soviet relations, about the only filmable Soviet for Hollywood movies (like 1948's *The Iron Curtain*) was one who coordinated subversive activities, fomented strikes in American plants, or threatened the world with nuclear destruction.

- In the last 20 years, with *glasnost* and the need for superpower cooperation, the representative Soviet figure for Hollywood over the last generation has been the Oscar Homolka-like spy. While capable of wily maneuvering and even murder, he generally behaves like a friendly bear who has more in common with Americans than with anyone else.

As might be expected, Soviet film views of the United States have had their own phases of paranoia, condescension, solidarity, and cynical mutual advantage. As far back as 1924, one of the Soviet Union's most popular features was *The Extraordinary Adventures of Mr. West in the Land of the Bolsheviks*, a satire about a baffled American getting his first look at the post-revolutionary Soviet Union. More recently, the Soviets have turned out a great number of theatrical features and television movies, in which FBI and CIA agents engage in the same murderously ambiguous pursuits that Hollywood has ascribed all along to the KGB.

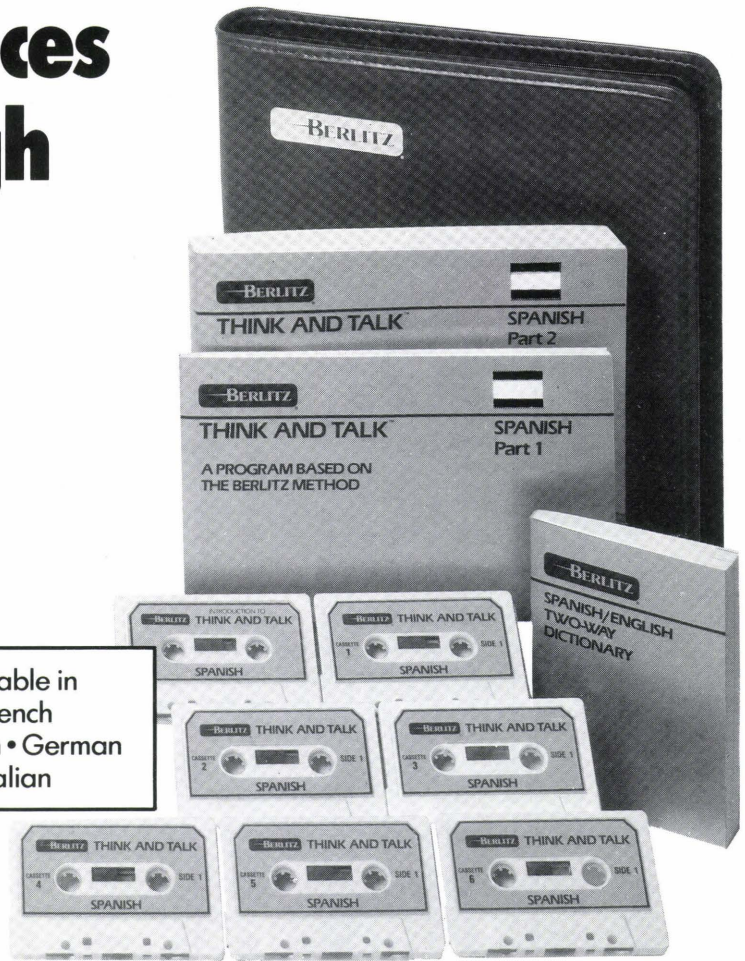
But, as Hollywood producers with an eye on the Soviet Union these days will be the first to admit, they hope to get beyond these clichéd characters and produce more realistic movies in the future. **E**

Donald Dewey is a freelance writer based in New York who writes for *Europe* on sports and entertainment. His article "Peculiar Pastimes," on unusual European sports, appeared in *Europe's* January/February 1991 issue.

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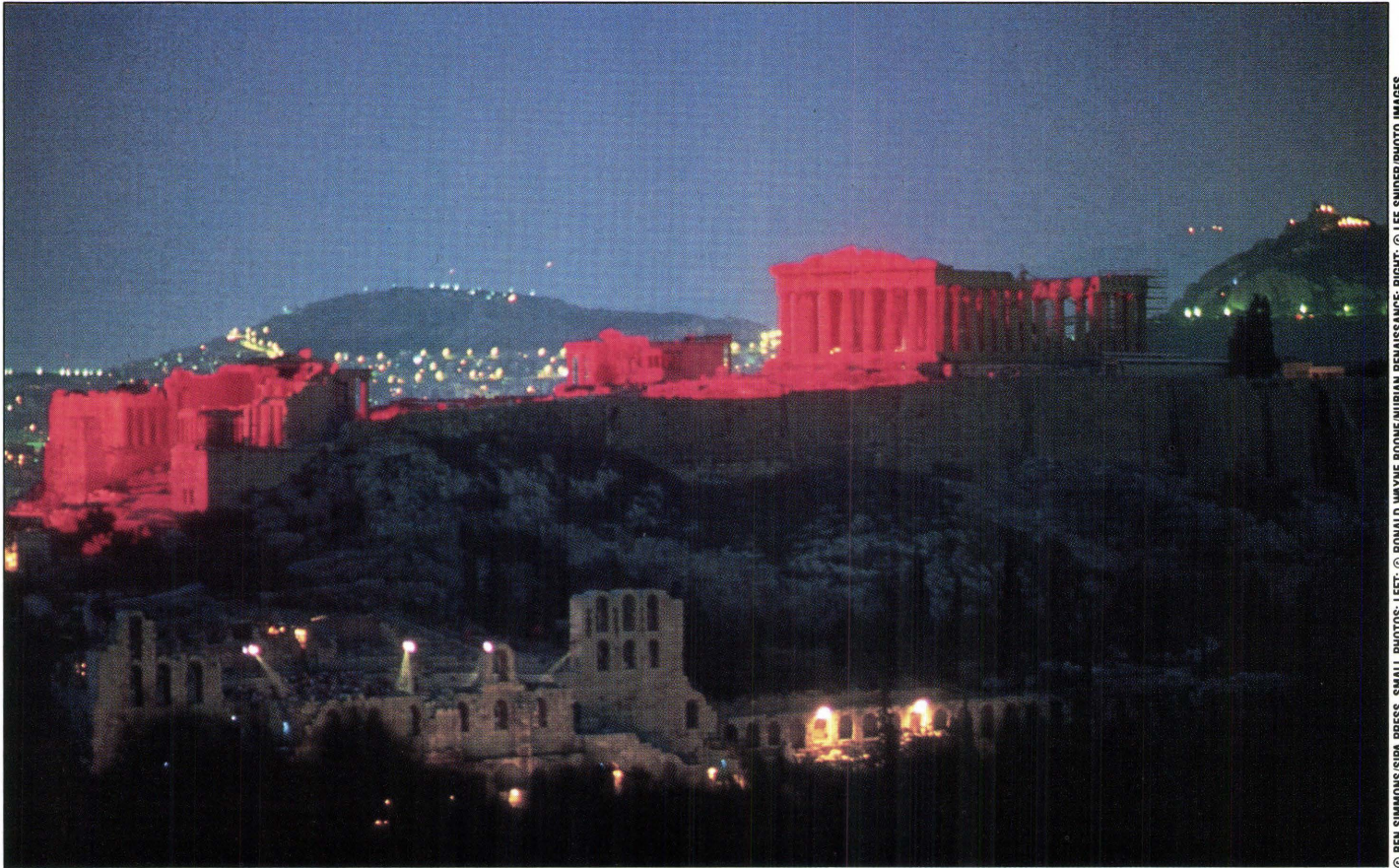
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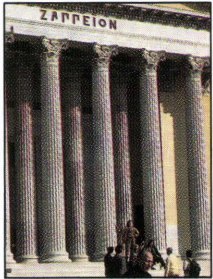
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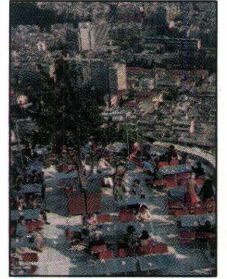
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FOR THE PAST 12 MONTHS, GREECE HAS ENJOYED single-party rule, following a transitional period in which a socialist administration, largely discredited after eight years in power, gave way to two short-lived coalition governments. But “enjoyed” is hardly the right word. The conservative New Democracy Party has an overall parliamentary majority of only four, and Prime Minister Constantine Mitsotakis inherited an economic crisis that sent him to Brussels for help last year.



Riding Out the Financial Storm

GREECE

That help finally materialized in January, in the form of a \$3-billion loan, after close scrutiny by E.C. officials of the new government's performance, namely that painful belt-tightening was under way. Real wages dropped by about 4 percent in

(PSBR) reached \$10 billion in 1989—18.1 percent of GDP, and six times the E.C. average. Hoping to contain this explosion, Mitsotakis' first act was to slap on an emergency package of hikes in indirect taxes and public utility prices. He also cut

War, and Greece participated directly in the multinational force with one frigate. Apart from upholding international law in the Gulf, Athens had the added interest of underlining the need for U.N. resolutions on Cyprus—partly occupied by Turkey since 1974—to be implemented, too.

Economic Ministers estimate the short-term foreign exchange cost of the war in lost exports and tourism at about \$2.2 billion, but this is bound to rise. A State Department travel advisory warning Americans to use caution if traveling to the eastern Mediterranean because of a potential terrorist threat was particularly damaging. Coming immediately after a visit to Washington by Foreign Minister Antonis Samaras in January, it also took the shine off President George Bush's emphasis during that visit on the United States' "longstanding commitment to Greece's security and prosperity."

Rather more disruption has been caused in Greece by trade union reaction to economic measures than by the sporadic attacks of domestic terrorists (who, during the Gulf War at least, struck at property, not persons). When the government enacted a far-reaching "modernization and development law" last summer, aimed at slashing the bureaucratic regimentation of business activity and attracting foreign investors, provisions to deregulate the labor market especially angered the unions.

In September, legislation to check the spiralling deficits of the state pensions system provoked a three-week strike of bank, public transportation, and power employees. Minimum retirement ages are gradually being raised and social insurance contributions have gone up by 3 percent. But with a tight incomes policy now in force, existing pensioners will be hit hard by the decision to peg their increases to public sector rather than private sector wage rises.

Indeed, by facing the unions down in September, the Government almost certainly forestalled an even greater upheaval over incomes policy, announced at the end of the year. With inflation unlikely to fall below 17 percent in 1991 (the 1990 figure was 22.8 percent, four times the E.C. average), public sector workers will receive wage increases of only 6 percent, while increases in the private sector—following the reintroduction of free collective bargaining—will be just below 10 percent.

Despite his slender parliamentary majority—partly due to an electoral law that



Greek Prime Minister Constantine Mitsotakis (here with his daughters) is determined to tackle Greece's many economic problems. Previous page: Scenes from Athens.

1990, and will fall another 10 percent this year. Mitsotakis declared that the loan "has restored the country's credibility under very difficult circumstances."

Last spring, E.C. Commission President Jacques Delors had warned that, unless "drastic measures" were taken, Greece's creditworthiness would indeed be at risk. Although the state coffers were ringing empty, the all-party coalition government then in power was allowed no time for effective action: Mitsotakis, eager for another shot at the victory that had eluded him twice in 1989, insisted on fresh elections in April. He campaigned on the slogan "New Democracy or chaos," and made widespread use of the Delors warning.

He was rewarded with 47 percent of the vote and just 150 of the 300 parliamentary seats, although this number has since risen to 152. Andreas Papandreou's socialist party, PASOK, dropped from 128 seats to 124, while the communist-led coalition of the Left won 21 seats.

Soaring public deficits—the cause of Delors' concern—have been Greece's main problem in recent years. The net public sector borrowing requirement

back index-linked wage increases—introduced by PASOK in 1982—and has now abolished the system altogether.

With a debt-servicing hump ahead and a sharply deteriorating balance of payments situation, Mitsotakis then paid lightning visits to all E.C. capitals to explain his predicament. At the Dublin summit last June, Heads of State and Government asked the Commission to explore ways of assisting Greece, but because of the country's past profligacy, the E.C. loan eventually negotiated came with tight strings attached. Greece received the first \$1.35 billion in March, and will obtain two further annual installments.

Abroad, Mitsotakis put priority on "the full normalization of relations with the United States." In that context, a long-delayed eight-year agreement to keep open two American bases in Crete was signed within two months of his taking office. The new government also formally recognized Israel—the last E.C. country to do so—while simultaneously giving diplomatic status to the PLO office in Athens.

The bases in Crete provided important logistical support for the allies in the Gulf

Trouble in the Balkans

With the collapse of Soviet power in Eastern Europe, dangerous forces have been unleashed in the Balkans, to which Greece feels especially exposed. What is worse, Greece's traditional enemy, Turkey, appears motivated to exploit an already volatile situation by expanding its influence among the various Muslim populations within and outside Greece's northern frontier. Pressures from Turkey in the east and communist Albania in the northwest have combined with Yugoslav propaganda over Macedonia to create severe headaches for Athens.

Greece's 120,000 Muslims, just over half of whom are of ethnic Turkish origin, are concentrated in Western Thrace, a backward and underpopulated province bordering on Turkey. Central government neglect has made the minority fertile ground for nationalist agitation, inspired, it seems, partly by the Turkish consulate in Komotini. One of Thrace's two independent Muslim Members of Parliament recently caused a storm by saying that, in the event of a conflict between Greece and Turkey, he would have difficulty deciding which side to take.

The 1923 Treaty of Lausanne enshrines the educational and religious rights of the Muslims of Thrace. The minority complains of economic discrimination, however, and a year ago minor clashes between Christians and Muslims occurred in Komotini. In reality, Greek insensitivity, inconsistency, and bureaucratic obstructionism on the one hand, and local self-segregation on the other, have prevented the assimilation of the Muslims into mainstream modern Greek life.

The New Democracy Government has responded by initiating a serious development drive for the first time. To end the isolation of the province and to attract tourism and investment, Prime Minister Constantine Mitsotakis announced a major public works program last December, with the emphasis on a revitalized road and rail network. Much of the financing will come from Brussels, some of it under the E.C.'s Regional Development Plan for Thrace. All in all, about \$90 million in Community money will flow to the region over the next three years.

The new policy to wean the minority from nationalist sentiment fostered by An-

kara could be described as assimilation through economic incentive, and is radically different from the disastrous attempt by neighboring Bulgaria under Todor Zhivkov to assimilate its much larger ethnic Turkish minority by force. Bulgaria is almost as apprehensive about Turkish regional aspirations as Greece, and Athens sets great store by its current warm relationship with Sofia.

This axis is reinforced by a common rejection of the long-running campaign from Skopje, capital of Yugoslavia's Socialist Republic of Macedonia, calling for the recognition of "Macedonian national minorities" in Greece and Bulgaria. Last year, the Yugoslav Government in Belgrade, anxious to retain Skopje within the disintegrating federal fold, itself espoused the Macedonian campaign. Relations between Belgrade and Athens plummeted when Yugoslav Macedonians briefly blockaded Greek border crossings four times, compounding obstacles already placed in the way of Greece's land access to its E.C. markets.

As in Thrace, the worst Greek fear regarding Macedonia is that a minority—real or fictitious—could be used as a stalking-horse for territorial designs. Yugoslav diplomats deny any such ambitions, but prominent Skopje Macedonians have spoken about "liberating occupied lands." The largest group in Skopje's Parliament—the Internal Macedonian Revolutionary Organization (IMRO)—advocates a "free, autonomous, united Macedonia," which would entail the dismemberment of northern Greece.

In Greek eyes, Josip Broz Tito misappropriated the term "Macedonia" when the Skopje Republic was born in 1944. Fifty-one percent of historical Macedonia lies within the frontiers of modern Greece, 39 percent in Yugoslavia, and the rest in Bulgaria. But nowadays there are probably fewer than 10,000 Slav-speakers left in Greek Macedonia, and they themselves, bilingual anyway, make no claim to minority status.

Greek officials maintain that Turkey supports the Skopje propagandists. Ironically, however, the Socialist Republic of Macedonia has its own substantial Muslim minority, more than one-quarter of its population being ethnic Albanians now

dubbed "Muslim Macedonians." Indeed, the "Greater Macedonia" envisioned by the Internal Macedonian Revolutionary Organization would include a narrow slice of present-day Albania, itself a complicated mix of races and religions. Greece's chief concern with Albania is the well-being of its own Greek minority there, officially estimated by Athens at about 400,000 out of a total population of just over three million.

Last May, tension between the two countries was fueled when Albanian security police violated the sanctuary of the Greek Embassy in Tirana in pursuit of would-be refugees. But after a mass exodus of dissenting Albanians was permitted in the summer and the pace of change began to accelerate, normal ties were resumed. In October, Greece's Foreign Minister, Antonis Samaras, in Tirana for a Balkan conference, had unprecedented contacts with the minority, and soon after the 23-year ban on religious ceremonies—particularly irksome to the Orthodox Greeks—was relaxed.

There was renewed alarm in Athens, however, when Albanian border practices changed over the New Year and several thousand refugees, many of them ethnic Albanians, poured into Greece unimpeded. Mitsotakis paid a hasty visit to Tirana, praised President Ramiz Alia's democratization measures and, promising to encourage Greek investment in the country, appealed to the minority to stay put. His Government earned a black mark, however, by separating ethnic Albanian refugees from ethnic Greek Albanians and sending the former home on the grounds that they were economic migrants.

As Albania faces descent into turmoil, there are fears, too, of conflict between the Christian minority and Muslim majority. While almost anything seems possible in Albania at the time of writing, the last thing Athens would like to emerge on its doorstep is an Islamic state enjoying fraternal links with a Turkey that disputes Greek rights in the Aegean while continuing to occupy northern Cyprus. Even if all Greece's anxieties prove exaggerated, the Balkans, after 40 years of comparative stability, are once again beginning to smell of gunpowder.

—Peter Thompson

has now been revised—Mitsotakis faces no serious political challenge. Since its defeat in June 1989, PASOK, mesmerized by the prospect of Papandreou, its leader, standing trial on corruption charges, has offered no alternative program, and the

The problems are dramatic. Despite last April's emergency measures, the PSBR still rose to \$12.5 billion (19 percent of GDP) in 1990. Public spending, at 52 percent of GDP, was five points higher than the E.C. average, while government

level.

Meeting the 1991 budget targets will be a considerable achievement, given that the debt-servicing burden shoots up by 37.5 percent this year to \$13.8 billion, absorbing more than half the state revenues. With a total public foreign debt now just over \$18 billion, the widening of last year's current-account balance-of-payments deficit from \$2.6 billion in 1989 to \$3.6 billion was all the more alarming.

However, increased E.C. regional spending meant that net transfers from Brussels—apart from Ireland, Greece is the only substantial net beneficiary—rose sharply, to nearly \$3 billion in 1990, and will come close to \$4 billion this year. Under the E.C.'s five-year Regional Development Plan, major projects, such as the extension of the Athens underground metro system, are taking off, and the E.C. loan will finance part of Greece's matching contribution to the overall \$18-billion plan.

Although total productive investment increased by about 5 percent in real terms on paper last year (much, in fact, went into sectors like housing), structural weaknesses have minimized the benefits to Greece from "the 1992 effect" on foreign investment. The improved climate in the rest of Europe, including Spain and Portugal, occurred as the economic and political situation was deteriorating in Greece. GDP growth was limited to 1 percent in 1990, and will be no higher this year.

Also on paper—and therefore not taking into account huge undeclared earnings in Greece—per capita GDP will be no more than 52.8 percent of the E.C. average in 1991, while Portugal's will reach 56.9 percent—roughly reversing the position five years ago.

Mitsotakis' Government has not handled social issues, such as education, very well. Nevertheless, Mitsotakis has shown more determination than his predecessors in tackling Greece's chronic economic difficulties. He said six months ago that "if we compromise we will have failed." His only chance of success is to grit his teeth and ride out the storm, using the Community's straitjacket of fiscal discipline as his alibi. **€**

Peter Thompson is the Athens correspondent for *The Independent*, and a contributing editor to *Europe*.



A three-year, \$3-billion loan from the E.C. will help Greece put its economic and financial house in order.

Communist Party is deeply divided over ideological issues. All three main parties claimed success in last October's local elections, but there was no massive protest vote against the new austerity.

Mitsotakis' economic stabilization plan did not assume a coherent form until the 1991 budget was unveiled in November, however. Among the budget's ambitious—some would say unrealistic—targets were a 44-percent boost in revenues (27 percent in real terms, assuming inflation is held to 17 percent), and increases well below the inflation rate in all departmental spending. The goal was to cut the net budget deficit from 16.6 percent of GDP in 1990 to 11.3 percent this year.

Once these targets were formally adopted, the E.C. was prepared to agree to the \$3-billion loan. The terms include an awesome commitment to bring the net budget deficit down to 1.5 percent of GDP by the end of 1993. Inflation must be no more than 7 percent, to allow Greece to join the Exchange Rate Mechanism before the second stage of economic and monetary union. Over the same period, the E.C. wants the size of Greece's bloated public sector reduced by one-tenth.

revenues remained 10 points below the Community's 43.5-percent average. As one Greek official put it, the 1991 budget "stands or falls on new sources of revenue." Among these, almost \$1 billion is expected from a new 10-percent flat-rate tax on interest from bank deposits.

A further \$1.9 billion may be raised through the sale of property bonds, shares in public utility corporations, and over-indebted state-owned enterprises. However, the privatization program is going much more slowly than hoped. Forty-six ailing state-owned companies are under liquidation, but of the other 27 state-owned firms to be privatized, only three have so far found buyers. Moreover, these sources of revenue are highly vulnerable to a general recession.

A crackdown on rampant tax evasion, it is claimed, should bring in another \$1.6 billion, about one-third of which will consist of higher value-added tax receipts as a result of compulsory electronic data processing. But officials concede that, without an efficient tax-collection service, the large "black economy" will continue to flourish. The Government also needs to find the political will to apply the law on taxing farm incomes above a certain

PROFILE

Antonis Samaras, the Greek Foreign Minister, at 40 a refreshingly youthful face in government, has arguably the hardest job of any occupant of his office in recent years. Whatever the "New World Order" may look like, Greece's proximity to the Middle East—where it has traditional ties of friendship—and its position in the Baltics expose it to a variety of winds of change, any of which may reach gale force.

Samaras has contributed to bringing about a vastly improved relationship with the United States over the past year, but at the same time he has had to watch neighboring Turkey's political ambitions fueled by ever-increasing economic and military aid. For all the instability on other fronts, Turkey's questioning of Greek rights in the Aegean and its refusal to move from its occupation of northern Cyprus remain the number one headaches in Athens.

A graduate in economics from Amherst and in business administration from Harvard, Samaras is fluent in French, Italian, and English. He was first elected to parliament in 1977 and has been returned in five subsequent elections. He became Finance Minister in a short-lived coalition government in the sum-

The appointment to the E.C. Commission of VASSO PAPANDREOU, 46, made headlines in 1989, since she and her French colleague Christiane Scrivener were the first two women ever to become Commissioners in the history of the European Community. On top of that, Papandreou's portfolio—employment, training, and social affairs—has made her a key player in the debates within the E.C. on future social policies.

Born in Valimitika in southern Greece, Papandreou studied economics at the Athens School of Economics and Business Science, and went on to postgraduate studies at the Universities of London and Reading. Upon her return to Greece, she lectured at her Greek alma mater and simultaneously served on the board of directors of the Commercial Bank of Greece from 1982–85.

Politically, Papandreou has been active in the Panhellenic Socialist Movement (PASOK), of which she was a founding member. Although bearing the same name as that party's former Prime Minister, Andreas Papandreou, and serving as a close aide, she is not related to him.

Her political visibility grew from 1985, when PASOK was elected to a second four-year term. Starting as a Member of the Greek Parliament, she made a remarkable political ascent, rising through the ranks from State Secretary to Deputy Minister in the Industry, Energy, and Technology Ministry.

In that capacity, she negotiated several internal market councils in the second half of 1988, when Greece held the six-month, rotating E.C. presidency. Her skills in chairing these meetings and in making inroads into dismantling internal trade barriers did not go unnoticed in Athens: Her political agility and unflagging commitment to the 1992 single market led to her E.C. nomination.

As Commissioner for social affairs, education, and training, Papandreou has tried to bring about lasting changes in a variety of areas, ranging from health and safety at the work place, regulation of working time, equal opportunities for men and women, regulating maternity leave, training for young people, and many others.

While the Commission is committed to establishing a "social charter" alongside the more market-oriented aspects of "1992," to ensure that business does not benefit at the expense of Europe's work force, some member states still are not convinced of the necessity of such a charter. She runs into opposition with those who argue that such decisions should be left to the national governments, and that they would hinder single market benefits because of their costs. As a result, none of her proposals in this area has yet been approved by the E.C. Council of Ministers.

Undaunted, Papandreou moves ahead. Her four-year term ends in 1992. It remains to be seen which, and how many, of her proposals will have entered into effect by

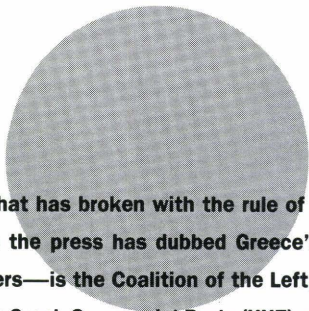


ILLUSTRATION BY BILL ALLEN

VASSO PAPANDREOU

then, and whether the socialist and PASOK party member Papandreou will be returned to Brussels for another term by a conservative New Democracy Government.

PROFILE



mer of 1989. He was appointed Foreign Minister in the—again short-lived—all-party administration that followed, and retained the post when the New Democracy party came to power alone a year ago.

In December 1989, he was criticized as being provocative for publicly expressing the hope that “the Greek Christian minority in Albania will soon be able to celebrate Christmas freely—as the Romanians are doing today.” But his visit to Tirana in October 1990 was a success, and soon afterward churches in Albania were opened for the first time since 1967, albeit with a distinct shortage of priests.

If Samaras established his nationalist credentials over Albania, he later offended such sensibilities by declaring that “our fatherland is Europe.” A strong advocate of European union, he has helped restore a presence for Greece in the E.C. after a period of national introspection attendant upon the downfall of the socialist government, although Greece’s political voice remains somewhat muted by its economic needs.

In an interview last summer, Samaras aroused further controversy by defining Greece as “the tip of the spear of non-Islamic Europe.” Referring to the country’s

One party that has broken with the rule of male “dinosaurs”—as the press has dubbed Greece’s septuagenarian leaders—is the Coalition of the Left, an alliance between the Greek Communist Party (KKE) and a number of smaller left-wing political groups. Last month, the Coalition, which represents just over 10 percent of the electorate, unanimously chose **MARIA DAMANAKI, 39**, to succeed the veteran communist leader, Harilaos Florakis, as its new chairman.

Damanaki, who belongs to the moderate wing of the KKE, has been much in the public eye since the June 1989 election, when she became the Deputy Speaker of Parliament, earning respect for her handling of an often turbulent assembly at a difficult time. In last year’s election campaign, she delivered the main speech at the Left Coalition’s closing rally in Athens.

She first caught the imagination of the Greek people almost 20 years ago as “the voice of the Polytechnic,” so called because she broadcast resistance appeals on a clandestine radio station set up by students during their week-long uprising at the Athens Polytechnic in November 1973. The uprising, which was suppressed with much brutality and bloodshed, marked the beginning of the end of the seven-year military dictatorship. Four years later, Damanaki was elected to parliament for the KKE.

She was born in Aghios Nikolaos, Crete, but grew up in different parts of Greece as her father, an army officer, was transferred from one post to another. A student of chemical engineering at the Polytechnic, her political ideas were formed during the dictatorship and the mother of two has devoted herself to politics ever since.

At a brisk press conference just three days after being elected the first woman to lead a Greek political party, Damanaki skillfully fielded questions about the Left Coalition’s role in the parliamentary indictment of the former socialist Prime Minister, Andreas Papandreu. She signaled that, once his corruption trial is out of the way, she will seek a new “convergence” with the socialists aiming at an “alternative political proposal” to the New Democracy Government.

—Peter Thompson

contribution to the blockade of Iraq before the Gulf War, he went on to say that “from now on, the frontline of Greece is Crete.” Whether or not he is right in predicting growing strife between developed and undeveloped nations, he has no illusions about the precariousness of Greece’s position at the crossroads.—Peter Thompson

Greek politicians are known for their longevity, which often means that their successors are, to say the least, mature. But **Costas Simitis**, now 54, is one man with a chance of becoming a party leader while still in the prime of life.

A founding member of Andreas Papandreu’s Panhellenic Socialist Movement (PASOK) in 1974, he was a successful minister who resigned honorably before the eight-year PASOK

Dora Bakoyanni, 36, is Under-Secretary to the Prime Minister, Constantine Mitsotakis, who also happens to be her father. This double role gives her, some would say, unusual influence in the conservative New Democracy Government.

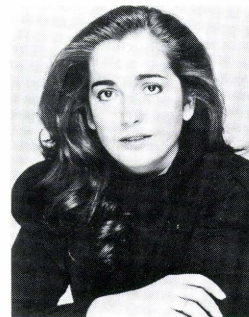
Bakoyanni also has the distinction of having been elected to parliament, in November 1989, after a campaign in which she made no public speeches. This was because the pre-election period coincided with the customary 40-day mourning period following the assassination of her husband, Paul, by the 17th November terrorist group. Paul Bakoyannis had been New Democracy’s press spokesman.

Dora and her father won respect and sympathy for the dignity with which they bore their bereavement and for her decision to follow in her husband’s footsteps. Had it not been for his murder, she probably would have remained an inconspicuous but tireless political assistant to her father. She is now charged with responsibility for coordinating government activities, and has been called “the eyes and ears of the Prime Minister.”

The constituency she fought and won in 1989—and won again with an increased majority in last year’s election, which put New Democracy in power—is the isolated and impoverished province of Evrytania, in the mountains of central Greece. Traditionally left-wing, Evrytania was won by Paul Bakoyannis as the popular son of a local priest, and sentiment certainly played a part in keeping it in conservative—and family—hands after his death.

Since her election, Bakoyanni has associated herself closely with only one issue: to ban the publication in newspapers of terrorist proclamations, verbose justifications usually issued in the aftermath of their attacks. The measure was widely opposed as an infringement of press freedom, but she won partial success when a new antiterrorist law last year empowered the public prosecutor to ban publication of such statements in specific instances.

Rumors of friction between Bakoyanni and her colorful senior minister—Miltiades Evert, a former Mayor of Athens nicknamed “The Bulldozer,” who has ambitions to succeed Mitsotakis—are routinely denied. The opposition likes to claim that her presence in the Government indicates the Prime Minister’s wish to found a dynasty but, although undoubtedly influential today, Bakoyanni is very unlikely ever to lead the New Democracy party.—Peter Thompson



EMBASSY OF GREECE

Government began to disintegrate. Today, with PASOK in opposition, Simitis is the socialist spokesman on education.

Simitis was born in Piraeus and graduated from Marburg University in Germany and the London School of Economics. He was active in the left-wing resistance to the military junta, which seized power in 1967, and had to flee Greece in 1969 to avoid arrest. In 1977, he was appointed Professor of Commercial Law at the Panteios School of Political Science in Athens, a post he still holds.

During PASOK's first term in office (1981-85), Simitis was Minister of Agriculture, and played an important part in negotiating improved conditions for Greece's E.C. membership. (Greece had joined the E.C. in January 1981.) He won high praise from his E.C. colleagues as chairman of the Council of Agriculture Ministers when Greece held the rotating E.C. presidency for the first time in 1983.

But the socialists' achievements in their first term were costly. After PASOK was re-elected in 1985, therefore, Simitis became national Economy Minister with the task of stabilizing the economy. His austerity policy was unpopular, but he succeeded in reducing the inflation rate from 25 percent to below 16 percent in two years, while more than halving the balance-of-payments deficit. However, the program was prematurely relaxed for electoral reasons, and Simitis left the government in protest 18 months before its defeat in 1989.

Frequently at odds with the PASOK leadership, Simitis was an ar-

Athens' new mayor, Antonis Tritsis, has caused quite a stir in Greece. It started before he was even elected to the post: A former member of the socialist PASOK party, he was critical of its involvement in financial and wire-tapping scandals, Tritsis ran as an independent, but with the support of the governing conservative New Democracy party. On top of that political tangle, he beat an opponent who was none other than the internationally known and popular actress and former PASOK Culture Minister Melina Mercouri.

Tritsis' prominent professional and political career has prepared him well for the difficult office he now holds. He received his Master's and Ph.D. degrees in city and regional planning from the Illinois Institute of Technology, where he also taught for a year. Prior to that, he ran his own business in Greece designing city and regional projects and undertook such large projects as the development of the city of Chania in Crete. He also worked as an adviser in the Center of the Regional Development in Greece and as a professor of Regional Planning in the Institute of Regional Development at the University of Athens from 1976-81.

His political career has been even more prominent than his professional one. During the difficult years of the military junta, he participated actively in the clandestine socialist movement and worked from Italy against the Greek dictatorship. In 1968, he became a member of the Panhellenic Liberation Movement, the forerunner of PASOK. In the 1981 elections, he was elected a deputy to the National Assembly and was appointed Minister of Environment and Planning. In the 1985 elections, he was re-elected and appointed Minister of Education in 1986, a post from which he resigned in 1988 in a disagreement over the Government's educational policies.

As Mayor of Athens, Tritsis faces several difficult problems. Due to the size and density of its population (half of the Greek population lives in the capital and its suburbs), traffic congestion is constant, smog surrounds the city, and archaeological sites are increasingly becoming lost between concrete high rises and heavy traffic.

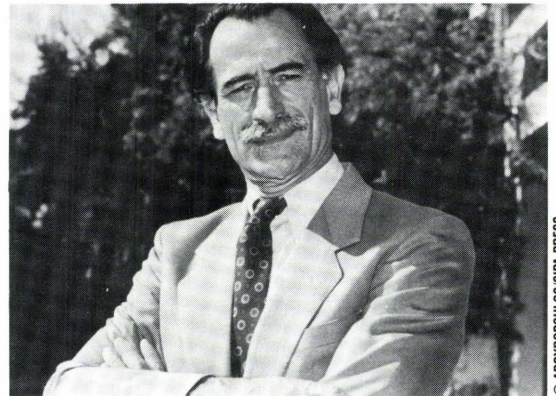
Tritsis' agenda is very ambitious. He plans to resolve the pollution problem by banning buses and private cars and establishing a system of tramways around the commercial and historic center of the city. He also wants to make Athens greener by creating a park that will em-

dent supporter of E.C. membership long before many of his fellow socialists were converted. He also criticized PASOK's performance in government in its functioning as a party, condemning in particular Papandreou's autocratic methods and calling instead for proper collective decision-making. After a stormy party Congress last September, he received the largest number of votes when the new Executive Bureau was elected.

This by no means suggests he will automatically take over when Papandreou finally decides to retire. A pragmatist rather than an ideologue, Simitis is distrusted by the vociferous populist wing of the party. Quietly spoken for a politician, he also lacks Papandreou's crowd-pulling magnetism. Widespread respect for his integrity and consistency, however, should win him powerful support.—Peter Thompson

brace the archaeological sites and museums. This will mean closing roads and building new plazas and pedestrian walkways and will require extra financing, which he hopes to receive from banks and businesses.

Since Tritsis has been in office for only four months, it is not yet possible to ascertain his achievements. But some things are certain: his vision for the city and his



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knowledge of city planning.

His wants to create an Athens that is more human and less polluted, that maintains its Mediterranean identity, and that can marvel at and enjoy its archaeological riches. As he said in his inaugural speech: "Athens accomplished great things, became a community and a society. We will again become a society of Athenian citizens if we communicate again with this place [Athens], with its history, and with its unique landscape."—Vlassia Vassikeri

Greek Getaways

Marios Raphael, President of the National Tourist Organization of Greece, spoke with Europe about tourism in Greece, and the importance of the industry for the nation's economy.

On a trip to the United States in March to launch a new advertising campaign to entice Americans to visit his beautiful country, Raphael noted that very few Americans have visited Greece in recent years. "Last year, only 270,000 Americans came to Greece. Just before 1986, about 450,000 Americans visited our country—the largest number of Americans ever."

Tourism is very important to Greece. It is the country's largest industry, employing about 10 percent of the Greek work force. In 1990, tourism alone brought in about \$2 billion in revenues.

In addition to Greek efforts to promote tourism, the European Travel Commission (ETC), an organization whose main object is to promote tourism to Europe, is also interested in launching a campaign for visitors from the United States to Europe.

When asked where most of Greece's tourists come from, Raphael replied that "the largest numbers . . . come from Germany and England, closely followed by tourists from France and Italy."

While Greece is noted for its sunshine, beaches, and picturesque islands, Raphael points out that there are other destinations tourists should not miss. As an example, he cites the "mountainous areas in Ipiros in northern Greece." And "there are also lakes in northern Greece, and, for those who like to hunt, there are places that are unspoiled and untouched."

Discussing the Greek isles, the president of the Greek Tourist Board stated:

"All the islands have their own personality and their own strengths. And I feel that this is why many foreign visitors prefer the islands. They are secluded, and visitors find harmonious environments and wonderful beaches." Raphael says he particularly enjoys the island of Corfu with its beaches and scenery but insists that each island has its own unique charm. His favorite spot, however, is Mykonos, where he has a house.

Raphael said he would like Americans to know "that Greece is always a very attractive and hospitable country. No terrorist activities have ever been directed against Americans per se." He noted that, while "there have been some incidents, these are in the past," and added that the country offers a lot to see, especially for "younger Americans who are interested and who should visit Greece as the birthplace of modern civilization."

Raphael believes that the single market will affect the tourism business "because although there are no obstacles to circulation between the E.C. member states now," the single market will facilitate travel even more.

Indeed, tourism in certain parts of Greece, particularly on the islands, is on the rise. Mykonos and Paros are expecting more tourists this year and European visitors are vacationing in Crete and Rhodes in large numbers. €

Marios Raphael, President of the Greek National Tourist Organization, on vacationing in Greece

CAPITALS

Unhappy Families

LONDON—The British would like to see themselves as the leaders of Europe—and they have succeeded in at least one area. The United Kingdom has the highest divorce rate in Europe, and more than double the number of illegitimate births of any other European country except Denmark.

There are about 170,000 divorces in the United Kingdom each year, which, according to the Marriage Research Council, costs the Treasury close to \$4 billion a year in state aid to divorced women, dependent children, and legal fees.

Thirteen percent of British marriages break up within 10 years, nearly double the E.C. average divorce rate of just under 7 percent. The life expectancy of the average British marriage is nine years—and second marriages may not last more than seven years.

Many pro-family organizations, such as the National Campaign for the Family, consider the permissive 1960s and divorce law reform as the main culprits for the increasing breakdown of marriages. Others view it as the logical result of the decline in religious observance.

However, the gloomy prognostications about the decline in the traditional values of family life and the pending collapse of the social fabric conveniently ignore the fact that, while the British head the European divorce table, they are also the most marrying of peoples.

There are more marriages per thousand in the United Kingdom than in any other European country.

Not only that, but some form of either optimism or myopia appears rampant in the United Kingdom: The Population Census Office reports that one in 12 couples who divorced at the end of the 1980s were doing so for the second or third time, compared to only one in 20 at the beginning of that decade.

The popularity of remarriage means that the United Kingdom is beginning to increasingly resemble the United States when it comes to step families: About 40 percent of the children in the United Kingdom will suffer the traumas of watching their parents divorce before they reach 18 years of age.

They will also join a growing band of children who are illegitimate and in one-parent families. One in seven British families has one parent, while the European average is one in 10. Nearly 25 percent of all children in the United Kingdom are

born outside wedlock—double the number a decade ago—compared to a European average of just below 13 percent.

But while the number of illegitimate births is rising steeply, two-thirds of them are being registered by both parents. According to the National Council for One-Parent Families, this indicates that most of these children are in fact being born into two-parent families, even if the union has not been formally blessed by either church or state.

Christopher Cluwow of the Institute of Marital Studies believes that this is indicative of a social revolution in which people are making their own rules of cohabitation. In that context, it should also be noted that, if a union lasts more than two years, each party has the same claim on the assets of the other as would be the case for any married couple.

The highest marriage failure rate in Europe and the growing number of illegitimate births indicate that British society is un-

dergoing change. But it may yet be premature to predict an irrevocable rending of the social fabric. With the economy in recession, more and more people appreciate the fact that two can live almost as cheaply as one—married or not.

—DAVID LENNON

Pollution Red Alert

ROME—While Milanese newspaper readers have probably noticed articles referring to pollution in their city, they—accustomed as they are to smog problems in their own hometown—most likely scanned the articles distractedly and moved on to other topics.

The problem of urban pollution in Milan is unique. Milan's problem is caused by its geographic location. It is situated in the middle of a plain surrounded by mountains that block winds that would otherwise clean the air. Consequently, fumes from car exhausts, heating, and factories stagnate more easily than in other cities.

Measures taken until now to ease the situation have proven mere palliatives. Smog alert controls located in various parts of the city warn when pollution levels exceed the threshold of security (an almost daily occurrence). During periods of maximum alert, it was decided to reduce heating levels and to halve automobile traffic by means of a highly debated system: On even days, cars with

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even license plate numbers can circulate; on odd days, drivers with odd-numbered plates would get their turn. None of this helped much, however.

The situation has now reached the red-alert stage, and Milan's city council has published a worrying list of recommendations. Consider, for example, the recommendation that strongly advises mothers against taking their babies for walks in strollers. These baby carriages are so close to the ground that children may suffer severe intoxication from exhaust fumes and other pollution that tend to accumulate at that level.

The city council's recommendations continue in this vein—the elderly and those suffering from heart problems should avoid going out in traffic; bicycles should only be ridden in parks; there should be no jogging in or near traffic; and burners should not be kept on too long in the kitchen.

People are worried about these recommendations and wonder what other changes they will have to make in their lifestyles in order to alleviate these pollution problems.

—NICCOLÒ D'AQUINO

How Sweet it Tastes!

PARIS—There is no *accounting* for taste, but the French are convinced that there are ways of *acquiring* it. With that in mind, a pilot project in the Paris and Orléans-Tours school districts is now teaching 6,000 4th and 5th graders how to use their taste buds properly.

Through a 10-part series of 90-minute taste workshops, conducted in the classroom, the children are learning to distinguish the four basic flavors—sweet, sour, bitter, and salty—and discovering how all five senses interact to make food a complete sensory experience.

The tastings are being taken very seriously. Between mouth-



Six thousand 4th and 5th graders are being introduced to the complex world of taste through 10 "taste lessons" in which they consume a variety of delicacies.

fuls of truffles, cheeses, herbs and spices, and chocolate, the children take sips of water and munch on a piece of *baguette* to clear their palates. They then record their findings carefully on a ratings sheet before discussing them with their instructor and classmates. They notice that food needs to look good to taste good; that vinegar and mustard can distort the flavor of food; and that, if you're feeling sad, even your favorite foods lose some of their savor.

The 10 lessons in taste were developed by Jacques Puisais, a wine expert and President of the French Institute of Taste in Tours, which he created 15 years ago. Puisais believes that "the right to taste is part of [France's] national culture," and sees that right as having been threatened in recent years by the inexorable spread in France of pre-packaged products and fast food. He is convinced that children, who are blessed with much keener senses than adults, can and should be trained to become France's future apostles of taste.

His program aims beyond the mere titillation of children's

taste buds: "They learn to recognize their own sensations, enrich their vocabulary, and savor their pleasure. The crunch of a lettuce leaf should be enjoyed just like the luscious smoothness of fresh *foie gras*."

Many French people agree with Puisais. In a nationwide opinion poll taken two years ago, 63 percent thought that France's culinary standards were slipping, 74 percent believed that taste could be learned, and 52 percent were in favor of having it taught at school.

For the time being the Puisais method is having to rely on private sponsors, like the French Dairy Industry. For a class of 20 to 30 children, the 10 taste workshops—with a trained instructor and a final gourmet meal included—cost \$3,000. There are currently 200 such classes. The French Ministries of Culture and Education are wholeheartedly behind the project and hope to make taste a public matter to be included in the national curriculum.

To launch the present series of classroom testings, October

15, 1990, was declared *La Journée du Goût*—the Day of Taste—in Paris primary schools. Five hundred food professionals—*artisans de la bouche* like cooks, bakers, and cheese and sausage makers—from all over France brought suitcases full of regional delicacies to share with the children. (Two cooks unfortunately had their caviar stolen near the Eiffel Tower!)

One prize-winning Parisian chef told his class the story of the Roman gastronome Apicius, who served costly dishes like camels' heels and pink flamingo tongues. When too much rich living had ruined him, he preferred to commit suicide rather than put up with a bland diet.

The French have no trouble understanding that decision. And they are right to do everything they can to preserve the pleasures of the palate. As long as they keep their taste buds—and those of their children—in training, no one will ever have to follow Apicius' example.

—ESTER LAUSHWAY

Losing Seats and Tightening Belts

AMSTERDAM—In provincial elections held on March 6, voters dealt Dutch politics, and especially the Christian-Democrat-Labor coalition government, a severe blow.

The Dutch Labor Party was hit hardest. Its share of the vote plummeted to 21.6 percent, down from the 33 percent it received in the 1987 provincial elections. The Christian Democrats, who had received 33 percent of the vote four years ago, lost less than 1 percent in this election. Despite this dramatic result, Wim Kok, leader of the Labor Party and Vice-President and Finance Minister of the Dutch Government, and his Christian Democratic coalition partner and Dutch Prime Minister, Ruud Lubbers, both said they did not see the election result as a signal to dissolve the current cabinet, and stressed that they would complete the full four-year term of office, which ends in spring 1994.

Only 51 percent of the eligible Dutch voters went to the polls in early March. The results were seen as a test of the coalition government's support among the population. If these had been general elections, the Dutch Labor Party would have lost 17 of its current 49 seats and the Christian Democratic party would have lost three of 54 seats.

The largest winner was the left-of-center Democracy 66 (D66) party, which, had this been a general election, would have doubled the number of its seats from 12 to 24. D66 party leader Hans van Mierlo noted that D66 had made significant headway in successive municipal, general, and provincial elections, and that the party "was not just a flash in the pan . . . but here to stay."

Also in March, the Defense Minister announced to Parliament that the Dutch armed forces are to be reduced to

40,000 people over the next 10 years, just under one-third of the present strength of the country's armed forces.

The reductions are in tune with the mid-term review of the Dutch national budget, which calls for drastic austerity. The cuts should also make the armed forces, and particularly the air force, more flexible. In the navy, the number of mine sweepers will be reduced from a current 10 to six, and submarines from five to four by the end of the millennium.

—NEL SLIS

Saving Sabena

BRUSSELS—As the world watched the Gulf War battle before the Coalition victory, another battle was taking place in a Belgian board room to save Sabena, the country's state-owned airline. The outcome: It will cost Belgium more to salvage the bankrupt company than to cover its war expenses in the Gulf.

Most European airline companies felt a severe pinch during the war, mainly due to rising insurance costs, plunging passenger traffic, and a constant fear of terrorist attacks by pro-Iraqi groups. According to surveys by the Association of European Airlines, traffic fell by 60 percent in Europe after the Allied forces launched their first attacks in January, and

In an effort to save Sabena from bankruptcy, the Government has poured \$565.6 million into Belgium's national carrier, and is streamlining its operations.

rose only slightly in February when the ground offensive was initiated.

But for Sabena, these problems were only another drop in an ocean of deficits, caused by overspending and heavy passenger losses. Long before the war, there had been plans to create "Sabena World Airlines," a new venture in which the Netherlands' KLM airline and British Airways would have invested heavily, and that would have eventually turned Brussels' international airport, Zaventem, into a pan-European "hub-and-spoke" network. The project failed, however, and the war's effect on Sabena's operating revenues simply drove home to the Belgian Government the need for urgent action.

To that end, the Government has appointed Pierre Godfroid to head Sabena, with the brief to restructure the ailing airline. Godfroid, 56, is a Belgian, who lives just across the border in France. His work experience includes positions with an investment bank in Antwerp, a French company specializing in sweepstakes sales, and, most recently, with the American company Continental Foods. "I am not a dreamer," he said when he accepted the job. "I am aware of all the company's problems, including the political ones."

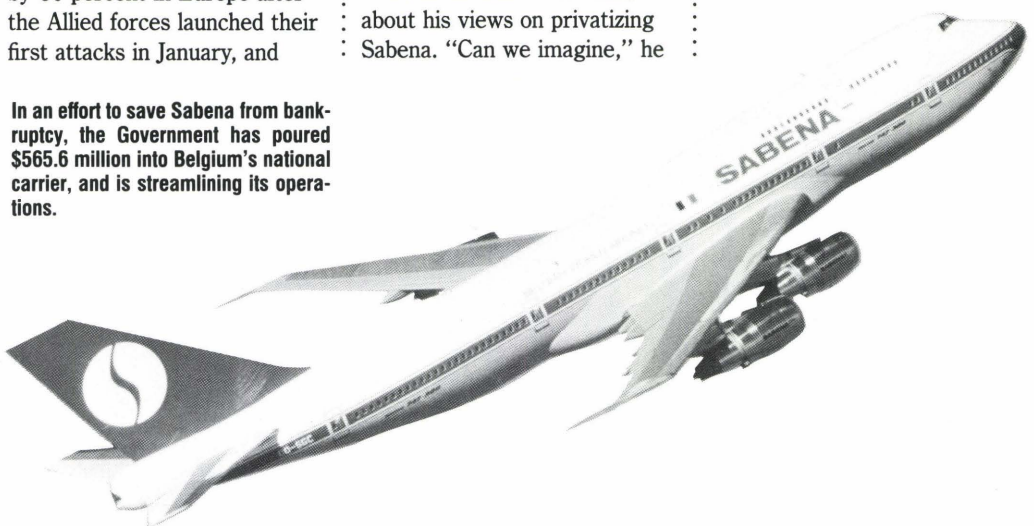
Godfroid makes no bones about his views on privatizing Sabena. "Can we imagine," he

asked, "Belgium, the seat of so many European institutions, not having a national carrier? Even Luxembourg has one. Sabena brings about \$460 million a year to the country's trade balance. Can a state fail to support its national airline and risk losing control over its skies? Indeed, the Gulf War has proved that airlines play an important role in diplomacy and military affairs."

With such a strong appeal to Belgian pride, Godfroid suggested that the state recapitalize Sabena, lay off 2,200 employees, boost Brussels as a "hub center" for intra-E.C. travel, and make room for a partner, another bigger airline, to participate as a Sabena shareholder.

Godfroid's plan was not only approved by the Government, it was reinforced. The Government decided to pour \$565.6 million dollars into the airline—more than Godfroid had requested—and imposed its control over the board of directors. Thus, Sabena is now fully renationalized just months after other plans nearly succeeded in privatizing it.

—CHRISTOPHE LAMFALUSSY



Drawing Parallels

LISBON—When Iraq invaded Kuwait last summer, provoking the Gulf crisis, many in Portugal hastened to draw stark comparisons with a similar, earlier tragedy involving the Portuguese Southeast Asian colony of East Timor.

In 1975, as Portugal's 600-year-old empire crumbled and its colonial armies hurried homeward, little thought was spared for the fate of East Timor, the country's least-loved outpost and one-time watering hole of Portuguese discoverers.

As Portugal rushed to give its colonies independence, neighboring Indonesia had made clear to Lisbon that, unless East Timor remained in Portugal's hands, it would be absorbed by Jakarta. According to official accounts at the time, Indonesia completely ruled out the possibility of allowing the territory to gain independence—not least because of important offshore oil resources in the Timor Gap—which are now set to be jointly exploited by Australia and Indonesia.

Portugal, facing post-revolutionary turmoil at home, was in no position to argue, and East Timor was annexed by Indonesia following a brutal invasion by Indonesia in December 1975.

Ever since, Portugal has attempted to keep world attention focused on Jakarta's human rights abuses in Timor and on the illegality of the occupation. The U.N. recognizes Lisbon as the territory's administering power, but world politics in 1975 and the strategic alliance between the United States and anti-communist Indonesia meant that there could never be any global response to the invasion comparable to the one provoked by Saddam Hussein last year.

Initially, international human rights groups and considerable public pressure in Australia kept the issue alive, and Indonesia faced stiff criticism every

year at U.N. sessions. With the passing of time, however, resistance has dimmed, and the issue of self-determination for Timor has all but faded from view except in a few global forums. Portugal has made diminishing efforts to rally support, but even domestic outrage is no longer what it once was. Today, fewer and fewer human rights missions make trips to the island, and ongoing atrocities there hit the headlines less and less, despite a still active internal resistance.

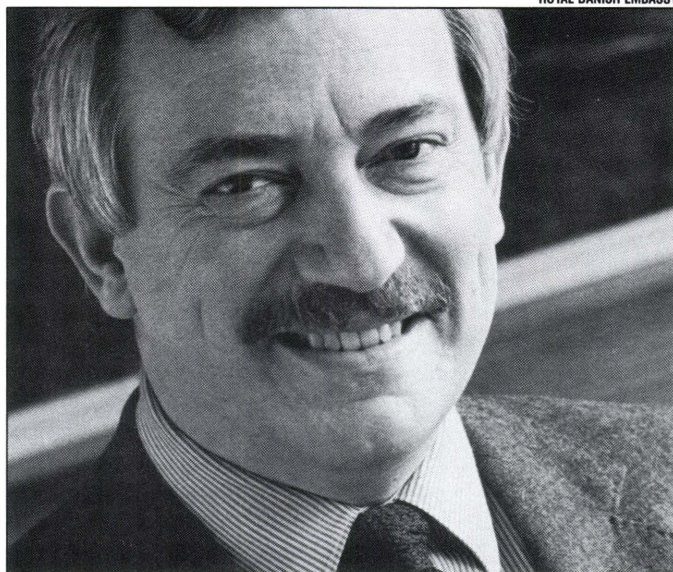
However, parallels with the situation in the Gulf rekindled some of Lisbon's spark. The Portuguese Government showed particular anger in late February, when Australia formally announced it would press ahead with a joint drilling venture with Indonesia off the Timor coast. Lisbon's Ambassador to the island made a firm and formal protest to Canberra, and Portugal announced it was taking the issue to the International Court at The Hague.

Eminent jurists have suggested that the Portuguese case is a good deal stronger than the piratical commercial activities of the Australian and Indonesian Governments. However, even if Portugal wins the case, it would probably be only a Pyrrhic victory. As one Western diplomat noted recently: "No one will be packing off a Gulf-sized force any time soon to deal with the wicked Indonesians." The trouble, it seems, is that "... it wasn't Kuwait, and it didn't happen in 1990."

—KEN POTTINGER

In the Minority

COPENHAGEN—Uffe Ellemann-Jensen, Danish Foreign Minister and leader of the Danish Liberal Party, wants the E.C. to play a more active role in terms of its regional and global security, and to develop a much stronger E.C. political profile, especially toward the



Uffe Ellemann-Jensen, Denmark's Foreign Minister, advocates a stronger political profile and a greater role in security issues for the E.C.

Soviet Union. Ellemann-Jensen has shown a strong personal commitment to the independence of the Baltics, an issue that may move up on the international agenda following the end of the Gulf War.

For the time being, Ellemann-Jensen has more support for those views outside than inside Denmark. As a member of a minority government, he is forced to compromise with the opposition, which does not come easily to a forceful personality. The latest joint memorandum on E.C. policy, endorsed by the Government and the opposition Social Democratic Party, explicitly excludes defense and security matters. The opposition parties insist that NATO should remain the sole framework for the defense of Europe.

The Gulf War has changed the assumptions on which the Danish consensus was based. It is regarded as unlikely that the number of U.S. forces in Europe will ever return to its former level, and NATO commanders suggest a much more active role for the Europeans, either in the context of a Western European Union (WEU) or even the European Community. Denmark is not a member of the WEU and, although Ellemann-Jensen would like nothing better than immediate membership, a majority in Parliament is still staunchly opposed to it.

Public opinion is shifting, however, and that may soon influence the politicians. In Denmark, pro-American attitudes were probably never as marked or as visible as during the Gulf War, a dramatic change of opinion compared to the Vietnam War. There was a general feeling that the Danes could have done more to help the United States in the Middle East than to send one corvette—jokingly referred to as half the Royal Danish Navy—to the U.N. blockade of Iraq. Many Danes also regarded the lack of E.C. unity before the air war as shameful.

Denmark has never been in the vanguard of E.C. integration, and defense and security policies will be no exception. But some Social Democrats, traditionally the most adamantly opposed to closer integration, have responded to the new mood, including a Member of the European Parliament, Ove Fich. And, despite the recent setbacks in the Soviet Union, there is a general feeling that the cold war in Europe is history. This means that the Danes will now have to redirect the future tasks of their armed forces, hitherto geared to fight a defensive land battle in Europe. And that discussion cannot, and will not, be separated from the future of E.C. defense policy.

—LEIF BECK FALLESEN

Cabinet Reshuffle

MADRID—It was in the works for two months, so when socialist Prime Minister Felipe González finally announced his cabinet shuffle in mid-March, there were many new names but few surprises.

Opposition leaders had been clamoring for change ever since the socialists won the last general election in October 1989. In the end, however, González' right-hand man, ex-Deputy Prime Minister Alfonso Guerra, forced his hand.

Guerra had been González' closest collaborator since the two ran the then-clandestine party from Seville during the waning years of the Franco dictatorship. Guerra displayed "bad cop" to González' "good cop," keeping the party members in line, running election campaigns, and launching biting salvos against political opponents on the left and the right.

But a widely publicized influence-peddling investigation of Guerra's brother, which is still in the courts, convinced Guerra that he had become a political liability. So he stepped down in January to dedicate himself full-time to the party, whose number-two man he remains.

The men whose clout was most strengthened in the new cabinet are new Deputy Prime Minister Narcis Serra and Economy Minister Carlos Solchaga, the architect of Spain's E.C. high-economic growth and Guerra's chief rival within the Government.

Solchaga had complained privately that Guerra had opposed many of his fiscally conservative measures. When Solchaga failed to strengthen his hand within the party, he lobbied González to make him the new Deputy Prime Minister.

Three of Solchaga's protégés were also named to the new cabinet, effectively consolidating Solchaga's control over all economic posts. And, as if to publicly underscore his triumph, Solchaga attended the swear-

ing-in ceremonies of all three.

Of these, former Tax Secretary José Borrell took over the newly created Ministry of Public Works and Transportation. His immediate task is to ensure that essential roads, railways, airports, and bridges are ready in time for Seville's Expo '92 and next year's Barcelona Olympics.

Solchaga's closest collaborator, Claudio Aranzadi, heads the Ministry of Industry, Commerce, and Tourism, another consolidated department, and the new Health Minister is Solchaga protégé Julian Garcia Valverde, who fills the gap left by Julian Garcia Vargas, replacing Serra at the Defense Ministry.

New faces also appear at the Justice, Agriculture, and Public Administration Ministries. Of those who stay, the most important are Foreign Minister Francisco Fernandez Ordóñez and Interior Minister José Luis Corcuera.

—RICHARD LORANT

Noteworthy Numbers

BERLIN—A recently published study confirms that Germans do not want their country to be a world power and that they would like to stay out of world political conflicts. They have become accustomed to a life in a secure, moderate, demi-state but now, with the new status of a major power, Germans are expected to live up to their new role and people are worried.

A recent national study, titled *Germany 2000*, based on 1,936 interviews, shows that the German public is far ahead of politicians where the European unity process is concerned. Most Germans would like to see a "Federation of Europe" soon, and 71 percent back assurances from Chancellor Helmut Kohl and Foreign Minister Hans-Dietrich Genscher that German unification must be seen as an impetus

for the political union of Europe.

It is also instructive that 59 percent of Germans give priority to good and close relations with the Soviet Union. This reflects German gratitude for President Mikhail Gorbachev's acceptance of German unity and full sovereignty, including the right of a united Germany to join NATO.

Forty-four percent desire good relations with the United States, which the German Government continues to regard as most vital and of central importance. Next on the list follow France (36 percent), Poland (15 percent), Japan (15 percent), and the United Kingdom (12 percent). "That Poland has [scored higher numbers] than Britain indicates that a change of consciousness is taking place on the European continent," interprets Bonn's daily *General-Anzeiger*.

Environmental protection is the number one priority among domestic issues, with 86 percent of the population demanding higher investment by the state in that sector.

According to a study by the Ministry of the Interior, foreigners are particularly disliked

in the former East Germany, although at the beginning of 1990 no more than 1 percent of foreigners lived there (in West Germany, their share is about 8 percent). Former East Germans not only dislike the guest workers from former communist allies Vietnam and Mozambique—whom they regard as competitors—but also those from Romania, Poland, and, even more surprisingly, from Turkey—who do not even live in eastern Germany. Contrary to expectation, the former East Germans do not direct their antipathetic feelings toward Soviet soldiers based in their former country. And interestingly, the young, rather than the old, are xenophobic in eastern Germany, while the situation is reversed in western Germany.

According to another study, just published by the Demoscopic Institute of Allensbach, some values such as love of nature, peace, and honesty are identical in east and west, while attitudes differ considerably in other areas. While 71 percent of West Germans consider conscientious environmental behavior as very important, only 51 percent of East Germans share that view. Solidarity with others

GERMAN INFORMATION CENTER



A new study shows that Germans favor European unity, good relations with the U.S. and the Soviet Union, and worry about the environment. Here: Stuttgart.

is important for 66 percent of West Germans but only for 47 percent of East Germans. Efficiency and discipline, on the other hand, are important for only 44 percent of West Germans, as against 59 percent of East Germans.

The pollsters were surprised to learn that, with regard to other values, today's East Germans expressed almost the same preference as did West Germans in 1967. For example: 59 percent of West Germans considered tolerance very important, rising to 67 percent in West Germany by 1991, and standing at 55 percent in East Germany. In 1967, 47 percent of West Germans wished to improve their minds, by 1991 the figure had risen to 57 percent as against 46 percent in East Germany. Interest in technology rose in West Germany from 27 percent in 1967 to 32 percent in 1991. In East Germany, the figure is 29 percent. In 1991, interest in politics amounts to 41 percent in West Germany and to 30 percent in East Germany—exactly the same percentage as in West Germany in 1967.

—WANDA MENKE-GLÜCKERT

The Church and the Media

DUBLIN—A long-simmering argument between the Catholic Church and the Irish media over the treatment of religious matters burst into the open recently when the Hierarchy's official spokesman, Bishop Joseph Duffy, complained publicly about "the scapegoating of the Church in the media."

A particular target of senior Churchmen among the media are the radio and television talk shows on which the presenters are sometimes seen as taking over the "father confessor" role of Catholic priests by encouraging frank admissions of marital and sexual problems over the airwaves. Bishops are also irritated that those people

who try to defend Christian values on radio and television are sometimes "laughed at" and put down by interviewers who "decide the questions and the cut-off point."

Bishop Duffy's comments, made during a thoughtful address to a seminar on "ethical issues in the media," inevitably raised hackles among media commentators. A columnist in *The Irish Times* argued that "journalism operates on the assumption that almost nothing is known, that everything has to be found out. The Church operates on the opposite assumption; that everything that matters is known, has been revealed to us, and needs only to be interpreted correctly and acted upon."

In a country in which over 90 percent of the population is Catholic and in which church attendance rates are among the world's highest, such a public slugging match would have been unthinkable until fairly recently. Television is seen as the catalyst that brought into the open the resentment of an increasingly educated flock at the paternalistic, if not authoritarian, approach of many clergy on matters that straddled the line between Catholic moral teaching and public affairs.

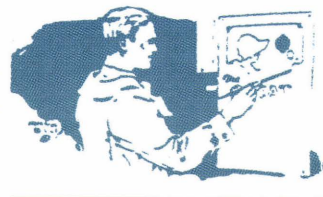
The Church's critics can be accused in turn of ignoring how that once all-powerful institution in Ireland has changed with the times. In his address, Bishop Duffy denied that he was "hankering after the old days when the Church's position was virtually unchallenged in the media." He said the Church "expects criticism of policies and personalities from time to time and even disagreement on important issues." Indeed, such a statement from a bishop would have been seen by many Irish lay folk as heresy as little as, say, 25 years ago.

The bishop added, and this is the kernel of an argument never to be satisfactorily solved this side of eternity: "One cannot make sense of the Church if

one's analysis excludes or diminishes its spiritual dimension and views it primarily as a social organization."

It is a sign of the times in Ireland that the bishop will not be left with the last word in this argument.

—JOE CARROLL



Distinctive Art

LUXEMBOURG—For the next three months, the E.C. Commission's main conference center in Brussels will serve as an exhibition hall for Luxembourg artists. Nearly 300 works by 75 Luxembourg painters and sculptors are on display, representing the largest collection of Luxembourg artwork ever assembled outside the Grand Duchy.

Luxembourg Prime Minister Jacques Santer—who also doubles as his country's Minister of Cultural Affairs—says that the Grand Duchy is still in the process of discovering its own cultural identity. All artistic activity ground to a halt during World War II when Luxembourg was annexed by Germany and "the fight for survival paralyzed all cultural activity," as one critic explained.

According to critics, Luxembourg art is distinctive, although somewhat difficult to define. Says one: "It is too severe, too dark, too charged with tragical expressionism to be French; [yet] it is too preoccupied with pure form [and] has too much the cult of the handsome and richly cared-for matter to be Flemish or German."

These days, Luxembourg artists receive wide support from both government and private industry. The country's 160 private banks buy many of

the works for their lavish offices, and the European Court of Justice just outside Luxembourg City commissioned local artists to produce murals and tapestries to line the courtroom walls. Furthermore, private galleries have sprung up throughout the country.

Luxembourg artists hope the new exhibition will widen their reputation by giving them more international exposure. Appropriately enough, the exhibit is being held in the only E.C. building named after a former Luxembourg Commissioner—Albert Borchette.

—DENISE CLAVELOUX

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PARIS

One of the most popular and widely known members of the Mitterrand Government is *Jack Lang*, its Minister of Culture. In the 10 years since he first took up the post, Lang has managed to turn culture into a real political asset for the French Socialist Party and has obtained a hefty budget for its promotion. From cooking to fashion, rock music to cartoon strips, no "cultural" domain escapes his attention or inexhaustible enthusiasm.

He met his wife, *Monique*, who is also his press attachée, when he was 17. The two went to the same drama school in Nancy, where he was known for wearing velvet waistcoats in amazing colors. Since then, he may have toned down his outfits, but certainly not his flair for showmanship.

Before Lang arrived on the scene, everything in France was said to be political. Now with the Minister of Culture as Master of Ceremonies, everything has become cultural.

The foreigners are coming! What may seem like an invasion to the French world of *couture* could, however, also be seen as a compliment reinforcing the French capital's position as the world's center of fashion.

Designers from other parts of the world have always been drawn to Paris. One of the most prominent Japanese to show his creations in the French capital is *Kenzo*, whose colorful and carefree clothes created a major stir in the 1970s; German-born *Karl Lagerfeld* has long designed clothes for *Chanel* there; and last year, Italy's new darling of fashion, *Romeo Gigli*, decided to show his collections in the French fashion capital rather than in Milan.

Is an American invasion of Paris now in the offing? Domini-

can-born and Spanish-trained designer *Oscar de la Renta*, who has made fashion in the United States for over 30 years, showed his first collection in Paris this spring—to a delighted audience. His name was not completely unfamiliar to his European audience, however: He has marketed a line of perfumes in Europe for some time.

LONDON

Known in Britain as a ruthless negotiator, and hailed in New York as a savior and financial angel, *Robert Maxwell*, 67, London's flashy publishing magnate, stepped in to buy the sinking New York *Daily News* just days before a March 15 deadline would have closed the paper for good.

Known for his empire-building buy-outs, Maxwell struck a deal with the 10 *Daily News* unions and its owner, the Tribune Company of Chicago. Maxwell plans to revive the daily and to keep his promise to pay pension and severance allowances to union members.

Maxwell was born into a poor rural Czech family of nine as Jan Ludvig Hoch. He left his native country as part of an anti-Nazi resistance force. After the war, his knowledge of German and French earned him a position in British military intelligence as an allied press officer in occupied Germany. There he learned about the publishing business from Ferdinand Springer, then head of the famed German publishing family. Subsequently, he established Pergamon Press, the base of his publishing empire. Today valued at \$2 billion, some of his other assets include the New York-based Macmillan Publishing Company, *The European*—a weekly newspaper with a circulation of 200,000—and the *Daily Mirror*—Britain's sec-

ond-largest tabloid, with 3.8 million readers.

Maxwell has vowed to return circulation and profits of the *Daily News* to pre-strike levels within one year.

MADRID

Spanish actress *Carmen Maura* was chosen European Actress of the Year at the 1990 European Cinema Prizes gala for her performance in Carlos Saura's film *Ay Carmela!*

Maura's popularity started crossing Spanish borders through her starring roles in Pedro Almodovar movies. While long considered one of the finest contemporary actresses in Spain, her starring role in *Women on the Verge of a Nervous Breakdown* made her one of the best-known Spanish actresses abroad.

Maura's spontaneity and intense and vibrant acting style give her performance a distinctly Spanish character. Maura's recognition by the European Cinema Prizes, the second time she has been awarded this prize, seems to promise a stellar ascension for the Spanish actress.

MILAN

Apart from glamorous clothes and speculation about A-lines, colors, and the next in hairdos, last month's fashion shows in Milan provided a "clash of two Titans."

The Titans in this case are "nice guy" *Giorgio Armani*—whose soft-flowing clothes in natural shades, and whose designs for the film *The Untouchables*, have made the Italian a household name in the United States—and "bad boy" *Gianni Versace*, the man behind some of the sexiest—and, some say, sexist—clothes to hit the run-

ways in years.

Apart from this side show, fashion writers and editors seemed to agree that Milan's offerings for the 1991-92 winter season continued along the classic lines for which Italian designers are known, and did not define any new and riveting trends—although they did reinforce the *chic* of leggings.

One of the highlights seemed to be an effervescent show from architect-turned-designer *Gianfranco Ferré*, who sent his models up and down the runway in elaborately draped and wrapped clothes magnificently adorned with feathers.

BERLIN

Karl Otto Pöhl certainly knows how to keep his name in the headlines.

As President of Germany's central bank, the Bundesbank, Pöhl plays a decisive role in the E.C.'s debate on European monetary union (EMU), advocating a well thought-out plan rather than rushing into monetary union unprepared.

Pöhl echoed that view again very recently before the economic and currency union committee of the European Parliament. Illustrating the debacle of German monetary union last summer, in which East Germans were able to exchange their worthless Ostmarks on a one-to-one exchange rate, Pöhl warned the E.C. that a rush to monetary union could be just as damaging for the Community. Said Pöhl: "We introduced the German mark from one day to another, practically without any preparation . . . and, I would add, at a wrong exchange rate. So the result is disaster—as you can see."

E.C. NEWS

FOREIGN AFFAIRS

DELORS CALLS FOR COMMON SECURITY POLICY

In a major address to the International Institute of Strategic Studies in London in March, E.C. Commission President Jacques Delors outlined a new E.C. role that calls for development of a common security policy.

Despite the undeniable advances of coordination in foreign policy by the Twelve, "the Gulf War has provided an object lesson—if one were needed—on the limitations of the European Community," Delors said. He added that the international system was undergoing a unique period of transformation, and that Europe could only live up to its own—and the world's—expectations if political union becomes a reality and is coupled with the development of a common security policy: "As yet, there is no such thing as a European security policy. But we must lose no time in beginning the debate . . . This is the only possible response to the accelerating pace of history," the Commission President stated.

If the E.C. is to take its full responsibility in international affairs, it will need both inter-



Jacques Delors said recently that, if Europe wants to play a role on the international stage, it must develop political union and a common security policy.

national cohesion and a coordinated design for its common foreign policy. "Security," Delors said, ". . . depends on our ability to create an attractive, harmonious society," but added that, "in the last resort, security means the ability to defend oneself by force of arms."

The E.C.'s tasks therefore will be to speed up political union and to insert a common security policy into this framework. Delors emphasized that increased coherence and independence of action by the E.C. should be viewed positively by Washington, since "a European Europe intends to confirm its attachment to the

alliance and its objectives, and to shoulder a larger part of the burden thanks to a common defense policy. This, surely, is what the Americans have always wanted."

E.C., EFTA CONTINUE TALKS ON EUROPEAN ECONOMIC AREA

The E.C. and the European Free Trade Association (EFTA) hope to conclude an agreement by late June to join Europe's two major trading

blocs. Scheduled for consolidation by 1993, this agreement would create the so-called European Economic Area (EEA), a 380-million-strong consumer market extending from the Arctic to the Mediterranean.

With only three months left to its deadline, many items are still on the agenda, such as a dispute between the E.C. and Switzerland and Austria over transit rights through the two Alpine nations. Other areas concern the question of free trade in the fisheries and agricultural sectors, EFTA aid to poorer E.C. countries, and the nature of a judicial body to administer EEA rules.

The E.C. wants EFTA members to conform to the E.C.'s trade regulations within seven years of entering the single market. The E.C. set a limited transitional period to avoid dealing with individual requests for special exclusion on a case-by-case basis, such as Iceland's refusal to give the E.C. free access to its fishing waters.

EFTA members will be able to profit from the internal market very soon. A reciprocal agreement allowing E.C. and Swiss insurers to sell non-life insurance to each other and to allow non-prejudicial bank treatment in such transactions was recently agreed upon. The Swiss insurance industry, which last year grossed 44 percent of its income in E.C. nations, will greatly benefit from this development.

GONZALEZ URGES JOINT EUROPEAN SECURITY POLICY

In mid-March, Spanish Prime Minister Felipe González expressed his support for a united Europe that should achieve monetary union and a combined foreign and security policy.

In a speech to the Spanish Parliament, in which he outlined Spain's domestic and foreign policy in view of the approaching single market, González emphasized the importance of European political and economic union as essential for the development of the Continent.

The moment was ripe, he stated, to map out true common foreign and security policies among the Twelve. González stressed that the Gulf crisis underscored the pressing need for common action among E.C. members on the world stage: "If this project succeeds, it will serve as the motor for the economic and political development of the Continent. If it fails, the result will be a fragmented Europe without weight. To share sovereignty is the only way to achieve European union."

González also stressed that developments in the Soviet Union and Eastern Europe were vital to the future peaceful evolution of all of Europe: "The stability of Europe depends in large measure on the success of Soviet reforms," he told the Parliament.

EUROPEAN AFFAIRS

HAVEL WANTS CZECHOSLOVAKIA TO JOIN E.C. SOON

Last month, the E.C. and Czechoslovakia started their third round of trade talks, which they hope will upgrade the current trade and cooperation agreement between them. The toughest negotiating points concern the goods Czechoslovakia wants to export to the E.C. and the short-term assistance the country needs for its textile and steel industries.

On a recent trip to Brussels, where he met with the Commission and with NATO, Czechoslovakian President Vaclav Havel expressed the hope that his country could become a full E.C. member before the end of the decade, if not even earlier. He noted that political integration could conceivably proceed more quickly than economic integration, depending on the E.C.'s own progress on economic and monetary union. He suggested that, if Czechoslovakia could not be a full member very soon, it could possibly "become something in between an associate and a full member."

E.C., POLAND NEGOTIATING COOPERATION AGREEMENT

When Polish officials arrived in Brussels to negotiate a new E.C.-Polish cooperation agreement in March, Poland's Secretary of

State at the Ministry of External Relations and the delegation's chief negotiator, Andrzej Olechowski, insisted that Poland needed not just a new commercial agreement, but a treaty of historic importance.

At the beginning of 1990, Poland dismantled all quantitative restrictions on imports and suspended duty rates on most farm and industrial products to 5 percent. "We therefore have a country with one of the most liberal import regimes in the world and certainly the most liberal in Eu-

rope," Olechowski said.

The liberalization program has now reached a critical point, however, making it crucial for Poland to obtain freer access to E.C. markets. Otherwise, Olechowski warned, the liberal Polish import system would become unsustainable and the Government would be forced to give in to protectionist pressure from farmers and manufacturers.

Reuters contributed to these news reports.

The E.C.'s detailed report, *Stabilization, Liberalization and Devolution: Assessment of the Economic Situation and Reform Process in the Soviet Union (December 1990)*, on the economic situation in the Soviet Union paints a rather grim picture.

The report states that "the Soviet Union's economic performance has been steadily deteriorating for years. The attempts to reform the system . . . have been incomplete and sometimes misdirected. As a result, deceleration was succeeded by decline. It is clear that without firm and concerted action to reform the economic system it will drift toward chaos." Economic conditions have not improved since the report was published. In fact, they have taken a turn for the worse for the average Soviet citizen.

The report goes on to say that "[the Soviet Union's] economic infrastructure is generally in a poor state; transportation and telecommunications links are outdated and insufficient; and there is a chronic housing shortage. Compared to major Western industrialized countries, the Soviet Union's economic structure is characterized by low agricultural productivity, a disproportionately large industrial sector, and an underdeveloped services sector . . . In recent decades economic development has been increasingly hindered by the system of central planning."

The report discusses the many reforms needed to effect a market economy, and discusses at length how the various sectors need to be reformed. However, as the report states: "Implementation of economic reforms involves a choice between decentralized initiative and coordination." Nothing that the report envisions, such as a workable banking system, a decentralized market economy, or political stability is found in the Soviet Union today.

Hopefully, this well documented report will be read by Soviet economists and politicians as well as Western readers. The Soviet leaders know what they need to do to turn their country around; but they need the courage to go more than half-way on the reform process. The E.C. report provides workable recommendations for the Soviets. However, it will take more than a well-written report to put food on the average Soviet's dinner table: The Soviets have their work cut out for them.

The 178-page report is part of the E.C.'s *European Economy* series and is available from UNIPUB, 4611-F Assembly Drive, Lanham, Md. 20706. Tel.: (800) 274-4888 (U.S.); (800) 233-0504 (Canada).

FOREIGN MINISTERS DISCUSS THE FUTURE OF EUROPE'S DEFENSE

E. C. Foreign Ministers and E.C. Commission President Jacques Delors met in Luxembourg on March 26

to prepare for the extraordinary E.C. summit on April 8, that was devoted to the post-war situation in the Gulf.

Apart from anticipating the main aspects of that summit—Europe's role in maintaining security in the Gulf region, settling political problems, and establishing economic and political stability there—the role of security and defense policy within the context of a joint European foreign policy was the major topic on the agenda.

Luxembourg Foreign Minister Jacques Poos, currently head of the E.C. Council of Ministers, referred to the meeting as an "informal session of the intergovernmental conference (IGC) [on political union]." While the ministers agreed that the E.C. could not develop a common foreign policy without including defense, they remained at odds over the nature of the framework needed to initially set up such a policy and to eventually carry the responsibility for it.

These differences of opinion came primarily over the role of the Western European Union (WEU), which groups nine of the 12 E.C. (all except Ireland, Denmark, and Greece), and 16 NATO members. Some member states, notably France, Germany, and Italy, would like to see the WEU slowly merge into the Community. Others, particularly the Netherlands and the United Kingdom, favor a continuation of the NATO alliance, in which the WEU would serve as a bridge between the E.C. and NATO.

Delors noted that the conference had helped to bring "positions closer to a certain extent," and that one could better see how to arrive at a "consensus" on defense policy in the framework of the IGC on political union. Poos added that the outcome of the meeting was a mandate to the personal representatives of the foreign ministers and political directors of the Twelve to better define the possible links between the WEU and political union on the one hand, and the WEU and NATO on the other.

isters, Hans-Dietrich Genscher and Roland Dumas, to begin Phase Two (the establishment of a European central bank) of economic and monetary union, or EMU, on January 1, 1994, reaffirmed Germany's commitment to create an independent E.C. central bank, and came just days before a meeting of the intergovernmental conference (IGC) on EMU, which discussed the exact timing and content of Phase Two.

National differences over those aspects of EMU have been marked. The United Kingdom, for example, has long favored the "hard ECU" approach to a single currency, which would establish the ECU as a currency alongside the 12 national currencies. Germany, on the other hand, has stressed the need for greater economic convergence—the reduction of national economic differences—before EMU can take effect.

Luxembourg tried to consider these differences in a recently presented paper that advocates a push for convergence and a gradual move toward a European central bank. While maintaining the January 1, 1994 date to begin Phase Two of EMU, it also considered German demands for convergence, by proposing special fiscal programs for countries with slower economic progress.

Several important British suggestions on the nature of the EuroFed marked the April IGC on EMU. Britain insisted that the central bank be given "real tasks," including managing a monetary unit (although not specifying whether this should be Britain's proposed "hard ECU,") during Phase Two. Moreover, national monetary responsibility should not be transferred to the EuroFed before the final Stage Three of EMU—with which the other member states generally agree—and there should be greater economic convergence before EMU becomes effective.

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GEARING UP FOR PHASE TWO OF EMU

The recent joint reiteration of support from the German and French Foreign Min-

BOOKS

in

REVIEW

THE NEW RUSSIANS. By Hedrick Smith. Random House, New York. 574 pages. \$24.95.

The negative news emanating from the Soviet Union these days makes one particularly aware that events are rapidly outpacing Hedrick Smith's optimistic pronouncements in *The New Russians* on *perestroika*, *glasnost*, and overall economic and political reform. Indeed, the time may be at hand for Smith to update his excellent book once again and entitle it "The New Russians May Turn Out to Be Like the Old Russians."

Smith comments at length about how the press and media in the Soviet Union have been taking advantage of *glasnost* to actually put on controversial television shows like "Vzglyad" (Outlook), "which," writes Smith, "has broken more taboos and more exclusives than any other show on television" and is "a shot of adrenaline to advocates of change." The same day I read Smith's optimistic assessment, a headline story in *The Economist* entitled "Going, Going, Glasnost" explained that the popular Soviet television show had "been taken off the air" for being too controversial.

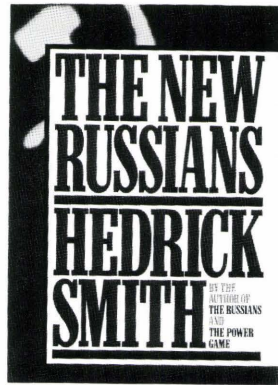
Daily examples in the press confirm fears that many elements of *glasnost* and *perestroika* are being overturned. After the killings in Lithuania and Latvia and the tensions that still exist in the Baltic Republics, it is hard to be as optimistic as Smith was last year when his book was published.

Nevertheless, if readers suspend themselves in time while reading *The New Russians*, they find that Smith has done a brilliant job of reporting on a country in crisis. Smith has talked to average men and women throughout the Soviet Union to give the reader a vivid inside look at daily life from Latvia to Russia to Azerbaijan.

Western companies planning to invest in the Soviet Union anytime in the near future would do well to read *The New Russians* as initial research. The chapters discussing Soviet attitudes toward business are both illuminating and depressing. Smith stresses time and again that "one of the most notable traits in the Soviet Union is the lax national work ethic" and that "risk and uncertainty are things most Soviets habitually avoid like the plague."

One wonders how the Soviet Union hopes to attract foreign capital with such an indifferent work force and how the Soviets, without any history of capitalism, will be able to reshape their economy. Recent events bring depressing news about the new powers of the KGB to police businesses and to allow them to review financial records of Western joint ventures in the Soviet Union. With such activities scaring off Western investors, an efficient market economy will never be able to take root in the Soviet Union.

The New Russians presents excellent, in-depth biographies of the Soviet leaders of today and the possible reformers of tomorrow. The section dealing with Gorbachev's rise to



power is one of the best biographies to date of the beleaguered Soviet leader. Smith provides keen insights into Gorbachev's personality and shows what makes this remarkable man "tick."

The spirit of *glasnost* in the Soviet Union can be found in the Soviet reformers, like the new Mayor of Leningrad, Anatoly Sobchak, Boris Yeltsin, and others just coming onto the scene. Smith indicates that the reform spirit will remain alive and well in the future.

The New Russians provides a hopeful and positive view of change in the Soviet Union. The book is full of remarkable characters, who make readers feel as though they were actually living the events through their eyes.

Smith should be congratulated for his excellent book and Soviet leaders should be condemned for making *The New Russians* seem out of date. Let us hope that Smith's optimism will prevail over today's headlines from the Soviet Union.

—Robert J. Guttman

PATHS TO RUSSIA. By F. Wilhelm Christians. Macmillan, New York. 256 pages. \$24.95.

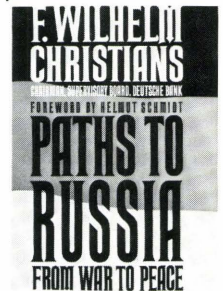
Christians' book is, to some extent, a story about the disillusionment of the first Westerner to visit Soviet President Mikhail Gorbachev after his elevation to power in 1985.

As a long-time "economic ambassador" from the West, Deutsche Bank's Supervisory Board Chairman has met with—and untiringly advised—his share of Soviet managers and politicians. These personal experiences make his book particularly refreshing and insightful reading amid the current tidal wave of predictable, analytical books on Soviet "declinism."

With a banker's knack for soberness, he recounts his role in such front-page events as the 1981–82 Siberian gas pipeline deal, to which the Reagan Administration was so stubbornly opposed. The author also highlights the difficulties of "banking" on a country rather half-heartedly engaged in economic reform. What good, for example, is decentralization in the absence of true market mechanisms? All that results is increased confusion.

Rather fascinating are Christians' reflections about the way in which Soviet leaders wasted the jackpot available to them in the 1980s for a top-to-bottom modernization of the country's economy. The Soviet Union had accumulated as much as 200 billion rubles as a windfall profit from high world energy prices. Instead of using it for domestic economic restructuring, the money was squandered on Cuba, Vietnam, and the Soviet military.

Against this backdrop, Christians speaks out against a Marshall Plan for the Soviet Union. Instead of throwing money at the problem, he prefers to see Western efforts focus on a hands-on consulting campaign, teaching such basics as Accounting 101 and Marketing 101.



Only after these basics have been mastered is there reason to believe that the essential Soviet dilemmas—incompetence and poor organization—will be cured. Christians insists that the bulk of this work cannot be left to the Germans alone, that the transformation of the Soviet economy is so Herculean a task that all Western nations must cooperate as a team of advisers. Otherwise, Christians concludes, the West stands to lose the truly historic opportunity of restructuring the entire European continent.

—Stephan-Götz Richter is president of TransAtlantic Futures.

THE RUSSIAN REVOLUTION. By Richard Pipes. *Alfred A. Knopf, New York. 944 pages. \$44.00.*

To understand Mikhail Gorbachev's Soviet Union today, one must know something of its historical antecedents. In this regard, Harvard University Professor Richard Pipes' *Russian Revolution* more than amply serves. Pipes, who worked in the Reagan Administration's National Security Council as a Soviet expert in the early 1980s, believes his book to be "... the first attempt in any language to present a comprehensive view of the Russian Revolution ..."

The book, the second in Pipes' planned trilogy of Russia in the 19th and 20th centuries (the others being *Russia Under the Old Regime* and the yet-to-be-released *Russia Under the New Regime*), makes fascinating reading as a companion to the news stories emanating daily from Moscow and other parts of the Soviet Union. Divided into two sections—"The Agony of the Old Regime," and "The Bolsheviks Conquer Russia"—this surprisingly fast-paced narrative tempts the reader to draw parallels to today's developments. Seeming analogies spring forth from nearly every chapter of this tale of decline, dissolution, violent revolution, and brutal consolidation, but, whether by timing or design, no direct comparisons to today's events are made.

This does not mean, however, that the author writes without a point of view. Pipes eschews the position of the historian as a neutral compiler of facts. He believes that "scholarship requires the historian to treat critically his sources and to render the information he obtains from them." This "honesty" is manifested throughout the book but nowhere so clearly as in the over 40-page chapter on the murder of the imperial family. Pipes writes: "Just as liberty has its great historic days—the battles of Lexington and Concord, the storming of the Bastille—so does totalitarianism. The manner in which the massacre was prepared and carried out, at first denied and then justified, has something that radically distinguishes it from previous acts of regicide and brands it as a prelude to 20th-century mass murder."

However, although the tales of Bolshevik brutality and the thoroughness of this book are impressive, I found the chapter on the intelligentsia (a word Pipes says "entered the English vocabulary from the Russian") most thought-provoking. As I read his views, both of the necessary conditions for the intelligentsia's existence and its role as a *sine qua non* for societal change, I recalled the Muscovite university students recently interviewed by American correspondents during the March 17 referendum.

The freely given varied responses of these Westernized

(both in dress and thought) youths, may actually, when viewed through Pipes' prism, portend a democratic state some years hence. This, of course, as clearly shown by the bulk of this vast work, is a possible—but in no way assured—outcome of the many years of ferment that are in store for the Soviet Union.

Robert S. Bassman is a freelance writer in Washington, D.C.

EUROQUAKE. By Daniel Burstein. *Simon and Schuster, New York. 384 pages. \$22.95*

In *Euroquake*, Daniel Burstein presents the now familiar argument that the critical battle of the future will not be fought on military battlefields but on America's economic homefront, with its friends and allies. The author argues that the 21st century will be marked by a fierce struggle for economic power and dominance among the emerging three superpower regions: a U.S.-led North America, a Japanese-led Asia, and a German-led Europe.

Burstein asserts that, unless Americans are willing to re-think their basic institutional structures and act quickly to change them, the United States stands a good chance of losing the critically important "battle of the capitalisms." The author contends that Americans, by winning the cold war, have done more than any other people to bring about the prosperity of today's capitalist world. Now Burstein asks: How do we stop from losing the peace?

While the book is concerned primarily with the impact on the world of the E.C.'s 1992 single market, the author aims his discussions at an American audience. The first half of the book gives the reader an historical perspective touching on everything from German unification to *perestroika* in America, to the end of the cold war, and to the economic ramifications of the Gulf War.

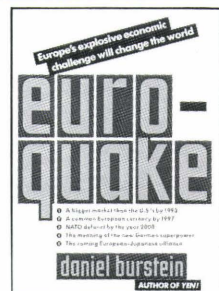
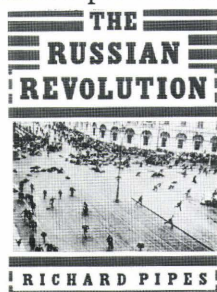
At times, it is disconcerting to follow the author's persistent jumping around from seemingly unrelated topics, leaving one with the impression that he has tried to cover too many issues in one volume. However, this book was not meant to cover a single, narrow topic, and Burstein effectively brings to light many difficult and diverse questions that, he feels, need to be answered by U.S. business and government leaders.

Burstein's account of recent history is almost overly simplified, telling much that is considered general knowledge, but he does provide consistent and insightful critical analysis of these events. Burstein, who has served as a consultant to some of the world's leading businesses in the field of high technology and financial services, takes every opportunity to predict how recent events in East and West will shape the new world economic order.

Burstein's analysis of "European unity as a dream" provides views of experts in Europe who convincingly argue why "1992" cannot work—and why it must. Burstein leaves the reader with the conclusion that the single market program will work and that it will be a resounding success.

In *Euroquake*, Burstein offers an image of economic life in the post-postwar period. The author effectively combines realism and idealism into a call for America to wake up to the Euroquake that is happening in Europe.

—Peter Wilson



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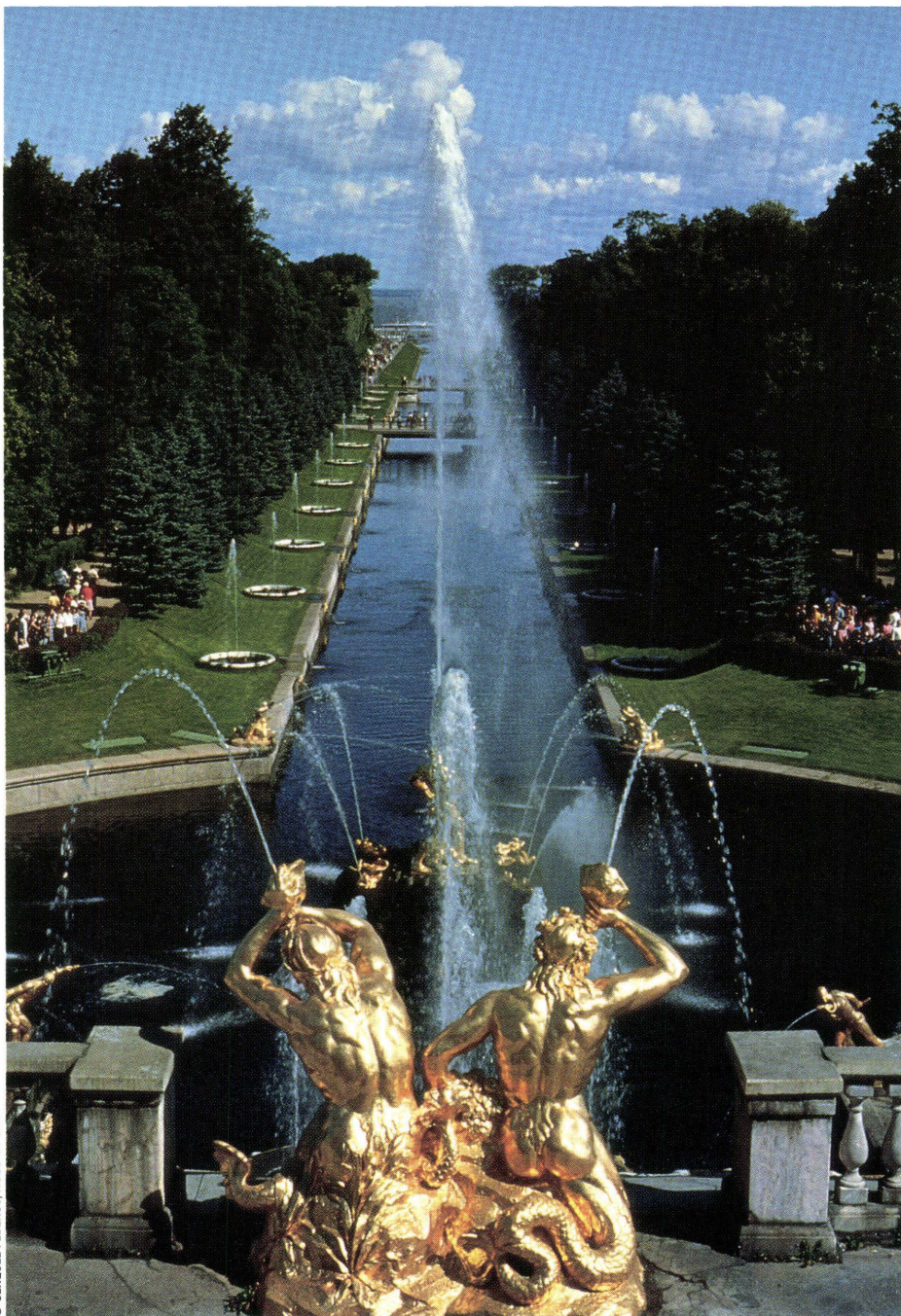
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