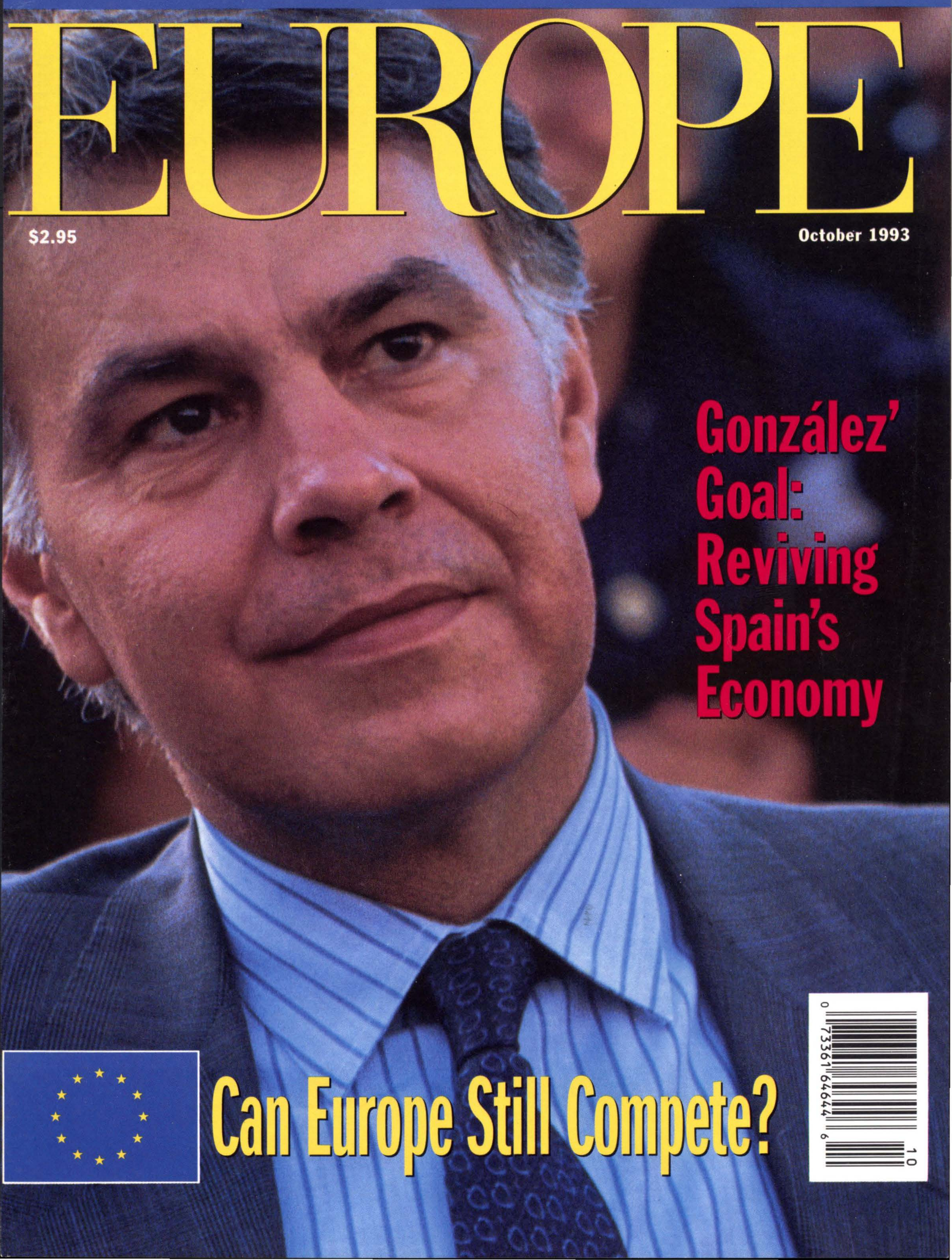
Steel • Industrial Policy • Job Creation

EUROPE

$2.95

October 1993



González' Goal: Reviving Spain's Economy

Can Europe Still Compete?

Both circle the earth. Ours just happens to do it daily.

With all deference to the people at NASA, there's a big difference between shuttling astronauts and shuttling important international business packages.

To begin with, astronauts don't have to clear customs. Packages do. That's why UPS has developed the most comprehensive worldwide customs clearance network.

Our ground support is also unrivaled. With our familiar brown vehicles in the U.S., tuk-tuks in Bangkok, even gondolas in Venice, nobody is more reliable. In fact, UPS has over 270,000 employees serving more than 185 countries and territories. So it's no small wonder we make more on-time deliveries worldwide than anyone else.

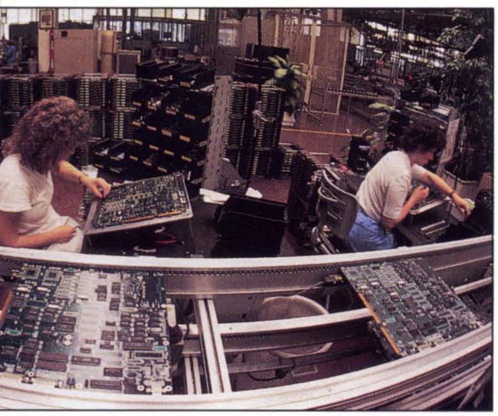
Whatever corner of the earth you're shipping to, Singapore, São Paulo or Stockholm, send it UPS. Unlike NASA, we have a mission that's down to earth: to serve you better around the world. **The package delivery company more companies count on.**℠

OCTOBER 1993 NUMBER 330

EUROPE

MAGAZINE OF THE EUROPEAN COMMUNITY

24



32

23

SPECIAL REPORT: COMPETITIVENESS

SPAIN

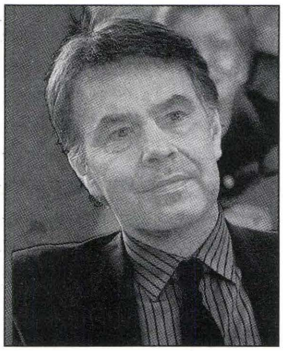
BUSINESS

DEPARTMENTS

Letter From the Editor

Can Europe still compete effectively in the global marketplace in the 1990s and into the next century?

European government and business leaders are actively working to provide a positive answer to the question we ask on the cover of this month's *EUROPE.* As Lionel Barber, writing from Brussels, points out "Europe lost market share in the global economy in relation to the US and Japan in the 1980s" and Europe created far fewer jobs than the US and Japan in the last decade. The President of the European Commission, Jacques Delors, will present a white paper on competitiveness at the EC Council to be held in Brussels in December. President Bill Clinton has called for a jobs creation summit to be held in the next few months.



Reviving Spain's economy is Prime Minister Felipe González' first priority.

In addition to Lionel Barber's piece on European competitiveness, we present an article looking at the "jobless recovery" in the United States. Many of the larger companies in the US are "downsizing" and many jobs may be lost forever.

Our Capitals writers look at the recession in each of their own countries and discuss how unemployment is affecting people's lives. They also look at government and private sector attempts to reduce Europe's highest unemployment rate in decades.

A new report shows that European companies are helping to provide jobs for workers in the United States. The study points out that EC companies provide "jobs in every state of the union and directly employ 2.9 million American workers, which is 3 percent of the total private sector work force."

Many economists and government officials favor an "industrial policy" to combat unemployment and to increase a nation's global competitiveness. Other people equate the term "industrial policy" with unfavorable economic results.

Bruce Barnard, based in Brussels for the *Journal of Commerce,* discusses the various EC country economic policies. We also look at the Clinton administration's views on the subject.

The European steel industry is facing large-scale unemployment, and we look at how EC countries are tackling this problem today. Many people see "mini-mills" as the hope for the steel industry in Europe and the US.

EUROPE focuses on Spain this month with articles on the start of Felipe González' fourth term as Prime Minister making him one of the longest-serving leaders in Europe. González is attempting to put Spanish workers back on the job to lower Spain's 22 percent unemployment rate.

Robert Latona, writing from Madrid, profiles Spain's popular King Juan Carlos, and Benjamin Jones, also in Madrid, looks at the controversial José Lopez who recently left General Motors to work for Volkswagen.

The new Ambassador to the EC, Stuart Eizenstat, speaks to *EUROPE* about his new position in Brussels and US-EC relations.

Robert J. Guttman
Editor-in-Chief

EUROPE

Publisher
Peter Doyle

Editor-in-Chief
Robert J. Guttman

General Manager
Anne Depigny

Managing Editor
Peter Gwin

Editorial Assistant
Susan J. Burdin

Contributing Editors
Bruce Barnard
Reginald Dale
Axel Krause

Editorial Interns
Michael J. Panetta
Lauren Ptito

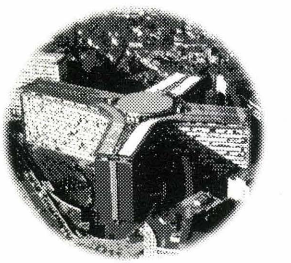
Design
The Magazine Group, Inc.

EUROPE, *Magazine of the European Community* (ISSN 0191-4545), is published by the Delegation of the Commission of the European Communities, 2100 M Street, NW, Suite 700, Washington, DC 20037. © The Commission of the European Communities, 1993. The magazine encourages reproduction of its contents, but any such reproduction without permission is prohibited. *EUROPE,* published 10 times per year, is available by subscription for $19.95 per year; $34.95 for 2 years; $46.95 for three years. Add $10.00 to non-U.S. subscriptions for postage and handling. Student rate (with proof of enrollment): $14.95 per year; $25.95 for 2 years; $35.95 for 3 years. Bulk rate also available. **Editorial, permissions, advertising, and circulation offices:** 2100 M Street, NW, Suite 700, Washington, DC 20037; Telephone (202) 862-9555. Available in microform from UMI, 300 N. Zeeb Rd., Ann Arbor, MI 48106; (313) 761-4700

Subscriber services: 1-800-627-7961.
Second class postage paid at Washington, DC.
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.
Reuters has contributed to news reports in this issue of *EUROPE.*

EYE ON THE E.C.



Sixteen members by 1995. That was the target set by the June Copenhagen summit of the European Community, which heard a progress report on the entry talks with the four European Free Trade Association (EFTA) members—Austria, Finland, Norway, and Sweden.

So far as the negotiations are concerned, this seems a reasonable objective. The chief Swedish negotiator, Ulf Dinkelspiel, was undoubtedly right when he said that two-thirds of the contentious issues had already been settled in the earlier bargaining over the European Economic Area (EEA), which comes into force later this year.

It had then been agreed that the EFTA countries (minus Switzerland, which declined to ratify the EEA) will accept the four freedoms of the EC's single market—the free flow of goods, services, capital, and people—will adopt common technical standards; liberalize their banking, insurance, and air transport industries; and abide by EC policies on mergers, state aids, consumer protection, and labor markets.

Earlier fears that the traditional neutrality of several of the EFTA candidates (but not Norway) would complicate their adhesion to the EC have not materialized. The end of the cold war has caused each of them to reassess its position, and none now sees much difficulty in participating in the formulation of a common foreign and security policy as foreshadowed by the Maastricht Treaty.

The major difficulties still to be resolved were set out clearly by the main Finnish negotiator, Erkki Liikanen (a former Finance Minister who is now Ambassador to the EC), in a recent statement to the Center for European Policy Studies in Brussels. Many of the most important issues concern agriculture and regional interests. The EFTA countries protect their agriculture even more rigorously than does the EC through its Common Agriculture Policy (CAP).

It would not be easy for Finland and the other Nordic countries to adopt the CAP, said Liikanen. Their farmers live in remote, sparsely populated areas under harsh climatic conditions, and without special treatment they would be unable to survive the impact of competition from other EC suppliers. As an example, Liikanen mentioned that, while the average growing season within the EC ranged from 210-300 days a year, in Finland the range was 120-180 days.

The acquisition of second homes by non-resident EC citizens was likely to be a bargaining point for all four applicant states, but it was only in Austria that it might prove a sticking point. The Austrians feared that a high proportion of their rural properties would be snapped up by wealthy Germans. Some special derogation, perhaps for a limited period, might well be negotiated for Austria, but Liikanen doubted whether many EC citizens would wish to acquire property in the colder climates of northern Europe.

A particular problem for the three Nordic states would be the deregulation of the alcohol monopolies which—in the cause of fighting drunkenness—had existed for around 100 years. He predicted that a compromise might well be agreed on deregulating the production, wholesale, import, and export sectors, while maintaining retail monopolies.

For the Norwegians, who previously rejected membership in a referendum in 1972, two major additional problems are presented by the energy and fishing industries. Norway is determined to maintain control over its oil and gas fields and is concerned that its fishermen should not be disadvantaged by the EC's Common Fisheries Policy.

Despite these difficulties, Liikanen seemed pretty confident that the talks would be successfully concluded by early next year, a view shared by senior officials of the EC Commission. It is only then, however, that the real problem will arise—selling the idea of membership to the peoples of the four countries concerned.

Each of the countries is committed to holding a referendum before proceeding to ratify the membership treaties. Although the majority of political parties and their leaders, as well as leading figures in industry and the media, are strongly committed to membership, this is not true of public opinion as a whole. Although the original membership applications were popular, support slumped in the aftermath of the first Danish referendum on the Maastricht Treaty last year and has not recovered to an equivalent extent following the second Danish referendum in May.

—Dick Leonard

Results of opinion polls held in July

	For EC Membership	Against EC Membership	Don't Know
Finland	48	37	15
Austria	43	35	22
Norway	35	45	20
Sweden	30	43	27

Although the Swedish figures are marginally more negative than the Norwegian, observers are more pessimistic about the prospects of winning a majority of Norwegian voters, as evidenced by the mood of the voters in Norway's recent elections. Yet in all four countries, a major effort of persuasion will be necessary if the ambitious objective set out at the Copenhagen summit is to be realized.

Can Europe

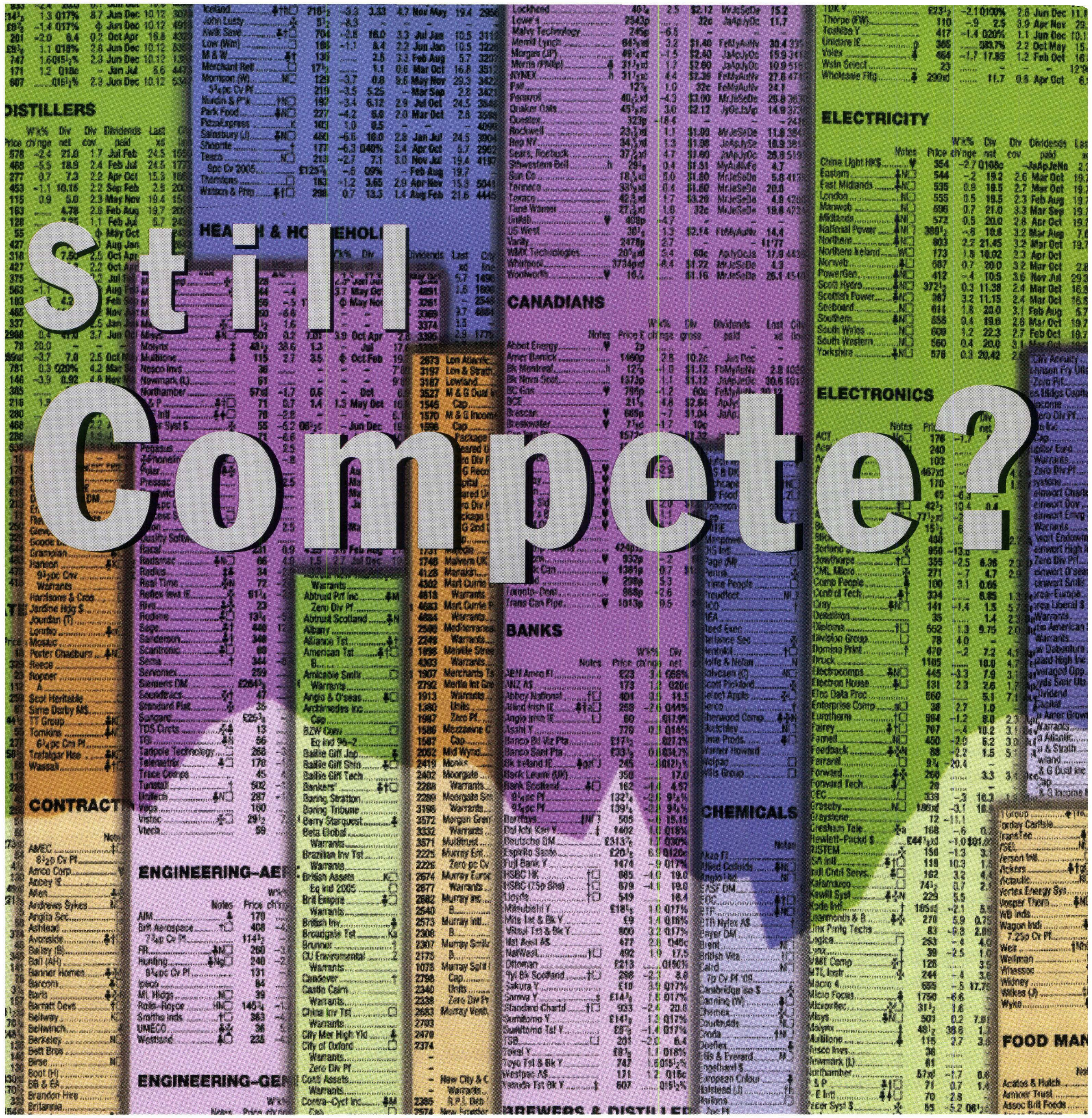
By Lionel Barber

AFTER THE ROARING EIGHTIES, the European Community has slipped into a period of sustained, slow growth. The economic outlook remains dominated by high and rising unemployment, with the total number of people out of work likely to pass 20 million in 1994. Already, fears are spreading that the EC economy is suffering a second attack of "Eurosclerosis."

Europe's relapse raises questions about Europe's economic orthodoxy. In place of the tough anti-inflation stand of recent years, a new politically-driven focus on the need to create and maintain jobs is gaining ground. The summer crisis in the Exchange Rate Mechanism only served to highlight the high risks involved in the common push to a monetary union for the Twelve, increasing the pressures for a less rigid approach.

Underlying these developments is the issue of Europe's relative strength in the global economy. No doubt some of the present concerns will evaporate once a recovery gets underway next year; but many will not, because they go to the heart of the question: Can Europe still compete?

The competitiveness debate has pushed itself to the top of the agenda on both sides of the Atlantic. President Bill Clinton intends to hold a summit of the Group of Seven Industrialized Nations this autumn to discuss new ways to create jobs. In December, EC leaders meet in Brussels under the Belgian presidency to focus on a special white paper on competitiveness prepared by Mr. Jacques Delors, President of the European Commission.



It is clear that macroeconomic difficulties are not solely to blame for the present competitiveness crisis. As Mr. Clinton pointed out recently, all the advanced nations are having trouble creating new jobs even when their economies are growing. What makes Europe's case especially worrying is that the underlying number of unemployed has been rising *regardless* of the ups and downs of the economic cycle.

A presentation by Mr. Delors to EC leaders in Copenhagen last June suggested that deeper, structural forces are at work.

• Between 1970 and 1990, the US and Japan created a net 29 million and 12 million new jobs respectively. The EC created 9 million new jobs, but many were in the non-commercial public sector.

• In the 1980s, Europe lost market share in the global economy in relation to the US and Japan. The EC gave up 3.7 percent, while the US share rose by 2.2 percent and Japan's rose by 0.5 percent.

• Sixteen out of every 100 unemployed in the EC are under 25-years-old. In 1991, one in every five young people in this category had been out of work for more than two years.

A recent study by the Organization for Economic Cooperation and Development laid much of the blame for the competitiveness crisis on the shift away from labor-intensive manufacturing in Europe.

By the end of the 1980s, one in five workers was employed in manufacturing—down from one in four in 1960.

Two factors appear to have been decisive in this third industrial revolution: competition from developing countries and the introduction of new technology, each of which reduced the demand for blue-collar, relatively unskilled male labor at prevailing wage levels.

Yet the US appears to have managed the change more effectively than its European competitors. Thus, the UK saw the proportion of manual workers in manufacturing drop from 56 percent in 1971 to 50 percent in 1990. The US saw a drop of 2.2 million workers in manufacturing between 1979 and 1989 to 12.3 million; but this was partly compensated by a rise in non-production employed by 200,000 to 6.7 million, thanks to a new investment in computers and upgraded technology.

The conclusion is that policies are needed which will create more skilled, and more attractive jobs, while enabling the unskilled unemployed to regenerate their skills or find alternative sources of work more easily. This is more easily said than done, because Europe faces special obstacles in tackling obstacles to job creation.

Viscount Etienne Davignon, Chairman of Société Generale de Belgique and one of Europe's leading industrialists, has called for new measures to promote small business as the best method of creating new jobs. In a recent interview with the *Financial Times,* Viscount Davignon suggested that larger companies were condemned to cutting costs (and jobs) to remain competitive. "Look at history in the US. The jobs don't come from IBM, Exxon, or General Motors."

As evidenced by Germany's growing unemployment lines, there is little question that the pressures of unification and the severe economic downturn have prompted German companies to take a much harder look at employment costs.

Coming from a former EC Industry Commissioner who in the early 1980s was renowned for his activist approach to economic management, these words suggest something of a Pauline conversion to laissez-faire policies. Like an increasing number of EC industrialists, Viscount Davignon recognizes that the promotion of small business will require a more flexible attitude toward the labor market, including the price of labor and the use of payroll taxes which are used partly to finance Europe's generous welfare state provisions.

Many political leaders in Europe remain reluctant to countenance anything which smacks of British-style labor market deregulation, let alone American hiring and firing practices. At the Copenhagen summit in June, Mr. Niels Helrig Petersen, Denmark's Foreign Minister, said he "would not advocate anything which resembles the American model where we see social problems, crime, and inner-city hopelessness."

Yet some reassessment of the costs of employing labor in Europe seems inevitable. For example, a recent European Commission study showed that a middle-ranking manager in a Belgian company on a gross salary of $2,800 a month costs an employer about $7,000 a month. Employee deductions for health insurance and other social policy perks reduce the individual's net salary to about $1,400. Even more telling, just firing the manager would cost the employer about three times his or her annual salary in compensation.

Europe's employers are eager to open a debate on the relationship between the welfare state and job creation, as well as the likely impact of the Maastricht Treaty's social chapter and future EC employment legislation. According to a recent memorandum from UNICE, the European employers confederation, the adaptation of the European system to the new competitive challenge is "inescapable" if Europe's relative decline is to be halted.

What is less certain is how far the European electorate shares European businesses' appetite for change. Germany is, perhaps, a bellwether for the rest of the Community. There is little question that the pressures of unification and the severe economic downturn have prompted German industrial giants such as Bosch, Mercedes, and Volkswagen to take a much harder look at employment costs; but even the most reform-minded leaders in business and politics are usually obliged to insist they do not support a rollback of the welfare state.

Among the Community's member states, the United Kingdom is far more explicit about the connection between unemployment and the welfare state's safety net for the unemployed. Other countries such as France seem more prepared to resort to tough trade measures to protect European industries from low-cost foreign competition. Mr. Delors, himself, appears to favor a more activist EC-wide approach through increased spending on research and development, beefed-up education and training, coupled with a loosening of restrictions on the establishment of employment agencies.

Fashioning an EC consensus on reform will not be easy. It is more likely that each member state will pick and choose the most palatable options, often turning to the Community as a "political cover" for unpopular measures such as reductions in public spending and some tinkering with the welfare state.

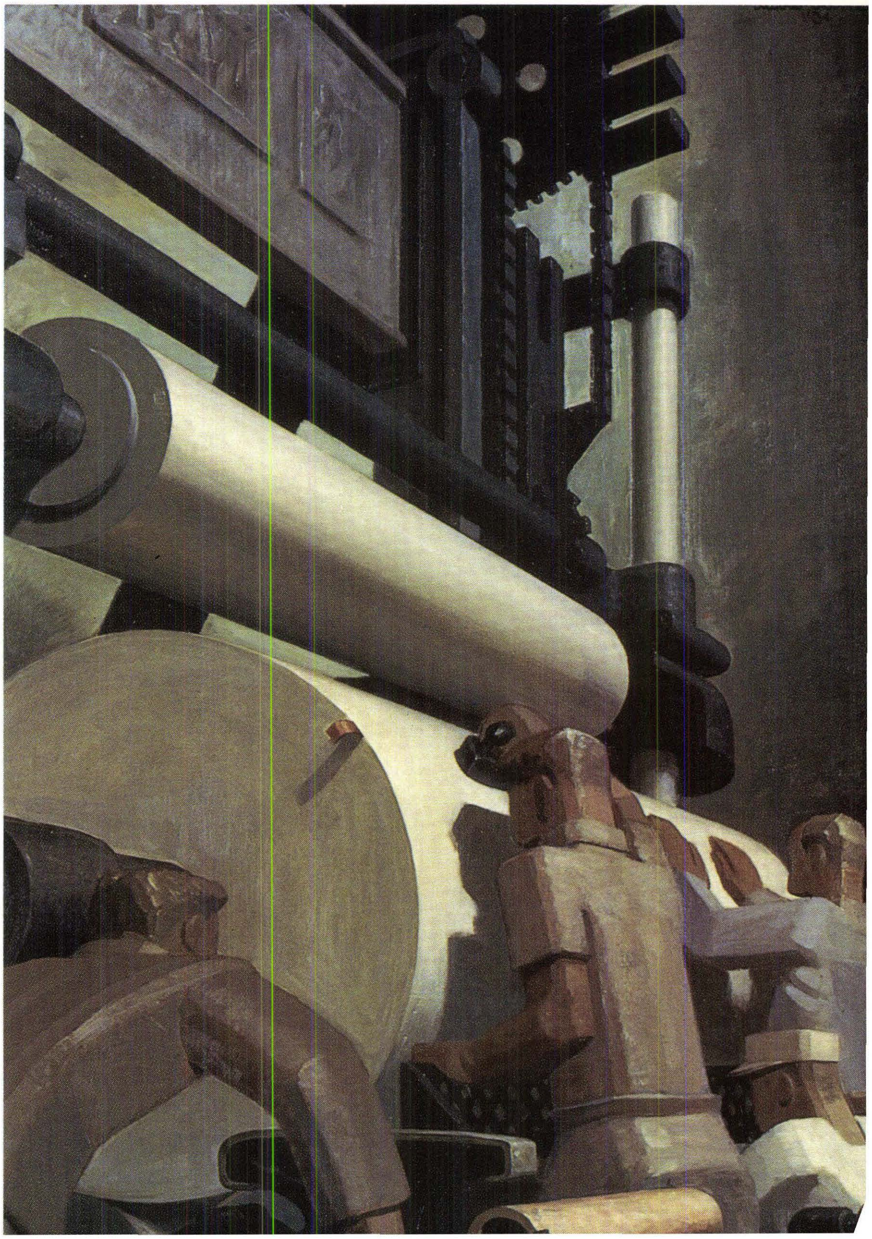
Yet there must be doubts about whether such a gradualist approach will work in the long-run, in the light of the competitive pressures from emerging economic powers in Asia, particularly China. As the EC approaches the 21st century, the stakes could not be higher.

Lionel Barber is the Brussels bureau chief for the Financial Times *and a contributing editor for* EUROPE.

The Jobless Recovery in the US

By Larry Reynolds

A CONFUSING AND WORRISOME REALITY on both sides of the Atlantic is that neither the US nor European economies seem able to create enough new, well paying jobs for its workers to guarantee real long-term prosperity.



Compared to Europe's 11 percent unemployment rate, the American economy appears relatively robust. Since 1991, Europe has lost some 4 million jobs. Meanwhile, the US has added 1.5 million positions. Yet, economic growth in the US remains stagnant with unemployment levels seemingly stuck at around 7 percent.

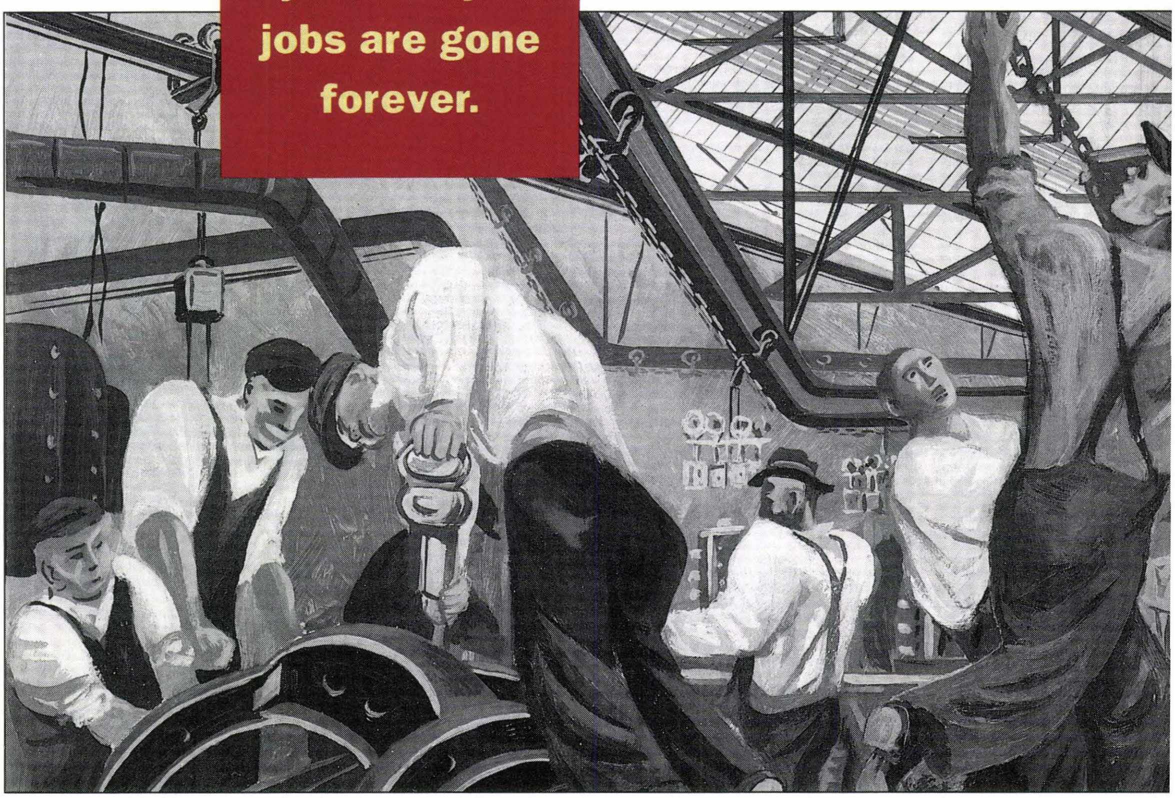
American businesses, especially smaller entrepreneurial firms, are creating new jobs—but not nearly fast enough to replace those lost to an ever expanding wave of corporate layoffs prompted by both the recession and corporate CEO's desire to re-organize their company's operations and pare payrolls to stay competitive. In fact, the US economy is only replacing jobs at about a quarter the rate of other recent post-recession recoveries.

This phenomenon has created what's being labeled a "jobless" recovery in the US where the traditional connection between increased corporate profits, economic growth, and job creation is seemingly—and perhaps permanently—severed. Policy makers are at a loss over how to reduce unemployment and stimulate faster growth.

"Putting people back to work is the Clinton administration's most urgent task, but it won't be easy" noted Senator Paul Sarbanes, Chairman of the Joint Economic Committee in Congress. "We are in the longest period of anemic economic growth since the Great Depression. Unlike after every other recession since World War II, rather than a vigorous recovery, we've had an unprecedented level of stagnation. None of the old rules, or answers, seem to apply. And, we've yet to come up with new ones that will put more people back to work."

The one thing most experts agree on is the world economy has fundamentally changed, and many of yesterday's jobs are gone forever.

After 30 some years of literally being the only game in town, American industry woke up in the 1970s to find itself faced with an energy crisis and the realization that Japan, Germany, and other countries had become serious rivals in both the domestic and world markets. Response to this increased level of international competition has escalated from rounds of selected job layoffs and corporate cutbacks to a complete restructuring of various industries and attempts by companies to completely re-invent or re-engineer themselves. As a rule, this has meant learning to do more with less people.



Even if they don't face immediate competitive challenges, most major US corporations have now geared themselves to constantly look for ways to streamline their operations and eliminate jobs as a matter of on-going policy. For instance, despite record earnings, last summer Procter & Gamble, the giant consumer and household products maker, announced it was eliminating 13,000 jobs. According to P&G's chairman, Edwin L. Artzt, "We felt our costs had gotten too high because the work process was too complex. I became convinced that if we did not reverse this situation, we would end up two or three years from now hitting the wall, as other companies have done."

In fact, over half of the corporate downsizings that took place last year were done for future "strategic" reasons rather than in response to immediate sales or profit pressures, according to the studies done by the American Management Association.

As constant cost cutting has become the corporate way of life, layoffs have hit record levels. In 1991, 25 million US workers—20 percent of the population—were unemployed at some time during the year, estimates the Conference Board, a corporate sponsored research group. Of these, a growing percentage will never return to their old job or employer as their position has been completely eliminated.

According to the Labor Department, the rate of permanent job losses among laidoff American workers has jumped from 30 percent in the mid-1970s to over 40 percent today. Meanwhile, the number of new job openings has plummeted 37 percent since 1984, estimates Harvard economist James Medoff. This trend isn't limited to blue collar and factory workers where job losses and lay-offs have normally been concentrated during a recession. As companies have restructured, pressure has increased to eliminate multiple layers of middle management to speed up decision making. According to some estimates, 60 percent of the layoffs in recent years have targeted managerial, administrative, and technical employees.

Those employees who have managed to keep their jobs often are asked to work harder and accept comparatively lower annual salary hikes. Even if they do still have a job, fewer workers feel secure about their future. In fact, more than half the employees in one survey said they were afraid of losing their jobs. Combine this job uncertainty with the huge amount of debt many households took on during the spending spree of the 1980s, and you get a situation where families are simply not purchasing major items unless they have to—and buying more necessities at discount stores—in order to save money and pay off their old bills in a US economy driven by and dependent on a constantly increasing level of consumer spending.

"There is a paradox here. When one company becomes more competitive by doing more with less, the result is greater productivity" observed economic commentator Robert Kuttner. "But when the entire economy competes that way, the income lost to displaced workers may outweigh the gains to productivity." In short, as companies become constantly focused on cutting their costs, paring payrolls to stay competitive and increase short term profits, more people are thrown out of work with fewer prospects of finding a comparable job. The result is fewer consumers able—or willing—to buy the products these companies make which further dampens economic activity prompting firms to look even harder for ways to cut costs.

Complicating the problems is the debate over the federal deficit. During an economic slump, the Federal government traditionally primes the economic pump by increasing spending or cutting taxes. However, that's become politically harder to do today, because of concerns about the size of the deficit. Indeed, to quell worries about the growth in the deficit, focus has shifted to slashing—not increasing—the rate of growth in federal spending, an action which has the short term effect of taking even more money out of the economy.

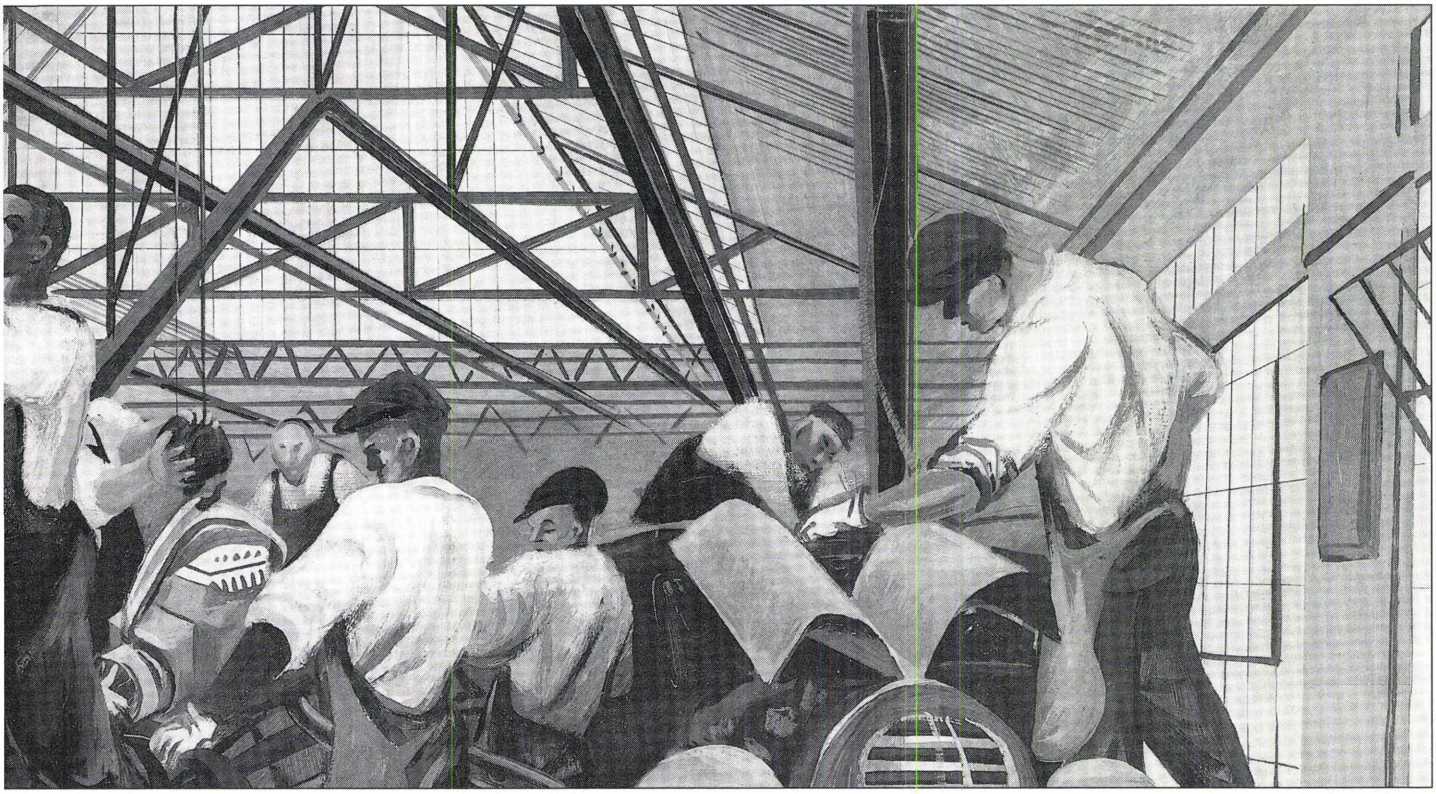
The one thing most experts agree on is the world economy has fundamentally changed, and many of yesterday's jobs are gone forever. "Even with complete macroeconomic recovery, it is likely unemployment will remain stubbornly high in Europe and that even in the US dislocated and disadvantaged workers will have difficulty finding new jobs," says Labor Secretary Robert Reich. In turn, Reich feels the "issue is not so much avoiding pain as it is coming up with a set of strategies to deal with the problem."

Part of Reich's solution for the US is added emphasis and opportunities for training and retraining workers so they can find—and keep—the highly skilled jobs that will be available in an increasingly selective employment market, while also forging greater levels of cooperation between labor and management to create the so-called "high performance" workplace tomorrow—a workplace theoretically capable of adjusting to competitive demands through increasing amounts of innovation and productivity with minimal need for continual lay-offs.

If there is a silver lining in the US jobs cloud, some analysts feel it lies in overseas markets. Because it has trimmed costs and restructured its work force relatively quickly, US productivity is now rising, and hourly manufacturing labor costs are dropping, faster than most other industrialized nations. Add in the fact more American firms are now aggressively entering foreign markets, and many observers feel this could set the stage for an economic rebound. "US productivity has been good. This tends to push per unit labor manufacturing costs down, eventually leading to higher employment" notes Ohio University economics professor Richard Vedder.

Still, no one is saying the jobs versus competitiveness debate is anywhere near solved. "No one has a solution, and there probably isn't an easy one," Labor Secretary Reich told the *Wall Street Journal*. "But, there is reason to think we know what doesn't work. The inflexibility of Europe's labor markets doesn't work. The relative failure of America to invest in our work force doesn't work. And protectionism doesn't work."

The remaining challenge is to find what does work.



Larry Reynolds is the Washington correspondent for Management Review *magazine published by the American Management Association.*

SUPER

Spain's Controversial Hometown Hero.

Headline writers on Spanish newspapers call him "Super Lopez," and to the captains of industry in Spain's Basque region, from whence he came, he's a hero. His former bosses at General Motors in Detroit once saw him as the savior of the company. Now, however, GM suspects that José Ignacio Lopez de Arriotua is a scoundrel.

Love him or loathe him, in auto industry executive suites there's no ignoring José Lopez. He has become his country's hottest export and a regular figure of the international business pages since he became a star at General Motors before jumping to Volkswagen last spring.

What has generated all this ink was Lopez's outstanding success at GM, and his highly publicized move to VW as purchasing and production chief. After Lopez switched companies, GM charged that he had taken along with him seven senior GM managers and plans for GM's European operations for the next decade.

In June, Lopez announced that VW wanted to build a cutting-edge manufacturing facility in his hometown, Amorebieta (in the Basque region) to turn out what he described as "the cheapest car in the world." According to press reports, a Spanish consortium would finance the plant which is expected to produce some 200,000 cars a year.

The project would provide an economic boost for the Basque region, an area that boasts spectacular scenic beauty, but which has suffered a steady economic decline because of its reliance on such fading industries as steel making and ship building.

Lopez says the reason he left GM was because management there had rejected his plans for such a factory in Spain in order to set up shop in Eastern Europe, which GM considers the next emerging market for automobiles.

He termed the GM decision "the biggest deception of my life," forcing his highly publicized move to VW. But that act touched off a nasty spat between Lopez and his erstwhile employer. GM charged that the factory in Amorebieta was a direct rip-off of the facility which the Spaniard had planned while at GM and dubbed "Plateau 6."

Indeed, the Americans went so far as to threaten legal action against VW if it goes ahead with the project. But Lopez said Volkswagen's new plant would be different from Plateau 6 (although he refused to say how) and maintained that GM has no basis for its complaint.

"Plateau 6 is one concept. I am not telling you what our concept is. We all live in a free continent," said Lopez, "and we are all free to develop ideas and make goods."

Lopez said that the new factory would help VW become more competitive against Japanese car manufacturers and give a boost to the industry in Europe as a whole. "My first priority is my country, and my country is Europe," he avowed.

The thin and balding executive has spent much of his brilliant career in the auto industry. Now 52, Lopez received a doctorate in industrial engineering from the University of Bilbao. His former classmates remember Lopez as a good student, shy, and a hard worker, but there was nothing extraordinary which hinted at his later success.

Lopez then worked for such companies as Firestone and Westinghouse before joining GM as a senior executive at its plant in Spain. In 1986 he was named chief of supply for General Motors-Spain, and two years later he was appointed purchasing director for GM's European operations.

It was here that Lopez really began what he claims was his life's work: turning around GM, the world's largest industrial concern, which had been losing billions of dollars for years.

Lopez went after the suppliers, insisting on steep cuts in prices. If they could not meet his demands on cost and quality, GM simply went elsewhere for its components. Soon

L O P E Z

By Benjamin Jones

GM's operations in Europe were the most cost-effective on the continent.

He then had the chance to apply the concept where it really counted, in the firm's loss-making North American operations. In less than a year, Lopez's methods had saved the company $1 billion.

Before he moved to Germany, Lopez was looked on as the savior of GM and just the fellow to stem the threat from the likes of Honda, Toyota, and Nissan.

And now Volkswagen, Europe's largest car maker and a company which is going through its own bad patch due to the recession, accompanying a sharp fall in auto sales and inroads into its markets by the Japanese, has given him the chance to do the same in Europe.

In an afternoon interview in July with the German daily *Die Welt,* VW chief executive Ferdinand Piech announced that he was putting the Basque plant on hold. "If you look at the overall economic situation, there can be no question of it at this time," he said.

At the same time, Piech said Lopez "is doing a tremendous job. He has 50 teams around the country studying how to improve production and searching for ways to cut losses." According to Piech, the company was already putting Lopez's methods into practice and would cut the number of its suppliers from 1,500 to around 100 and chop 12,500 employees from the work force, saving VW tens of millions of dollars.

In just a few months on the job, the Spaniard was already turning VW around and two things were clear: that America's loss was Europe's gain and that Super Lopez will certainly be heard from again. ⓔ

—Benjamin Jones

SPAIN

Working to Get Spain Working Again

By Benjamin Jones

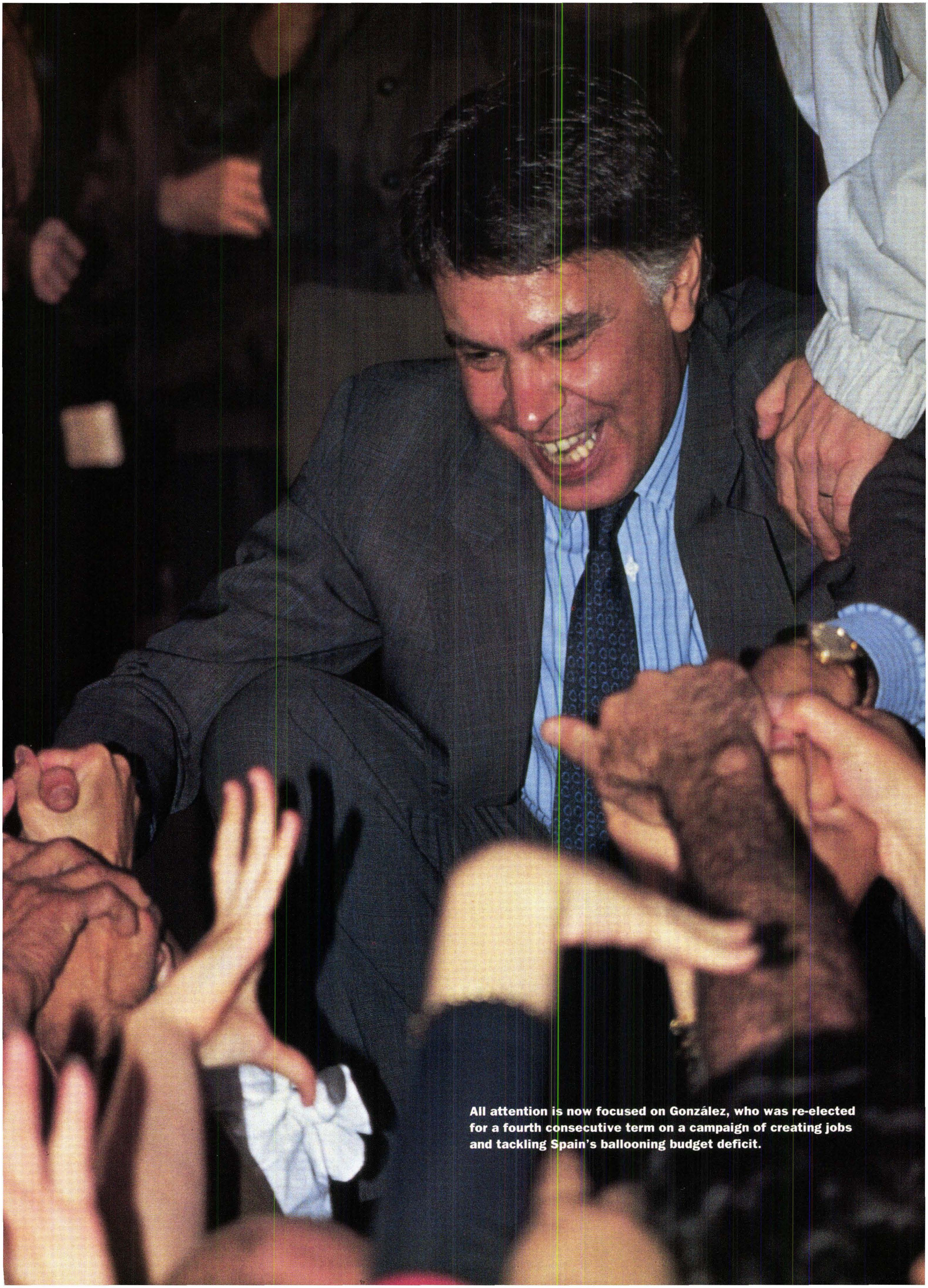
In the midst of this year's summer doldrums, when as always it seemed as if every last Spaniard were on holiday and absolutely nothing of note would occur, analysts at the Bank of Spain were beavering away and came up with a spot of good news for Prime Minister Felipe González. They reported indications that the country's worst recession in 40 years had perhaps bottomed out, and there was light, albeit faint, at the end of the tunnel.

According to their predictions, the Gross Domestic Product would decline by 1 percent in the second six months of the year, a significant, if slight, improvement over the 1.1 percent fall in the first half of 1993.

For González, just elected in June to his fourth term (but for the first time without a parliamentary majority for his Socialist Party) and facing a daunting task in turning the sickly economy around, the report was welcome. Barely a month before, King Juan Carlos had opened the new Parliament and told the politicians to put aside their differences and work to get Spain working again.

"The country's suffering an economic crisis with serious social implications, and the worst of these is unemployment," the King said. "We have to join our efforts and seek out compromises between political and social forces," to solve the problem.

Indeed, Spain's jobless rate of some 22 percent is the worst by far in the European Community, and González says his top priority is to tackle the economic problems, which also in-



All attention is now focused on González, who was re-elected for a fourth consecutive term on a campaign of creating jobs and tackling Spain's ballooning budget deficit.

clude a ballooning budget deficit, head on.

In naming his new cabinet in July, the Prime Minister clearly signaled his intent. Absent from the team were any so-called *guerristas* or allies of Alfonso Guerra, the left-leaning Deputy Party Chairman and former Vice President, who espouses the traditional Socialist line of favoring the workers, no matter what.

Wrangling between the *guerristas* and González' more monetarist supporters had triggered deep splits within both the party and the government, divisions which hampered efforts to put the economy back on track.

Also, González' post-election attempts to forge some sort of coalition government with Catalan and Basque nationalist parties came to naught, and so he needed a moderate and largely colorless cabinet which would help him attain some degree of political stability.

The exclusion of the leftists from the government won the applause of most businessmen, bankers, and editorial page writers on the nation's financial dailies.

The most significant change in the new 18-member ministerial team for the financial community was the naming of Pedro Solbes to take over the economy and finance portfolio, previously held by González favorite Carlos Solchaga, now the chief party spokesman in Parliament.

A technocrat and former Agriculture Minister but not a member of the Socialist Party, Solbes is considered extremely loyal to the Prime Minister, and Madrid businessmen say it is expected he will faithfully carry out González' wishes.

"But the question is, will Solbes be dynamic enough to make a difference?" commented one local businessman who feels that Solbes major problems will be to ensure that Spain keeps to those economic goals necessary for its eventual membership in the European Monetary Union convergence plan.

"He'll certainly have to do better than Solchaga," the businessman added.

González and his ministers have moved quickly on the economy. In early August, the government announced it was reducing this year's budget by $720 million (mostly through cuts in public works projects) and pledged a severe budget for 1994, which probably means more taxes and reductions in social spending.

And in a dramatic move in September, the Bank of Spain cut its key interest rate, without waiting for Germany's Bundesbank to take the lead as was the case in the past, by a half point to 10 percent. The government had been reluctant to cut rates—despite the urging of businessmen, economists, and union leaders—fearing that could spur inflation. But analysts said that with recent year-to-year inflation stable at about 4.9 percent, the bank decided it was time.

However, González' next, and perhaps most important, move to jump-start stronger economic growth will not be so easy.

Somehow, the government has to convince the powerful unions to agree to a so-called *pacto social* or social pact, which is being hammered out in talks with business leaders and is designed to run for three years and basically overhaul the Spanish labor market to make Spanish industry more competitive.

Ever since the days of dictator Francisco Franco, workers have enjoyed lifetime job security and guaranteed raises which are almost unheard of these days in the rest of Europe. For example, under existing law an employer has to pay a dismissed worker on a permanent contract two years of salary plus benefits.

It is this kind of regulation the government hopes to change in the social pact. The new government is also looking to freeze wages or peg raises below the inflation rate for a period of three years, provide greater job mobility, ease the introduction of part-time contracts, decentralize the wage bargaining system, and tie wage rises to productivity increases.

To sweeten what the unions see as a very bitter pill, the government is asking employers to plow dividends back into investments. In return for moderation in wages, companies will pledge not to lay off workers except in extreme circumstances.

To sweeten what the unions see as a very bitter pill, the government is asking employers to plow dividends back into investments.

At the end of the first round of talks on the proposed pact in September, it became clear just how hard it would be to reach an agreement. "These measures are unacceptable. They mean economic retrenchment," said Nicolas Redondo, the head of the General Workers Union, which is close to the left wing of the Socialist Party.

His remarks were echoed by Antonio Gutierrez, Secretary General of the Communist-led Workers Commissions, who predicted "all our sacrifices will not end in creating more jobs, rather there will be even more people on the dole queues in 1994."

"The total sacrifices of workers, civil servants, the jobless, and pensioners is five trillion pesetas (about $37 billion)," cautioned another leader of the General Workers Union, who said the unions would huddle and come up with their own set of proposals to present the government and business leaders.

The outcome of the first round of negotiations did not augur well for the government or for Spain, which needs an extensive overhaul of the job market in order to be able to create a viable employment program to take maximum advantage whenever the economic recession finally ends.

Benjamin Jones is EUROPE's *Madrid correspondent.*

Profile

Felipe González

With his graying temples and choir-boy grin, Spanish Prime Minister Felipe González is a well-known figure on the European political stage and is probably heading for status as a world statesman if the coming years prove kind. Quite an achievement for the son of a Seville dairy farmer.

In his recent re-election as Spain's leader for an unprecedented fourth term, González managed to pull off a feat that had eluded even such a master politician as the UK's Margaret Thatcher, and Germany's Helmut Kohl has yet to go before the electorate so many times.

And what was even more surprising was that González won despite ongoing corruption scandals involving his ruling Socialist Party, Europe's worst unemployment rate, and three devaluations of the peseta. All of which indicated, in the opinion polls anyway, that the conservative Popular Party finally had a chance to unseat González after more than 10 years in power.

But the voters returned González to the presidential Moncloa Palace (although without a parliamentary majority) and as he marks his eleventh anniversary in office this month, the Prime Minister can reflect on a job well done, at least in most respects.

When first elected as Prime Minister in 1982, González was only 40 years old, the youngest leader in Europe, and eager to pull Spain out of the damaging 40 years of isolation the country had suffered under Francisco Franco.

Just one year before, a gang of right-wing officers had sought to recapture those dark times by taking over the Parliament in an ill-fated coup attempt, and many people wondered if Spain was ready to be a part of a modern Europe.

González set out to be sure that it would be. In his winning campaign, the candidate promised "a policy of change" and was forceful enough to carry it out, even if over the years he has embraced pragmatism and in the process diluted the traditional left-leaning Socialist message in a successful bid to radically overhaul an entire nation.

He assuaged the rightist police and military, which posed a threat to democracy, by coming down hard on terrorist groups, such as the Basque ETA, and by finding a new role for the military by joining NATO.

In foreign policy, the Socialist's main effort was in Europe, where González quickly moved to make Spain an enthusiastic member of the European Community. But at the same time, the Prime Minister also built bridges to the US, Latin America, Asia, and the Middle East.

While bringing Spain into the international community, González did not ignore the home front, where the Socialists spent billions on infrastructure, welcomed foreign investment, and oversaw an economic boom in the late 1980s which made Spain one of the best performers in the world. Incomes rose, public services improved, and Spain, once a European backwater, gained respect.

All thanks to "Felipe" as most Spaniards refer to the Prime Minister, whose early life signaled an eventual role in politics. The only son of a farmer in Seville, where he was born in 1942, González studied law at the local university and then went on to earn a degree in economics at Louvain in Belgium.

González joined the Socialist Workers Party in 1964 and toiled hard to restructure and modernize a political group which had been outlawed and virtually destroyed by the Franco regime.

Six years later, the young Andalusian was made a member of the party's executive committee and became Secretary General in 1974. Following the death of Franco, the party was legalized and soon was recognized as the country's main opposition.

González' prestige reached its height in 1992, the year when Spain marked the 500th anniversary of Columbus' discovery with the Summer Olympics in Barcelona and Expo '92 in Seville. It seemed to many people, including González himself, that there wasn't much more he could do, and there were hints that the Prime Minister might step down.

"More than 10 years is a long time, God knows," González told one interviewer, "and I have no special attachment to this job, but I am still wholly enthusiastic about the project."

—Benjamin Jones

Spain's 'Ordinary' King

JUAN CARLOS

By Robert Latona

WHEN GENERAL FRANCISCO FRANCO died in 1975, jokes about the young heir designate, Juan Carlos, made the rounds. Nowadays, though, jokes about the King would only furrow the foreheads of even the most skeptical subject of Spain's thoroughly modern monarch, a constitutional figurehead who has nonetheless made himself personally respected and politically indispensable to his country.

"Spaniards are lukewarm monarchists but fervent Juan Carlists," one pundit has written. "We have a better King than we deserve," adds Nobel laureate Camilo José Cela and, according to a 1991 poll, the majority of his countrymen go along with that view. Seventy-seven percent of Spaniards believe the King has played a positive or very positive role in consolidating democracy. For what's it's worth, 60 percent are convinced their royal family—including Queen Sofia; their two daughters, Elena, 29, and Cristina, 27; and Crown Prince Felipe, 25—"is unlikely to give rise to public scandal" by their private or public behavior.

Other points of contrast with the harried House of Windsor highlight the laid-back lifestyle of the Spanish royals. No legions of courtiers. No billion-dollar art collection. No changing of the guard. A former hunting lodge outside the capital is a "real home" for its tenants, while the opulent Palacio Royal in Madrid opens its doors strictly for tourists.

"The Prince goes to classes at the university, comes back for a meal, and goes out again in the evening. The Princesses do the same. When we're all together we can pretend we're just an ordinary family," says the King.

A $5 million stipend from the government covers personal expenses and a skimpy household staff. And, yes, he pays taxes on it. Even the yacht he loves to sail is government property, and when the family goes skiing in the Pyrennees, they wait in line to take the lifts like everyone else.

Says former British Ambassador Nicholas Gordon Lennox, "He inspires confidence in people, and they feel able to talk to him freely. That is probably why he has always been so very well informed."

"In my family, being King is what we do for a living," says the 56-year-old heir to the House of Bourbon. But it took a series of flukes to land the job—two uncles renounced their dynastic rights and his father was bypassed for succession.

In fact, all the key moves that confirmed Juan Carlos as exactly the kind of King Spain so desperately needed have in some way required him to dramatically defy the "father figures" in his life or surpass the limited expectations they had vested in him.

Surely the most traumatic moment was when he thwarted the lifelong desire of his own father, Don Juan, to reign as constitutional monarch and prove that he deserved the crown taken away from his father, Alfonso XIII, who was booted into exile in 1931 when a republic was proclaimed.

Juan Carlos didn't set foot in Spain until he was 10-years-old. That was with the consent of Franco, his father's bitter foe, who was nonetheless shrewd enough to realize somebody would have to take charge of things after he was gone.

"Do you think I could have done what I've done for Spain if I had spent all my childhood in Portugal or Switzerland and come back speaking Spanish with a French accent?" Juan Carlos remarked just recently.

So for 20 years, Franco saw that he was educated by hand-picked tutors and his cronies in the military, until one day in 1969, the dictator told him that he, and not his father, would be the next king of Spain and what did he say to that?

There was only one answer possible, because Juan Carlos knew Franco would move ruthlessly to ensure permanent military rule, scuppering the monarchy altogether rather than cede it to his father.

"I realized the Spain my father was always talking about no longer existed," the King recalls. "The men and the women I met were nothing like those my father had known when he was 18 and had to go off into exile."

"But I could never bring myself to say, 'Papa, you've got it all wrong. Things just aren't like that. Your Spain and my Spain are two different countries.' " Saying yes to Franco provoked a family rift that lasted until 1977, when Don Juan formally abdicated in favor of his son. The King who never reigned died earlier this year.

By that time, Juan Carlos had also renounced the limitless authority bequeathed to him by Franco after retaining it just long enough to appoint a reformist Prime Minister and to get a proper constitution onto the drawing board.

The third testing came in 1981 when diehard elements in the military tried to stage a coup, sending Civil Guards bursting into Parliament to hold the lawmakers at gunpoint.

The King had graduated from all three military academies and was on close terms with most of the top brass. He pulled the plug on the putsch by phoning up key commanders across the country and getting them to reaffirm their loyalty to him.

It later came out that a former aide and mentor, Gen. Alfonso Armada, was one of the ringleaders. He had assured the other conspirators that Juan Carlos would go along with whatever transpired. He is still serving a prison sentence for his miscalculation.

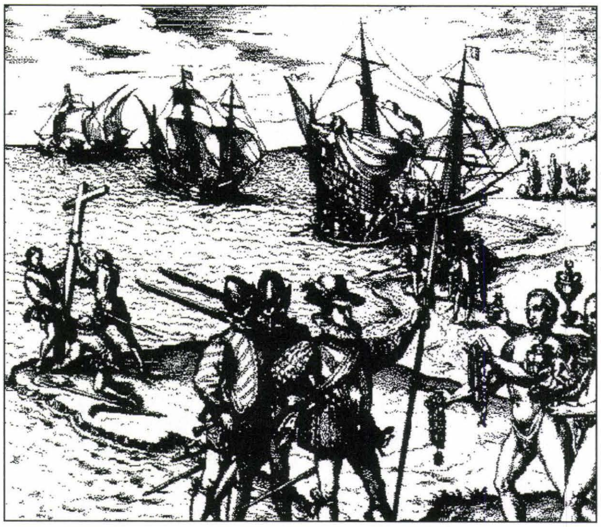
All during the long tense night when the future of Spain's democracy hung by a thread, Prince Felipe, then a 13-year-old schoolboy, was at his father's side. "Watch closely," Juan Carlos told him. "Nobody ever said this king business was easy, and someday it will be your turn."

Robert Latona is a journalist based in Madrid.

SPAIN'S LEGACY LIVES

It all began 501 years ago with three tiny ships. Though they carried an Italian at the helm, it was Spain who financed the adventure that began a stretch of Spanish influence in the new world that continues to this day.

About 20 years after Christopher Columbus' first voyage, another Spanish expedition set sail. Every school child in America knows that Ponce de Leon was looking for the Fountain of Youth (although it's more probable he was after gold). On April 2, 1513, de Leon landed near present-day St. Augustine on the east coast of Florida. It was Easter Sunday, so he named the area "Pascua Florida," in honor of the Easter Festival of the Flowers, and claimed it for Spain's King Ferdinand.



Other Spaniards followed de Leon's footsteps. In 1519, Alonzo Alvarez de Pineda sailed into what is now Mobile Bay in Alabama naming it the "Bay of the Holy Spirit." Promises of gold continued to lure others, such as Panfilo de Narvaez, who began his futile search in southwest Florida and traveled as far north as coastal Alabama.

On May 30, 1539, a rather commanding figure dressed in white landed near present-day Tampa. Hernando de Soto was from a wealthy aristocratic Spanish family and his army consisted of 10 ships, 570 men, 223 horses, and 300 hogs. De Soto went ashore amidst great fanfare heralded by silver trumpets and banners, and eventually pushed north to present-day Tallahassee where he observed the first Christmas in the new world. He continued west and became the first European to enter the Mississippi territory.

The largest expedition yet to visit the new world arrived in 1559 when Don Tristan de Luna landed at the site of present-day Pensacola. On board the 13 vessels in his party were 1,600 men, women, and children who planned to establish the first permanent colony. Unfortunately they were greeted by a raging hurricane that destroyed most of their supplies and all but three small ships.

In 1562 French Protestants called Huguenots claimed northeast Florida for King Charles IX of France. Spain did not take lightly to what it considered an intrusion onto its land and sent Pedro Menendez de Aviles to deal with the matter. De Aviles landed at what is now St. Augustine and massacred the Huguenots, thus ending French attempts to settle in Florida. Today St. Augustine is the oldest continuous settlement in the United States.

Spain's exploration and conquest continued until its holdings grew to enormous size: part of what is now the southwestern US, much of western South America, all of Mexico and Central America, nearly all the West Indies, and—far on the other side of the world—the Philippines. Yet the glory was short-lived due to a series of wars, bad weather, poor management, and overspending.

As the 18th century dawned, Spain spent the first half of it fighting with other European nations for control of Florida. In 1750, England captured one of Spain's prized possessions, Havana, and Spain was forced to trade Florida to get it back.

Thus when the American Revolutionary War began, it was no surprise to anyone that Spain sided with the colonies against England. Spain quickly recaptured Pensacola, and once again the area changed hands as England traded West Florida (an area that stretched from the Florida panhandle all the way to Louisiana) for the Bahamas and Gibraltar.

The situation grew bleaker for Spain as one by one all of her American colonies except Cuba and Puerto Rico declared their independence. Finally on Feb. 22, 1819, Spain signed a treaty ceding Florida to the United States. The US agreed to pay Spain $5 million for claims of Florida residents for property damage. No funds were ever exchanged, however, and legend has it that the ship transporting the money to Spain was sunk, although treasure hunters have yet to find it.

At the close of the century, Cuba and the Philippines joined the others in declaring their independence from Spain. The US sided with Cuba, and the Spanish-American War ended as Spain gave Cuba its independence and surrendered Guam, the Philippines, and Puerto Rico to the United States.

Today, 480 years after the first Spaniard set foot in Florida, Spain's legacy in the US lives on. More than 15 million of us speak Spanish. Even those who don't still sprinkle their speech with words like *alfalfa, alligator, armada, tomato, tornado, and vanilla*—all words we've borrowed from Spanish.

We live in stucco houses covered with red tile roofs; in cities with names like Los Angeles, San Antonio, and St. Augustine; and in states called California, Florida, and Nevada. We sip sherry, sample paella, and squeeze bushels of oranges, which the Spanish brought to St. Augustine in 1565.

We watch Spanish light opera called *zarzuela* and admire Spanish dancing such as bolero, fandango, and flamenco. We buy CDs and marvel at Pablo Casals' brilliant cello and Andreas Segovia's fiery guitar. We even savor American novels set in Spain, such as James Michener's *Iberia* or Ernest Hemingway's *A Farewell to Arms, For Whom the Bell Tolls,* and *The Sun Also Rises.*

It may be half a millennium since Spain financed the first expedition to the new world, but the country's influence lives on in our daily lives. And for that, we say, "¡Gracias, España!"

Elisabeth Ferrell is a writer based in Orlando, Florida.

Blood flows thick down the bull's heaving flanks, Cristina Sanchez–poised to kill–peers down the length of her sword, concentrating on the angry beast that only minutes before had nearly gored her.

The kill is always the hardest part. Not just for Sanchez–Spain's rising, 21-year-old female bullfighter–but for every matador who must leap over a wounded bull's horns to thrust a sword between its shoulders. It's difficult. And extremely dangerous.

Cristina Sanchez is gaining attention in a male-dominated sport.

Ms.

Watching the steely eyed Sanchez, the crowd in Toledo's bullring falls silent. Skepticism lingers in the air. A woman bullfighter?

Sanchez lunges. The crowd roars. The bull crashes to the sand.

"You always have to prove yourself or people will say it's because you're a woman that you failed," Sanchez said later, after fans had carried her from the blood-stained ring in triumph.

"You can't back down, no matter how many tries it takes."

Fighting bulls—even the 750-pound 3-year-olds Sanchez tackles as a novice—is a dangerous business and an exclusively male domain.

Although some half-dozen Spanish women have preceded her in the ring this century, Sanchez is still a pioneer. Her success in breaching one of Spain's last bastions of machismo both underscores the gains of women in Spanish society and highlights lingering discrimination against them.

"In theory we have equal rights. In reality it's not 100 percent," said Maria Pilar Marmol, secretary general of the Federation of Progressive Women, a Spanish feminist group.

"The fact that a woman is being accepted into a world so closed [as bullfighting] is a reflection of the changes in society in general."

Breaking down the legal and cultural barriers that only 15 years ago kept most of them in the home, Spanish women entered virtually every profession during the 1980s, though not in great numbers.

The traditional roles of mother and housekeeper still predominate, but figures from the government's Women's Institute indicate that a quarter of Spain's 16 million adult women now work outside the home—up 20 percent since dictator Francisco Franco's 1975 death.

But despite a growing Spanish awareness of women's rights, the concept is still novel here, and old attitudes die hard. Especially in the bullring.

"There will always be some people opposed to a woman bullfighting," Sanchez said. "People will say what they want."

And they do, sometimes shouting nasty catcalls from the stands to rattle her resolve. In the small bullrings where she fights like the one in Toledo, it's hard to tune out hecklers entirely.

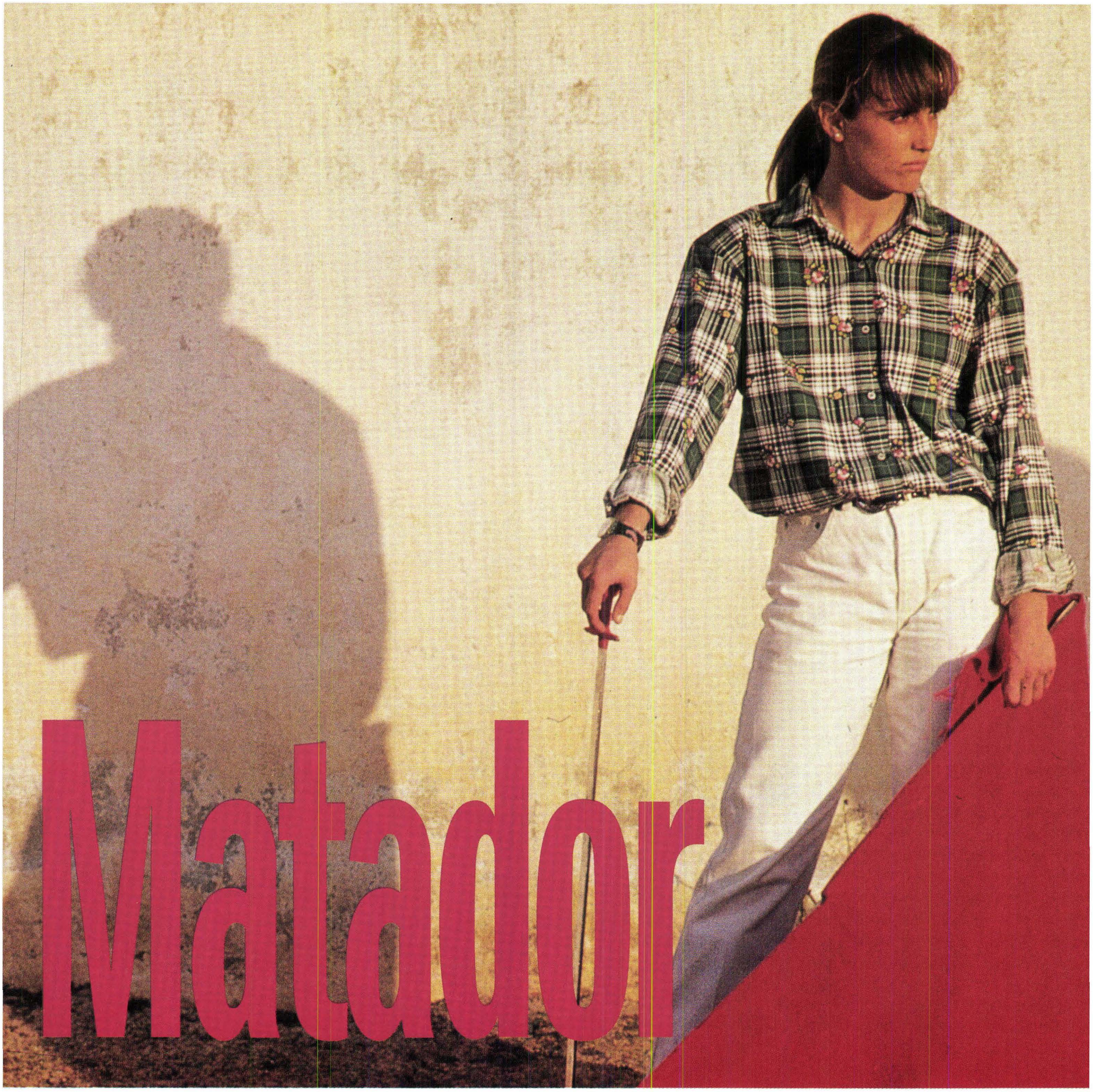
Within the proud and highly competitive bullfighting fraternity, most of her fellow toreros prefer to let their capes do the talking, trying their damnedest not to be outdone in the ring by a woman.

"In bullfighting there's a lot of machismo," said William Lyon, an American authority on bullfighting and a longtime bullfight columnist for Spanish newspapers.

"She gets less support from other toreros, but they know it's politically correct to say everybody should have an equal chance."

Bullfighting is serious business in Spain, where animal rights protesters wave the occasional placard but have had little impact on a tradition that attracts thousands of spectators—young and old, male and female, rich and poor—every week.

Women bullfighters first gained attention in Spain at the turn of the cen-



tury. A few mediocre male toreros even disguised themselves as women in attempts to advance their careers, Lyon said.

Of the few who entered the ring, however, most were treated as curiosities rather than as serious professionals. Bullfight aficionados regard *la corrida*—the bullfight—as a spiritual rite that demands as much artistry as bravery.

"There are others who have been a parody, and they've cheapened bullfighting. This young lady fights rather well for her level," said Juan Manuel Menor, Secretary General of the Spanish Bullfight Promoters' Association.

"She's a good torera," agreed Joaquin Vidal, Spain's terse dean of bullfight critics and a columnist for the daily *El Pais*.

But whether Sanchez can progress enough to fight the 1,200-pound 4-year-olds in major rings like Madrid and Seville is still uncertain, Vidal said.

"Like all *novilleros*, she needs a lot of luck," he said.

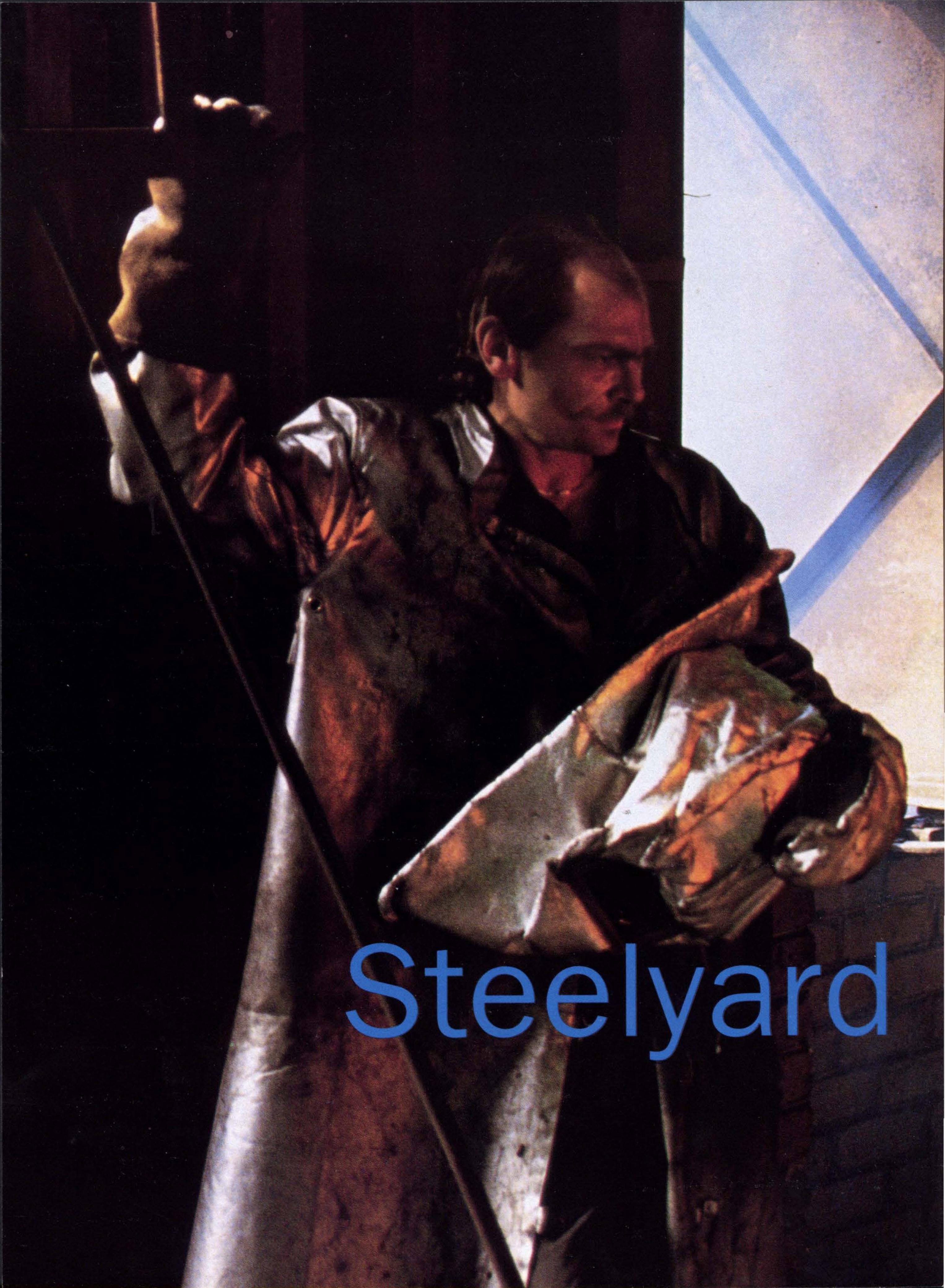
The vast majority of novices can't make the jump or are too afraid despite their dreams of glory. But most aficionados agree that courage isn't a problem for the 5-foot-6 Sanchez.

Her manager, Andres Viard, is determined that Sanchez not rush her career despite the publicity that has put her in the spotlight. Sanchez will not attempt her graduation to 4-year-old bulls for another few seasons, Viard said.

That's OK with Sanchez, already accustomed to hour after hour of practice at a bullfight school outside of Madrid.

"Perhaps I am an example," Sanchez said. "If a woman is willing to sacrifice, she'll make it."

John Pollack is a journalist based in Madrid.



Steelyard

Inside
EUROPE
October 1993 — Volume 2/Number 8

Stuart Eizenstat
Interview with US Ambassador to the European Community

Stuart Eizenstat, recently sworn in as the new US Ambassador to the EC, spoke to* EUROPE *Editor-in-Chief Robert J. Guttman about the major issues facing the US and EC.

Ambassador Eizenstat, an attorney and former Assistant to President Jimmy Carter for Domestic Affairs and Policy, discusses the importance of completing the Uruguay Round on schedule, job-creation in the US and Europe, and promoting democracy in the former Soviet Union and Eastern Europe.

How committed is the Clinton administration to meeting the December 15th deadline to complete the Uruguay Round?

[US Trade Representative] Mickey Kantor, in the strongest of terms, has emphasized that the President is absolutely committed to finish on December 15. He sees this as a real deadline and is going to do everything possible to meet it. There is a strong commitment that this, indeed, would be a real deadline and not just as in the past, another deadline to be missed.

Is there any suggestion of reopening the negotiations? What about the French wanting to reopen the Blair House agreements? What's the administration's views on that?

The administration's views are very strongly that Blair House was really a sort of a minimum level. It was much less than we would have liked in terms of reductions in subsidies, and that we think it is absolutely critical to keep Blair House unchanged and unamended, and that the EC implement what it agreed to.

What would be the consequences to the world system if the trade talks break down and we have no GATT agreement by December 15th?

We believe that a trade agreement is perhaps the single most important thing that the Western countries can do, both for themselves and to help the rest of the world grow. We think it's the most important thing in the short-term that can be done, beside lower interest rates, to help the European countries get themselves out of the recession. We think it will add measurably to both world growth and to growth in the United States and Europe and the Third World. A failure to reach a GATT agreement would be a prescription for slower growth than we would otherwise have. It would be a prescription for increasing trade tensions in a whole host of sectors, more individual suits and actions and anti-dumping actions. We think it would set off a cycle of trade disputes that would be very counterproductive to both growth and to positive relations between countries.

Every year the world hears that the Uruguay Round is going to end. Why should we believe the Clinton administration will follow through when others have not done it in the past?

This administration has not been in power for a year. Others have said it and haven't followed through. It obviously takes more than one party to reach an agreement, but this administration—the President, Mickey Kantor, Treasury Secretary Lloyd Bentsen, all the leading officials are completely committed to finishing this on time. We know that there's a lot of cynicism and distrust because of what's happened in previous administrations, but we want to be judged by what happens in this administration and not what has happened in prior administrations.

President Clinton had called for a jobs summit sometime this fall. Could you comment on this job summit and how the US and Europe can work together to try to help each other in creating new jobs?

This is one of my most important missions and that is for us to work together to learn how to grow together. We in the United States have created, during the decade of the 1980s, close to 30 million jobs, and the Europeans only about 9 million jobs with a roughly comparable work force.

But we don't have anything to crow about; many of the jobs we created were part-time jobs and were jobs at salary levels far below what had been the case in the 1970s. That's the reason why real wages in our country have for 20 years been essentially flat. The Europeans, on the other hand, have had difficulty creating jobs at all, and there is an enormous clamor in both the United States and in Europe, on both sides of the Atlantic, for higher levels of job creation and higher levels of economic growth. We don't think that we should be in the position of lecturing to Europe. We have things to teach them and to share with them, and they have things to share with us and to teach us. So we think that this jobs summit is very important, and that in the end—and this is not just a cliché—we really cannot reach our maximum potential economically on this side of the Atlantic, nor can they reach theirs, unless we grow strongly and they grow strongly. If our exports are depressed by their recession, and in turn if their exports are depressed because our growth is not as high as it should be, we each can't reach our potential. We need each other very badly at this point to be engines to get the recovery going on a sustained basis.

Can governments really help the recovery? Shouldn't that mainly be left to private enterprise?

The government can't snap its fingers. I certainly learned enough about that in prior government service. What government has to do is set the environment and the context in which the private sector is able to make decisions which create growth. That means reducing the barriers to growth in the form of high deficits, structural barriers to trade, over-reliance on subsidies, the creation of flexible labor markets, stimulation to research and development—an environment in which low interest rates can occur, which are not in and of themselves sufficient to ensure growth, but are a necessary ingredient in which government has a very real role to play.

You said one of your most important goals as the new US Ambassador to the EC is creating jobs. What are your other major goals?

First, it is to make it clear that Europe is still central to US foreign and economic policy. The question which the Europeans are asking either publicly or privately, "Do we matter to the United States anymore; are we now, with the cold war over, a secondary and tertiary concern?" has to be answered with a very ringing declaration, which I intend to carry as forcefully as I can, that Europe is central; we share a tremendous set of values, democratic, human rights, pluralism; and we share an economic future as the two great engines of the world together with Japan that make the world economy really work. And that the agenda, which needs to undergird the centrality, would be the following: The promotion of economic growth through open markets, through flexible labor markets, through the kind of macroeconomic coordinated policies that we're trying to implement with Europe.

Second, promoting democracy in the former Soviet Union and in Eastern Europe. We have great experience on both sides of the Atlantic with functioning democratic institutions, and we can also help create the environment in which democracy is translated into economic improvement. That means lowering barriers to trade by Eastern Europe in agriculture, textiles, steel. It means providing technical assistance as well as open markets to the former Soviet Union. It means continued aid, which the EC has been very good at doing with both Eastern Europe and the former Soviet Union. Third, to undergird again this centrality and to have an agenda with some meat on the bones, is to work on the proliferation issue so that we keep weapons of mass destruction, or the capability to make them, out of the hands of radical countries including Iran. Fourth, is working on the trade issue. And this is both the Uruguay Round and on a sectoral basis. I would like to try to see if we can't develop early warning systems for trade disputes so they don't get out of hand. So that we do sectoral studies and we identify emerging problems and try to nip those in the bud. Then I would like to see carried out what Joan Spero, our Under-Secretary for Economic Affairs, so successfully launched at the end of June. And that is to faithfully implement the communications and interaction called for by the 1990 US/EC declaration which frankly has been more moribund than this administration would have liked to see. This administration is committed to breathe life into that declaration by having the kind of subcabinet context that was initiated in June.

What do you see as the main structural problem in Europe today?

There is a structural problem in European economies, some of which we had to deal with in the 1980s in a very painful way with the restructuring of whole industries, the elimination of layers of management, the development of more flexible work forces. Those structural problems are going to be addressed by Europe's leaders. Jacques Delors is interested in doing that, and he's working on a plan to do that. And that, together with the beginning of lower interest rates, can create an environment in which Europe can get itself out of a recession next year. But it's a mistake to think that low interest rates alone are going to solve Europe's economic woes.

Will Europe's problems recede if the recession goes away next year?

There certainly will be scars left, but a lot of the kindling wood that created that fire has come from economic dissatisfaction. It's very difficult when your own job is threatened, when your own income has been flat, when young people can't get work. It's very difficult to get people to act expansively to further the integration process in Europe and to open your gates more widely to immigration. We've seen that even in our own country; our immigration laws are increasingly strict. It is the nature of countries and of people when things are difficult economically to hunker down, to look internally and not act expansively and internationally. So, the best anecdote to that is a recovery. There may be other factors, but that's by far the most important.

Do you see Germany as the key player in the EC and on the continent of Europe today?

Germany is still the engine of Europe's economy, and the Franco-German relationship is still the linchpin of the Community. There is a continued commitment even with the difficulties in the monetary side, which I think by the way have been handled quite positively by Europe, and it ought to feel good about itself in that respect. Those have led to less tension than might otherwise have been the case. Chancellor Kohl recognized some of the tensions that the Bundesbank's original decisions not to lower interest rates created in France, and he's made a real effort to repair it. But the Franco-German relationship remains the linchpin to the European Community.

Another European tourist has been killed in Florida. How are we going to convince Europeans that the United States isn't a dangerous place to visit?

How are we going to convince Americans that America is not a dangerous place? We know that it's a dangerous place, and the President has an anti-crime bill which would add further teeth to the penalties for some crimes, would add several thousand police to the force. We're working on some of the social problems that undergird and cause crime. We know that there are many places in this country which are unsafe, and what we have to say to Europe is there may be certain areas in certain cities which are unsafe, but by and large most of the country is in fact safe. I think that's the case.

Is there an entity called Europe today?

There is an entity called "Europe." Increasingly people are thinking "European," especially young people. European business, and certainly American business, is increasingly thinking of Europe as an entity, a place to do business across national lines. Even with some of the problems that the Community has had in the last year or so, there is still a determination in a quiet way toward greater integration and toward more cooperation. The institutions of Europe are taking hold, and the Court of Justice is really becoming a real institution. The Commission continues to do well. The single market has basically made it almost completely on time in 1993. The Community has had periods, like the late 1970s and early 1980s, when it has not moved forward as fast as possible in the integration process, but it's never had a period when it's actually moved backward. There really is a Europe. It's not going to be and they don't want to create it as a mirror image of the United States of America. It's going to be a *sui generis* institution, an area in which certain sovereign powers are ceded and others are kept. But even in those areas where power is kept to the countries, the increasing communication between countries under the auspices of the Council of Ministers, is ensuring that more and more Europe acts and thinks and speaks with a common voice. From a US perspective that's all to the good. We strongly support it, and I hope I can further encourage it.

WHAT THEY SAID....

"The 12 consider President Yeltsin's decision as an inevitable consequence of the impasse created by the conservatives who have for months sabotaged, boycotted the process of democratization via the Parliament and even the central bank."

—Willy Claes, Belgium's Foreign Minister, speaking for the Community regarding Russian President Yeltsin's call for new elections and dissolving Parliament.

"I in particular, and the European Commission with me, rejoice at this accord on mutual recognition between Israel and the PLO which is an essential step towards the establishment of a durable peace in the Middle East and the putting into effect of Palestinian autonomy in the Gaza Strip and Jericho."

—Jacques Delors, President of the European Commission.

"In essence we, Europeans, need a new social pact to lead us into the 21st century—a competitive, equitable, and socially just Europe where access to work will not be the preserve of the privileged few."

—Pádraig Flynn, EC Social Affairs Commissioner, in a speech to the Trades Union Congress in Brighton, England.

"We are very modest people. We feel that we got the credit that we should. Our role was part of a bigger picture, and we've been careful to underline that."

—Vegard Ellefsen, Norwegian Foreign Ministry spokesman, on Norway's role as mediator in the Israeli-PLO peace agreement.

Business Briefs

Mercedes Benz lifted the gloom enveloping the European car industry by announcing it is investigating sites in the United Kingdom, Germany, France, and the Czech Republic for the construction of an assembly plant to produce its planned small car.

Although the European car industry is suffering from severe overcapacity, Mercedes has to build a plant to launch its first foray into the small car market.

Mercedes plans to produce around 200,000 cars a year by 1997 at the latest and is aiming for a 2.5 percent share of the global market for small models, which currently totals around 8.5 million.

• • •

European companies are still looking across the Atlantic for acquisitions despite the attractions of the single market launched on January 1.

Three companies spent over $1 billion in the latest investment wave.

Cadbury Schweppes, the British soft drinks and candy company and often rumored to be a takeover target, snapped up **A&W Brands Inc.,** the leading American rootbeer maker, and raised its stake in **Dr. Pepper/Seven-Up Cos.** to 25.9 percent in a move that could lead to a bid for the entire company.

Reed Elsevier, the Anglo-Dutch publisher, agreed to acquire the assets of *Official Airline Guide,* part of the late Robert Maxwell's empire for $417 million, giving it a significant presence in the US travel publications market. Reed Elsevier already publishes ABC World Airways Guide, whose customers are mostly outside the US.

Polygram, the record and film unit of Philips of the Netherlands, is paying $301 million for **Motown**, the Detroit-based record company.

• • •

European airline bosses clashed over ways to restore profitability with **British Airways** and **SAS** chiefs pushing for more competition while **Air France, Alitalia,** and **Sabena** pleaded for extra government support.

"We must find a halfway house between bureaucracy and the jungle," Air France chairman **Bernard Attali** told a public hearing held by the EC Commission.

Giovanni Bisignani of Alitalia warned that without more regulatory protection, Europe's airline industry was at risk of a collapse as dramatic as the breakdown of the European Monetary System in the summer. **Pierre Godfroid,** chairman of Sabena of Belgium, called for EC funding to help carriers to restructure. "We expect no more than what the Community did for other industries," he said citing railways, steel, textiles, and agriculture.

But British Airways chairman **Sir Colin Marshall** said airlines must cut costs, find a niche role, or go out of business, while **Jan Carlzon,** chief executive of SAS adopted an even tougher approach. "We have to allow bankruptcies...there can be no salvation for those who can't compete, no matter whose flag they fly."

• • •

Renault and **Volvo** will tie the knot in January in 1994 to create Europe's second largest and the world's sixth biggest auto maker, with annual sales of $40 billion and a 200,000 strong payroll, in a merger which could prove the first of a series of alliances in the fast changing European car industry.

The new company, 65 percent owned by state-owned Renault and 35 percent by Volvo will make 2.5 million vehicles a year, leapfrogging **Ford** and **Fiat** with a 12 percent share of the European market and a fifth of all truck sales.

The Franco-Swedish alliance is the latest in a series of Pan-European mergers in the past few years, including **Asea Brown Boveri** (Sweden/Switzerland), Reed Elsevier (UK/Netherlands), **GEC** Alsthom (UK/France), and **Carnaud Metalbox** (UK/France).

• • •

Germany's privatization agency, the **Treuhandanstalt,** had only 20 large combines on its books in mid-September four years after it started to sell off some 13,000 firms owned by East Germany's former communist government.

The massive sell-off has generated more losers than winners with nearly 3 million industrial jobs lost in the past three years, but it has had an impact on the Bonn government, which is planning a sweeping privatization program to improve industrial competitiveness in the West.

The federal government plans to sell holdings in the telecommunications, housing, road, and rail sectors, as well as in the airports, seaports, and forests.

• • •

Generali, Italy's largest insurance company said it intends to spend more than $130 million on investments or acquisitions in "Anglo Saxon" markets.

Generali, which is sitting on a $750 million cash pile, is also mulling a similar investment in Latin America, and smaller outlays in East Asia and Eastern Europe.

• • •

Cable & Wireless of the UK and Germany's **Deutsche Telekom** have teamed up with **Ameritech** of the US in a consortium bidding for a minimum 30 percent stake of **Matav,** Hungary's state-owned telephone monopoly.

Analysts say Matav is worth over $3 billion, making the share sale one of the biggest privatizations in Eastern Europe and the first disposal of a telecommunications utility.

• • •

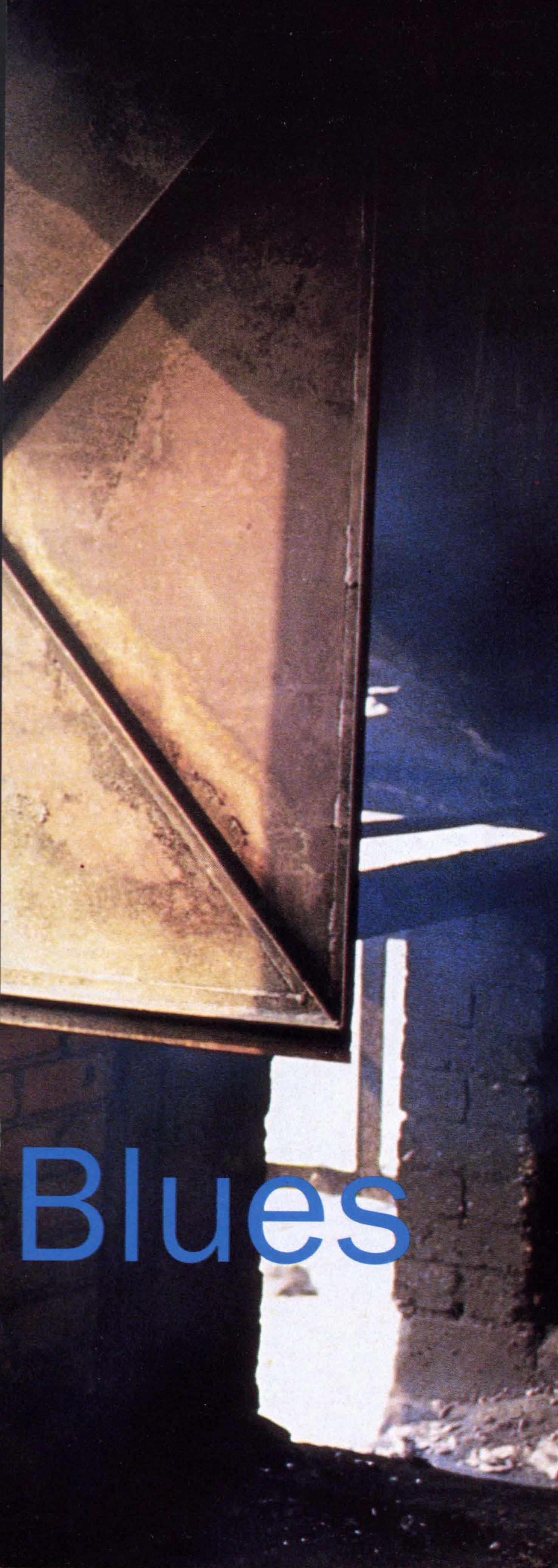
Heidelberger Zement AG of Germany plans to buy Belgian cement maker **CBR SA** for around $1.5 billion to create the world's fifth largest cement company.

Both companies have recently acquired major cement producers in Poland, Hungary, and the Czech Republic and the acquisition will make Heidelberger a top player in the fast-growing East European construction market.

The vendor is **Société Générale de Belgique**, the sprawling conglomerate that controls around a third of Belgian industry.

—Bruce Barnard

INSIDE EUROPE
Correspondents
Bruce Barnard
Reuters contributed to news reports in this issue of *Inside Europe.*
Inside Europe is published by the Delegation of the Commission of the European Communities, 2100 M Street, N.W., Washington, DC 20037.



Blues

Europe's steel industry is mired in a 1930s-style recession with tumbling prices, declining demand, ballooning overcapacity, and a surge of cheaper imports from Central and Eastern Europe threatening a mass closure of mills across the continent.

The European Community Commission has drawn up an ambitious rescue plan that will allow EC governments to pump subsidies into their steel makers in return for substantial cuts in capacity and tens of thousands of job losses.

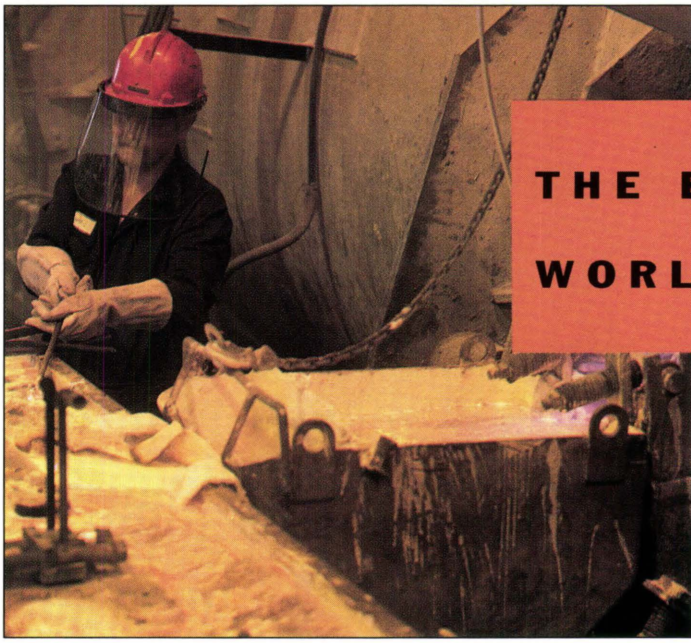
The Commission says EC steel makers must slash production capacity by 20 percent—some 30 million tons of crude steel and 19 million tons of products—and layoff at least 50,000 of their 370,000 workers by the end of 1994 to balance supply and demand.

Steel makers have been given until the end of September to come up with a credible plan to qualify for a $1 billion handout to finance closures and cushion layoff costs. The EC's special "steel envoy" Fernand Braun has spent eight months talking with more than 70 steel makers in an effort to target potential plant closures.

By Bruce Barnard

The industry says the Commission's figures are overly optimistic, overtaken by events. "We believe it more likely that 100,000 jobs will go," said Ruprecht Vandran, Chairman of the German Steel Industry Federation.

And the final cost of the bailout will be close to $7 billion according to seasoned industry-watchers.



The rescue plan is in jeopardy because EC countries are haggling over who should bear the brunt of the cuts, while the Commission is at loggerheads with Italy, Spain, and Germany over plans to spend $12 billion of state subsidies on their ailing steel makers. Private steel companies in Northern Europe are demanding an end to government support of their state-owned rivals in the South.

EC industry ministers were scheduled to hold a "make or break" meeting this fall to clear up the outstanding subsidy cases to pave the way for the launch of the EC-wide rescue plan in the fall.

The meeting was postponed from July because Spain and Italy were opposed to the capacity cuts demanded by Brussels. The EC Competition Commissioner Karel van Miert warned that an inconclusive outcome will plunge European steel into "chaos," triggering a futile subsidy war between member states that will sink the rescue plan and deepen the crisis.

The more efficient private sector steel makers could be driven out of the market by their loss-making, but politically powerful, state-owned rivals with access to huge amounts of taxpayers' money.

The Commission was engaged in non-stop behind the scenes bargaining with EC industry ministers in the run up to the September meeting. But the chances of success were no better than fifty-fifty because EC law demands unanimous approval by all 12 countries in aid cases.

THE EC IS STILL A MAJOR WORLD STEEL POWER.

Europe is suffering from a worldwide steel recession that has plunged even the resilient Japanese firms into the red and prompted American companies to seek protectionist barriers against imports from 19 countries.

European steel makers are operating at below 70 percent of their capacity as demand from the recession-mired auto and construction industries dries up. German steel firms have been hard hit by the collapse of the post-unification construction boom in eastern Germany.

Prices for some steel products have plunged by as much as 40 percent to levels not seen since the 1970s. Steel makers have blamed the price collapse on a "flood" of cheaper imports from Central and Eastern Europe which forced the EC to slap quotas and anti-dumping levies on the new competition.

In reality, Eastern Europe is no more than a convenient scapegoat. It shipped only 5 million tons to the EC last year, barely 4 percent of the Community market. East European steel makers are hurting much more than their Western counterparts since they have been denied cheap energy and raw materials from the former Soviet Union and facing a huge slump in demand from the armaments industry, they have halved their work forces in the past three years.

Europe's steel makers got an unexpected break in early July when the US International Trade Commission, in a largely unexpected ruling, rejected most of the duties imposed on steel imports from seven EC countries.

The US Commerce Department's decision to impose the provisional duties earlier in the year in response to unfair trade complaints by American steel companies, threatened to choke off one of Europe's main foreign outlets. The duties covered 1.9 million tons of the 4 million tons of EC steel shipped to the US in 1991. The ITC ruling reduced the total subject to duties by about 50 percent.

The Commission's determination to wean steel makers off subsidies reflects its fear of a repeat of a rescue plan in the 1980s that failed to cure the industry's structural problems. European steel makers almost halved their payrolls and doubled productivity in the 1980s. But it wasn't enough. After receiving a staggering $55 billion in subsidies between 1975 and 1990, the industry is passing the hat around again.

The EC is still a major world steel power. Its 1992 output of 132.5 million tons accounted for 22 percent of global production. Everyone agrees it has to be cut down to size as newcomers enter the market, but no one can yet agree how to achieve a leaner industry.

The Commission is standing firm on subsidies in the face of enormous political pressure from EC governments, particularly those which have state-owned steel industries.

Brussels told Spain it must offer steeper capacity cuts to win approval for a $6 billion state aid package to finance 10,500 layoffs and a 2.3 million-tons-reduction in output. The sticking point is Madrid's plan to finance a 1 million tons per year mini mill in the volatile Basque region, which would cut Spain's overall capacity reduction to only 1.3 million tons.

Italy has been told its state-owned

steel maker Ilva must cut capacity by 3 million tons to justify a $5 billion debt write-off. Ilva itself claims it isn't getting any state subsidies at all.

More controversially, the Commission rejected a $1.2 billion subsidy to Ekostahl, the East German steel maker, because some of the money would be used to increase output of glutted products.

The United Kingdom and the Netherlands are urging a tough line against subsidies to create a level playing field for private and state-owned steel firms.

Germany's private steel industry, facing widespread bankruptcies, plant closures and tens of thousands of job losses, says Italy and Spain must contribute 15 million tons, or half the cuts sought in the rescue plan.

Subsidies to Spain and Italy are the main cause of the industry's crisis, according to Heinz Kriwet, Chairman of Thyssen Stahl, Germany's biggest producer.

Italy and Spain are fighting back against the Commission and the northern steel producers.

"If competition means fair trade, that's fine. But if by competition they mean acting as judges then that's not acceptable," said Hayao Nakamura, the former Nippon Steel executive who now runs Ilva.

Mr. Nakamura favors the Japanese-style practice of raising prices and agreeing production cuts rather than Commission-imposed plant closures.

The Ilva executive claimed the Commission's approach reflected the desire of some big Northern European steel makers to eliminate capacity in Southern Europe to gain market share.

Spain complained about the "aggressive attitude" of private steel companies, but it has sought a compromise by saying the Basque mini mill may be financed by private investors.

Much of the rhetoric is for domestic political consumption as unpopular governments try to soothe voters' concerns about the surge in unemployment. Most EC governments, even those who have used their state-owned steel industries as job providers, know they will have to bite the bullet.

They have no other choice.

Bruce Barnard writes from Brussels for the Journal of Commerce *and is a contributing editor for* EUROPE.

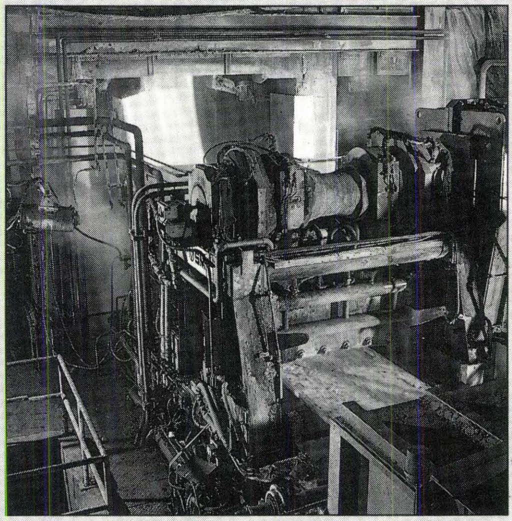
Mini Mills: Small Is Beautiful. While giant steel makers plunge into the red, seeking subsidies and protection to stay afloat, a select breed of steel companies in Europe, the United States, and Japan are boosting their sales.

These companies produce steel from so-called "mini mills" a quarter the size of the giant rolling mills and blast furnaces of the big integrated steel companies.

Mini mills are cheap; a bargain at around $500 million for a 2 million-tons-per-year plant compared with $1 billion for an integrated plant with a blast furnace. Their fixed costs are 30 percent compared with 70 percent for an integrated mill, helping them to survive market downturns. They feed cheap scrap metal into small electric arc furnaces rather than the iron ore and coke used by traditional mills.

Big Steel in Europe, Japan, and the United States is paying the cost for shunning mini mills. The privately owned mini mills in northern Italy are making money, while their state-owned rival Ilva is saddled with billions of dollars of debt.

Nucor, the leading US mini mill company, has come from nowhere to be the nation's sixth largest steel producer. Mini mills have boosted their share of the US market from 14 percent to around 25 percent in the last few years.



Tokyo Steel, Japan's top mini miller with annual sales of $1.6 billion, kept on growing while its bigger rivals were downsizing, though it too has hit a slowdown. Mini mills now account for nearly a third of steel sales in Japan.

The big steel companies were not interested in mini mills because they produce lower quality, lower margin products, such as beams for the construction industry.

But mini mills have taken advantage of new technology to move into higher quality products, such as flat rolled steel used in autos and domestic appliances, which until now has been dominated by the big integrated steel makers.

Mini mills are big business in the US and Japan, where many of them are owned by the big integrated producers. Steel makers in Southeast Asia are also investing in mini mills, making their exports to the industrialized countries even more competitive.

European steel makers have not caught the bug, claiming high labor, electricity, and scrap costs make them an unattractive proposition. They claim they can meet the mini mill challenge by investing in new technologies which are cutting costs to the level of the upstarts.

But their resistance will crumble rapidly if East European steel makers turn to mini mills to support an export drive to Western Europe. The threat is real according to Beddows & Company, a British steel consultancy, which reckons Eastern Europe could build up to 26 mini mills churning out nearly 50 million tons of steel per year.

Western Europe is at last waking up, with mini mills planned in Spain and Eastern Germany. The only problem is they are to be financed with government money and so far have not been accepted by the European Commission.

—Bruce Barnard

Confronting Industrial Policy: The View from AMERICA

By Gina Gianzero

ALEXANDER HAMILTON wrestled with it in the late 1700s. Leaders of the industrialized world wrangle over it today. Undiminished over time, the cyclical debate over industrial policy as a means of improving economic competitiveness continues to defy easy resolution.

Jobless growth and heightened competitiveness represent interrelated prongs of a unique dilemma confronting the industrialized world today. Although higher national productivity has enhanced international competitiveness, it has paradoxically obstructed the stimulus to job creation that normally accompanies economic recovery. Economists and policy makers now proffer the creation and maintenance of high-wage jobs as a primary means of reviving languishing economies. The extent of state involvement in catalyzing the development of industries that support high-wage jobs has, however, formed the grist for lively debate over the proper role of government in restoring a nation's economic competitiveness—the industrial policy debate.

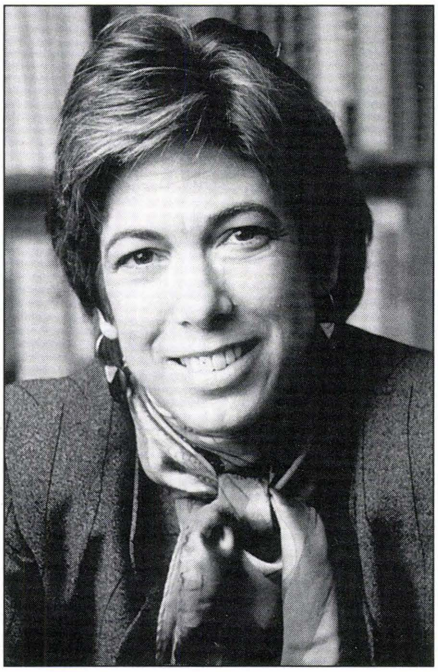
On the campaign trail, Bill Clinton promised to restore America's economic leadership by strengthening government and business cooperation in support of industry. As President, he has assembled a cabinet that includes several outspoken advocates of interventionist government policies. Early in his administration, he unveiled a multi-billion dollar technology policy directed at increasing government's role in civilian technology development. Around the same time, EC Industrial Commissioner Martin Bangemann outlined the Community's top industrial policy goals, which include strengthening Europe's competitiveness against the US and Japan through a range of initiatives directed at high-tech sectors. Even British Prime Minister John Major, leading a country known for its aversion to interventionism in the marketplace, is reported to be seeking greater cohesion between government and business.

Defining the Debate

Few terms in the popular economic lexicon have been clothed in more elaborate euphemisms than that of industrial policy, whose designations range from the sleek-sounding "technology policy" and "competitiveness strategy" to the more prosaic "national economic strategy." There are, however, still those few, like MIT economist Paul Krugman, who boldly opt for greater precision. "Industrial policy is still the right word. The various evasions we try to make are just that—evasions."

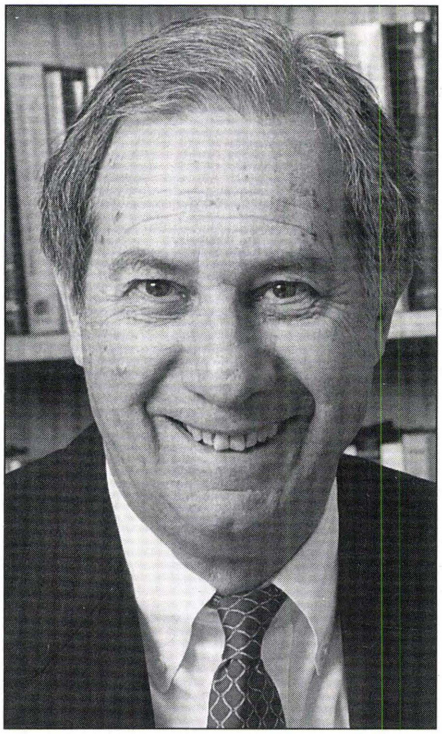
So why the evasive characterizations? One economist has suggested that the safest generalization that may be made about industrial policy is that it means different things to different people. Although those employing textbook definitions would insist that, at a minimum, industrial policy refers to government policies to promote growth, productivity, and competitiveness in national industries, wide disagreement exists over the form these policies should take. The industrial policy tool chest has traditionally brimmed with a variety of implements including subsidies, tariffs, quotas, procurement policies, tax incentives, and grants for research and development.

Micro-policies that identify and support strategic industries like super computers, biotechnology, and aerospace engineering often elicit



LAURA D'ANDREA TYSON

"...given the certainty of continued policy intervention abroad, [the US] can no longer afford the soothing but largely irrelevant position that market forces alone should determine industry outcomes in the future."



MURRAY WEIDENBAUM

"Government has a basic responsibility that it is not performing and that is creating an economic environment conducive to companies' investing more in research and development and capital formation."

rhetorical flourishes from critics about governments "choosing between winners and losers" and fostering protectionism. They also regularly evoke a battery of questions about whether or not governments should use taxpayer money to buttress new businesses and technologies or engage in playing company doctor to ailing industries. Some of the more vociferous detractors maintain that government officials, guided only by politics and notoriously slow to act, are uniquely incapable of outperforming the market.

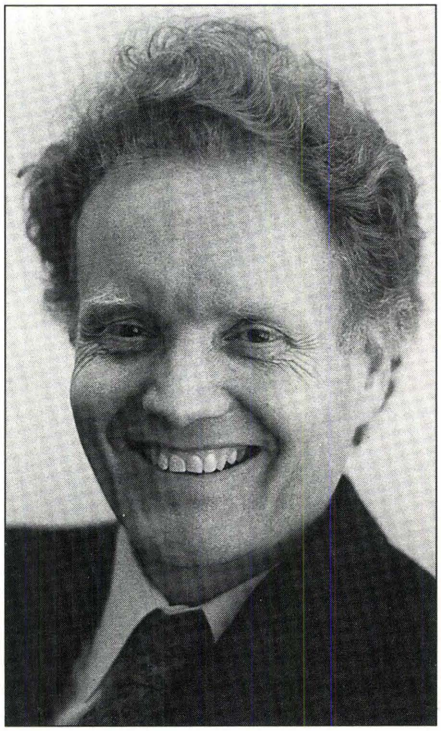
For Murray Weidenbaum, former Chairman of President Reagan's Council of Economic Advisers, this type of industrial policy represents a diversion from the real responsibilities of government. "Government has a basic responsibility that it is not performing and that is creating an economic environment conducive to companies' investing more in research and development and capital formation. It's doing a lousy job in the areas where it is uniquely responsible; it's just ridiculous for the government to then pose as an expert in dealing with private sector matters." Weidenbaum's directive to governments centers principally upon lifting heavy tax loads on savings and investment, eliminating uneconomical legal regulations, and, above all, reducing deficits.

Although few economists would disavow the salutary effects of macroeconomic policies that promote industrial growth, many express a need for governments to go beyond them. "Serious economic analysis has suggested for good reasons that markets are a bit more imperfect than we had thought... suggesting a case for intervention," says Krugman, who describes himself as a very cautious activist regarding industrial policy. He adds, "Everything we know about the way real economies function suggests that there are some sectors that are a bit better than others in that they generate spillovers into the economy, so that it is fair and reasonable to target them." Many economists consider certain industries to be strategic because they produce such benefits for the entire economy as increasing worker skills, generating high wages, and fueling growth in other industries.

Krugman cautions, however, that "people who call for industrial policies fall into two quite different categories. There are the sophisticated, modest, cautious activists...then there are the really crude, know-nothing industrial policy advocates." Krugman says the Clinton administration includes some of each. "The heavy-handed, poorly conceived industrial policies have [received] a justified bad rap. Anybody has to worry about which of those we are going to see."

Creating Comparative Advantage

Today's economists have also embraced a more dynamic definition of comparative advantage. Lester Thurow, former Dean of MIT's Sloan School of Management, explained in a recent interview with *EUROPE*, "The hot industries, the microelectronics, the biotechnology, the new materials science, those are all brain power industries. Those are not natural resources industries. In some sense, we're going from a world of comparative advantage based on Mother Nature plus history into a world of comparative advantage based on brain power." With financing from world capital markets, even the poorest of countries can choose to develop advantages in high-technology industries. "Technology policy has become much more central than it used to be," adds Thurow.



LESTER THUROW

"In some sense, we're going...into a world of comparative advantage based on brain power."

These new realities of international competition have prompted some leaders to explore more activist roles for government in creating new national comparative advantages, rectifying market failure, and helping industries and firms to remain competitive. For most European and Japanese leaders, however, the decisions about where, when, and how to intervene appear to have been less painful than they have been for their American counterparts.

The European Response

"Almost all the European countries, except the United Kingdom, have more explicit and coherent industrial policies than the US," observes Clyde Prestowitz Jr., President of the Economic Strategy Institute. Although the industrial policy debate in Europe often pits the more conservative British and Dutch against the French and Italians—and individual countries continue to pursue quite distinct national industrial policies—EC policy makers are attempting to reach a consensus in defining Community policy toward industry. There is no shortage of European plans designed to keep Europe in the high-technology race: ARIANE (aerospace), ESPRIT (information technology), EUREKA (electronics), RACE (telecommunications), and JESSI (semiconductors).

"Almost all the European countries, except the United Kingdom, have more explicit and coherent industrial policies than the US,"

CLYDE PRESTOWITZ JR.

Thurow commends the EC strategy. "I think the right way to do it is the way the Common Market is doing it. You have to pick the projects that are winners or losers. What the Common Market has said is, we've got a pot of money for microelectronics. If three companies from two countries with a good project and half the money come through the door, we'll match it. So the companies are picking the projects that are winners and losers, but the governments are picking the technologies."

The US Dilemma

European and especially Japanese industrial policies are often contrasted with those of the United States where the industrial policy debate is influenced by an ingrained philosophical resistance to government interfering with the market. Industrial policy advocates blame the US's adherence to a fragmented, ad hoc approach for the erosion of America's economic leadership. Laura D'Andrea Tyson, Chair of President Clinton's Council of Economic Advisers, asserts in her book *Who's Bashing Whom* that, "given the certainty of continued policy intervention abroad, [the US] can no longer afford the soothing but largely irrelevant position that market forces alone should determine industry outcomes in the future."

Some argue that the US's faith in the market may be far less absolute. "We've had a military industrial strategy in the United States for the last 50 years....The market hasn't done it at all," maintains Thurow. Indeed, few dispute the impact of the cold war, and previous military engagements for that matter, on the formation of US industrial strategy.

"Our primary objectives have been to contain the Soviets and to stop the spread of communism. We have wanted the French, the Japanese, and the Koreans to be our allies, and in order to have them as our allies, we don't want to fight with them over things like Airbuses or semiconductors. And so the way not to fight over these things is to say it doesn't matter, and if it doesn't matter then you don't need policies," explains Prestowitz.

The implications of the cold war's end for the future of US industrial policy are quite extensive. "The problem is that...military R&D is going away.... And you can't build a civilian R&D system unless you have an industrial strategy because you have to say what do you want...Is it microelectronics? Is it biotechnology? Is it machine tools? Is it civilian aviation manufacturing? Telecommunications? You name it," says Thurow. "Somebody is going to have to build a new R&D system in the US given that the old one is collapsing."

Calls for more explicit and aggressive US civilian industrial policies are based on the grounds that a lack of federal commitment to civilian research and development policy will harm the nation's industrial base and, thus, its ability to create and maintain high-wage jobs. Industrial policy proponents further contend that an active federal strategy is a necessary counterbalance to the stronger interventionist policies of Japan and some countries in Europe.

Scrutinizing the Successes?

Efforts to fashion a new US industrial policy have prompted serious scrutiny of industrial policies in Japan and Germany, where the response to international competition has been the most vigorous. The verdict on the role of Japanese industrial policy, executed mostly through its Ministry of International Trade and Industry (MITI), in Japan's economic success is still out. "[The Japanese] industrial policies have been a major factor, not the only factor, but a major factor, in Japan's success and continue to be so today," contends Prestowitz. Krugman is more skeptical about MITI, in particular, and industrial policy more generally. He opines, "There is no indication at all that industrial policy plays a central role in explaining successful economic performance," or that MITI was essential to Japan's economic success.

"You can't simply look at the fact that Airbus in the end seems to have created an industry that can stand on its own feet without asking, "but was that worth the cost of the capital that had to be used to get it started?"

PAUL KRUGMAN

In evaluating industrial policies, Krugman urges that the opportunity costs of these policies be considered. "You can't simply look at the fact that Airbus in the end seems to have created an industry that can stand on its own feet without asking, 'but was that worth the cost of the capital that had to be used to get it started?' " For Weidenbaum, industrial policy should be judged by its results, which he insists have been less than stellar in the US, citing "a long list of boondoggles that have resulted from the efforts of the past."

Trade Policy, an Extension of Industrial Policy

With his budget plan finally approved, Clinton is likely to pay greater attention to the micro-levels of industrial policy. A recent *Time* magazine article reported Clinton's intention to focus on such micro-strategies as "targeted investment in promising technologies" and "opening markets abroad" for critical job-creating industries, following the approval of his budget plan.

Since most strategic industries are export industries, trade policies conceived in the name of opening specific markets abroad are inextricably tied to a nation's industrial policy. "You can't say what your strategic trade policy will be until you have figured out what your industrial strategy is. One flows from the other," says Thurow. When governments become involved in manipulating trade flows to protect certain industries, they engage in managed as opposed to free trade. Advocates of more activist industrial policies, like Tyson, also push for a stronger government role in international trade—in the US case, this has meant a concerted effort to get tough on Japan.

The frequency with which the industrial policy debate is resurrected bears little correlation to a growth in consensus on the issue. Industrial policy, when it occurs as selective intervention on behalf of certain industries and sectors, is far from being accepted as a panacea for the twin challenges of international competition and the need to create high-wage jobs. The question remains, however, as to the proper mix of government policy and private sector initiative in ensuring that a nation remains competitive. Rectifying market imperfections and supplanting Mother Nature have so thoroughly challenged economists and policy makers in Europe, the US, and Japan that perhaps the only thing that remains certain is that the debate will continue. Ⓔ

Gina Gianzero writes about economic and business topics from Washington, DC.

A US Policy Perspective: An Interview with Lawrence Summers

In an exclusive interview with *EUROPE* magazine, Lawrence Summers, Under Secretary for International Affairs at the Department of Treasury, shared his thoughts on industrial policy and the Clinton administration's strategy for addressing the competitiveness challenges confronting the US.

Summers' remarks reveal the delicacy of the industrial policy issue. He repeatedly expressed his discomfort with the term "industrial policy." "The term industrial policy has almost lost its meaning. So many people use it to mean different things." Summers instead offers his own broad definition of industrial policy, which includes initiatives to bring down the deficit, support investment incentives for small businesses, and target investment for the inner cities.

"I wouldn't want to characterize something called the administration's industrial policy. The Clinton administration has a broad economic policy directed at creating prosperity in the future, and support for industry is one component of that policy. But to talk about a Clinton industrial policy would leave the wrong impression." In describing administration policies, Summers avoids the slogans associated with selective industrial policies like government "picking winners and losers." "Almost everybody would agree that making fundamental investments in our economy is far and away the most important and that, in the future, will be more linked to our prosperity than anything where we are too selective.

"There is broad recognition that we need to make fundamental investments in the future of our country and broad appreciation of the fact that what we make—as much as how much we make—matters," says Summers. When pressed to elaborate upon administration policies that might affect what the US produces, Summers proceeds cautiously, "The President and Vice President have both taken a very active interest in high-tech. We are focusing on making sure that American firms with cutting edge products are in a position to compete.

With respect to the forces that will determine where investments are going to be made, Summers believes markets will continue to be the ultimate guiding force. "We are going to release a tremendous amount of talent, and I anticipate that we will rely primarily on markets to guide that talent."

Summers emphasizes the importance of a two-pronged strategy, with domestic and international policy closely intertwined. "Success in making fundamental investments at home is crucial to success in trade abroad." On the domestic front, Summers explains that the policy includes "deficit reduction, bringing down interest rates, private investment in the long-run, fundamental public investments in people, infrastructure, and in technology, and enhanced efforts to enable businesses to cooperate in areas like trade and the promotion of technology."

Summers describes the thrust of the administration's international strategy as the promotion of "export activist trade policies that start from the recognition that the US has a strong interest in opening markets abroad for its products." He offers reasons for this approach to trade policy. "The US has the most open markets in the world. That may have been appropriate 20 years ago, but now in today's world it is appropriate that other countries take steps to bring down their trade barriers to the level that now prevails in the US."

With respect to the administration's willingness to engage in the often-controversial efforts to manage trade flows by setting quantitative targets in support of its industries, Summers responds emphatically. "Our goal isn't to manage trade. Our goal is to expand trade. It's combating managed trade when we seek public procurement that follows private procurement patterns. It's unmanaging trade when we seek to do away with burdensome regulations that don't allow American firms access to fair competition. It's unmanaging trade when we combat cartels in other countries that American producers don't have a chance to enter into. We're trying to unmanage trade in other parts of the world, not to manage it."

—*Gina Gianzero*

Confronting Industrial Policy: The View from EUROPE

By Bruce Barnard

The European Community faces an acute dilemma as the deep prolonged recession lengthens the queue of industries asking for government help. An economic slowdown, matching the recession of 1982–83 and pushing unemployment to post-war highs, has refocused attention on the EC's industrial policy. Government intervention went out of fashion in the mid-1980s when the EC was crafting its ambitious single market program aimed at creating an economic superpower to compete with the United States and Japan. All EC member states, even those with long histories of state involvement in industry, agreed to bow to market forces, to trim state subsidies, and to expose their companies to cross-border competition.

Italy and Spain are loosening the grip of their giant state holding companies, IRI and INI, on key industrial sectors, and the new center-right French government is preparing a massive sale of state-owned assets.

But with the single market starting life in a recession and large industries facing an unprecedented shakeout, state intervention is regaining its appeal.

President Bill Clinton's promise of a more activist approach to improve the competitiveness of American industry has also buttressed support for an EC Industrial Policy. "The Community cannot survive without an industrial policy," according to EC Commission President Jacques Delors. "The aim is to make European industry effective," says Industry Commissioner Martin Bangemann.

An EC-wide approach to research and development is vital to help the Community to catch up with Japan and the US which spend 3 percent and 2.8 percent respectively of their Gross National Product on R&D compared with the EC's 2 percent, says Research Commissioner Antonio Ruberti. The gap will widen, he warns, because both Japan and the US are boosting outlays on research.

The recession has changed attitudes toward state intervention in EC countries that have long championed market forces. The United Kingdom, for example, which has derided industrial policy as a ploy to spend taxpayers' money to prop up inefficient industries, went to Brussels seeking approval for subsidies for its loss-making coal mines.

The Netherlands, traumatized by the collapse of truck maker DAF and the problems afflicting flagship companies like Philips, Fokker (the aircraft maker), and KLM, is adopting a more sympathetic stance toward government intervention.

The debate over industrial policy has been charged by the crisis-ridden steel industry's clamor for EC-funded capacity cuts and a curb on cut price imports from Eastern Europe.

Subsidies would bring short-term relief but will do little to tackle long-term structural problems in an industry that has eaten up $75 billion of subsi-

dies between 1975 and 1990.

But it would be political suicide for governments, facing mounting unemployment, to subject an industry with a 370,000-payroll to market forces.

In better times, government would have risked a more surgical approach toward an industry that is riddled with inefficiency in certain member states. After all, the EC drastically slimmed down shipbuilding, paring subsidies from 26 percent to 9 percent, to create a leaner, fitter industry that can compete in world markets.

The EC has helped industries vulnerable to foreign competition while helping others, such as aircraft manufacturing, to catch up to their American rivals.

But both industries are being weaned off government protection and support. An agreement with Tokyo limiting Japanese car manufacturers expires at the end of the century after which EC manufacturers must survive in a totally open market.

The generous government handouts that helped the European Airbus consortium to grab a 35 percent share of the world market, second only to Boeing, are being terminated following an agreement with the US last July.

The EC's industrial policy is now geared toward vitalizing so-called industries of the future where the US and Japan are fast building up a seemingly unassailable lead.

Despite industry's pleas for help, the EC is determined not to backslide to the bad old days of the 1970s when public money was wasted on lame ducks and governments tried to steer industrial strategy.

"There is no question...of intervention or of state subsidies," Jacques Delors insisted. The aim of industrial policy "is to facilitate cooperation between European companies, to encourage research and development, to adopt the labor force to new forms of work organization, and to secure the rapid adoption of the most advanced standards for European goods and services."

The EC, like the US and Japan, wants to put its money into strategic industries but member states are divided over which sectors to back. The UK, for example, blocked a $700 million funding to promote high definition television (HDTV), claiming European technology would soon be overtaken by a superior US system. As a result, Philips announced last February that it was postponing the production of HDTV sets on which it has spent over $200 million since 1986. Thomson of France has spent heavily on HDTV, while EC taxpayers have pumped $500 million into the project.

Rather than throw money at industry, the EC is adopting supply side remedies.

The electronics and computer sectors appear to be compelling candidates for EC funding, but officials admit that catching up with the US and Japan simply isn't a cost effective option.

There are other more feasible candidates. Sir Ralph Robins, chairman of Rolls Royce, has called for a European research effort to develop advanced composite materials which will be vital to the next generation of aero engines. Sir Robins warned that Europe risks losing out to the US and Japan without access to the new technology and "we could go out of business." Nearly 200 Japanese firms, he noted, are involved in a research project into advanced materials.

But critics contend that industrial policy rarely creates winners. The US, for example, has jumped into the lead in HDTV, and is likely to set a global standard, without any handouts from the government.

The bottom line of industrial policy is that the EC doesn't have vast sums to spend. While agriculture will take $32 billion out of a total EC budget of $70 billion in 1999, spending on industry will rise from $4.5 billion in 1993 to only $5.8 billion in 1999.

Rather than throw money at industry, the EC is adopting supply side remedies.

Industry Commissioner Martin Bangemann says an active telecommunications policy will spearhead the drive to bolster the competitiveness of European industry.

Competition Commissioner Karel van Miert has called for state telephone monopolies to be abolished by 1998, going well beyond previous EC proposals for a more modest, gradual liberalization. "One Italian car maker estimates it would have saved 24 percent of its telephone bill if it had British tariffs and 43 percent if it had those in force in the US," Mr. van Miert said.

Mr. van Miert has also urged EC governments to end monopolies on intra-Community exports and imports of gas and electricity to allow companies to shop around for the cheapest energy supplies.

Yet despite the emphasis on competition and market forces, the EC is still divided over how best to promote industry, with the liberal northern states suspicious of the lingering dirigiste sympathies of the southern countries.

These differences could yet provoke a major dispute if the EC doesn't rapidly pull out of recession. Ⓔ

Bruce Barnard is a contributing editor for EUROPE *and the Brussels correspondent for* The Journal of Commerce.

HDTV
High Definition Debate

The EC's eight-year struggle to promote high definition television (HDTV) provides a textbook example of the pros and cons of industrial policy. The EC Commission's HDTV strategy, launched in 1985, was aimed at cornering a lucrative multi-billion dollar market for European electronics companies in a fierce three-cornered competition with Japan and the United States.

The plan was based on the creation of an exclusive EC family of transmission standards to support the development of wide-screen television as a stepping stone toward razor-sharp cinema TV images. The Commission was quickly forced into a more interventionist stance after the new breed of satellite broadcasters ignored its directives and started to transmit programs which were not part of the EC-backed "MAC" standards.

The Commissions responded by asking EC governments to back a $700 million five-year project to help producers, broadcasters, and studios to make HDTV format programs.

Philips, the Dutch electronics giant, and Thomson of France, invested heavily in the new technology but couldn't start to mass produce wide screen sets because hardly any programs are being made in the new format.

The protracted HDTV debate climaxed last December when the United Kingdom vetoed the program in spite of a cut in the budget to $410 million. The UK stood firm, and the EC aid package was pared down to around $280 million. And to qualify for handouts, broadcasters must match the EC subsidies.

The UK claimed the money would be wasted because the EC's analog-based technology risked being overtaken by a more advanced US digital system that had suddenly appeared from nowhere. The EC, claimed a British diplomat, "wants to move into a technological cul-de-sac."

The UK, traditionally skeptical of industrial policy, also objected to EC money being directed toward a specific sector.

Philips promptly announced it was halting production of HDTV sets and said it would review its entire strategy if the EC did not come up with the promised subsidies.

Proceeding with HDTV would be like introducing a car onto the market when there is no gas available, observed Henk Bondt, head of Philips consumer electronics division.

KPMG, the international accountants, warned that without subsidies sales of HDTV equipment in Europe wouldn't reach $2 billion by the year 2000. With EC funding, the figure would scale $20 billion.

The industry sorely needs a catalyst: sales of wide-screen TV sets were less than 100,000 in 1992 compared with a European population of 160 million conventional sets.

The critics of industrial policy point to the US experience as proof that government intervention never works.

The US industry was nowhere when the EC and Japan were plowing hundreds of millions of dollars into their HDTV programs. But suddenly last year it leap-frogged its rivals with a digital system that made the EC and Japanese technology look outdated.

The US lead was established without any government handouts. The Federal Communications Commission is simply acting as a referee in an industry-financed competition, open to foreign firms, to pick the best system.

The three competing consortia in the US joined forces to form a so-called Grand Alliance to work on a single technical standard for digital HDTV. But the companies face considerable technical difficulties to put a working system in place, and American TV stations fear they won't be able to afford the necessary equipment.

With the benefits of hindsight the EC's policy appeared badly flawed. But did it have any other choice but to back a technology that would spur advances in microchips, large screens, and software, all vital to the EC's computer, telecommunications, and consumer industries?

The EC wasn't alone. The Japanese government lavished taxpayers' money on an analog-based HDTV system for 25 years. Japanese manufacturers themselves have spent an estimated $1.5 billion on their Hi-Vision project but so far have sold just 10,000 sets.

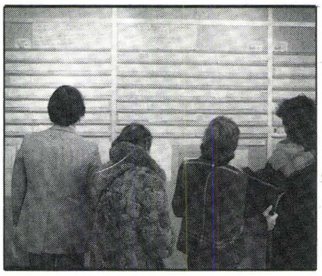
The Japanese, too, are about to follow the emerging US digital standard.

Its supporters insist the EC's HDTV strategy has spawned useful spin-offs in wide-screen technology and improvements in picture quality that would not have taken place without active EC support.

In any event, Philips and Thomson are in a win-win situation as they are members of the US Grand Alliance.

—Bruce Barnard

CAPITALS



This month EUROPE asked our Capitals correspondents to write about unemployment and the recession in their countries.

DIRECTORY

LETTER FROM LISBON

Portugal has been late sinking into recession, with six years of foreign investment cushioning the fall. Even in the midst of a worldwide depression, the economy seemed relatively buoyant and barely felt the misery of other European neighbors. Portugal continued to enjoy one of the highest growth rates of the European Community until the last quarter of 1992. Since then the bubble has burst. There has been zero growth; thousands of people have been laid off; and unemployment has been steadily rising. Unemployment is now about 5 percent, a one-percent jump from last year's rate but still one of the lowest in the Community.

The peninsula south of Lisbon, particularly the port of Setúbal, reaped the greatest benefits from EC membership and was transformed in 10 years from a poverty-stricken, crime-ridden area into the dynamic modern community it is today.

Setúbal's industry had a huge overhaul; new companies were installed and traditional sectors modernized, bolstered by foreign investment.

But as recession bites, the specter of unemployment is again looming. Overdue bankruptcies resulted in public companies crashing—namely in the ship-repairing, steel, and chemical sectors.

Companies will now have to shoulder the social costs of a new wave of unemployed workers—those who, even with their technical know-how and experience, are not yet retirement age, but are too old to look for another job.

Just a couple of examples: the ship repairing company Lisnave, once one of the biggest of its kind in the world, is folding. The restructuring of the company will result in 4,000 job losses. The average age of the workers is 47-years-old. Also, the French automobile company Renault last month shed some 300 jobs in Portugal.

To counterbalance this is the nearby Ford and Volkswagen joint venture plant, AutoEuropa, the biggest single foreign investment of $2.4 billion, hopes to create at least 4,500 direct jobs and some 12,000 indirect jobs. After 1995, 20 percent of Portugal's exports are to be linked to the automobile industry. The project will generate an estimated $903.6 million.

From December 1994, the venture hopes to produce annually 160,000 seven-seater luxury vans for goods or passengers. Over 90 percent will be exported, aiming to take 30 percent of the market.

However, it has not all been rosy at the plant. There has been quite a disparity between the training of the local work force and the rigid demands of the US-German partnership. The same problems apply here as in the rest of the country—the company veers away from employing those who will retire within 10–15 years.

Recently the government presented its five-year regional development plan, Portugal's proposal to Brussels for joint financial help. Prime Minister Anibal Cavaco Silva maintained his optimism that the Portuguese economy would continue to grow above the Community average between 1994 and 1999.

Priorities for investing EC funds, which represent 4.5 percent of GDP, lie in human resources and employment.

Mr. Cavaco Silva believes public investment will grow to an average annual rate of 8 percent. Meanwhile, with private investment increasing too, the government hopes to raise a total investment of $39.6 billion, which would represent nearly 28 percent of the total investment of the Portuguese economy in the next six years. For this optimistic outlook, the government relies heavily on AutoEuropa. By 1999, the government hopes exports will overtake imports by 70 percent.

Another job-boosting project lies just outside Lisbon, this time to the north—US giant PepsiCo linked with General Mills to build, with EC help, a $75 million factory to produce and distribute potato chips and snacks to Portugal and other European countries. Thanks to government concessions, the joint venture agreed to put up an initial 13.1 billion escudos which will help bolster the struggling agro-industrial sector and boost training.

Portugal still has a lot of catching up to do within the EC, but the very fact that Portugal was one of the last to enter the recession could be favorable. The general consensus is Portugal's small economy could be ready to benefit from those recovering and come out early and relatively unscathed.

—Sarah Provan

LUXEMBOURG

STEEL GIANT FORGES ALLIANCE

No industry in Western Europe has undergone more painful restructuring than steel. By the 1980s Luxembourg's multinational Arbed SA seemed to have eliminated its woes following innovative arrangements with its employees and the government.

The recession hit in the early 1990s, and Europe was burdened with an oversupply of steel products. Luxembourg's largest single employer posted heavy losses that reached $100 million last year, compared to net profits of $200 million in 1991.

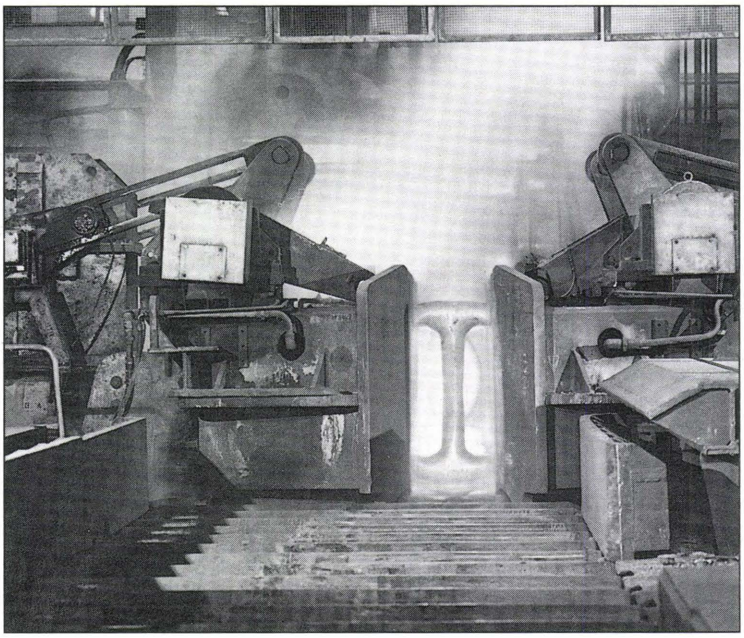
During the last year, Arbed has taken two major steps to restore its profits. In July, the company announced that it will rationalize its product lines with France's Usinor-Sacilor SA. Under this strategy, Arbed will concentrate on producing and marketing girders, beams, and sheet piling and assume a 75 percent stake in Arbed's Schifflange works. The two companies will also merge their French distribution subsidiaries Hardy-Tortuaux and Nozal. In the process, Arbed will shed as many as 4,000 jobs. The EC Commission quickly approved the plan.

By doing so, Arbed is following one of the approaches that are emerging as service and heavy industries undergo restructuring to lower costs, boost production efficiencies, and improve earnings. Arbed and Usinor will be able to realize economies of scale by reducing the variety of products they manufacture. The alliance also illustrates the approach of companies collectively managing—without state interference—market demands by minimizing competition and rationalizing production.

Arbed took a second step. Later this year, it will open Luxembourg's first electric-powered steel plant, a mini mill, in Esch-Schifflange. Mini mills streamline steel production using state-of-the-art technologies. Operating and maintenance costs are lower than traditional plants while productivity is higher. The new plant is expected to cut monthly production costs by $5 million. Luxembourg will join the ranks of Italy, Spain, and Germany, where mini mills have been launched in the last few years.

Arbed has been helped further by the EC Commission's approval of $3.1 million in subsidies and both interest and interest-free loans for six research and development projects undertaken by Arbed.

Despite the predominance of financial services, steel is important to Luxembourg's economy. The country produces more steel per person (10 tons), than Japan (.88 tons), Germany (.67 tons), and the US (.36 tons). Arbed is Luxembourg's single largest employer, accounting for 8,500 jobs in the country and nearly 49,000 worldwide.



During the last year Luxembourg steel maker Arbed has taken major steps to boost its profits.

In 1970, steel manufacturing accounted for 65 percent of Luxembourg's Gross Domestic Product (GDP) and employed one-third of the country's work force. Today, the industry's share is 20 percent of GDP and 5 percent of the work force. More than 26 blast furnaces were used by Arbed in 1972. Now only two remain. Efficiency has been the result. One ton of rolled steel takes about 3.5 hours today to produce, compared with 9.6 hours in 1975.

Despite its difficulties, Arbed has many accomplishments under its belt, including producing some of the largest steel beams ever manufactured (four beams each 54 meters long and weighing 12 tons), which were used for a bridge along the route of the high-speed French train, the TGV.

—James D. Spellman

DUBLIN

CREATING IRISH JOBS

As unemployment hovers around the 300,000 mark—about 20 percent of the active population—and shows no signs of falling, the government is staking its political future on a new drive to create jobs based on the huge inflow of EC structural funds over the next five years. Merely to stop unemployment from growing, there will be a need for the creation of 30,000 new jobs per year. This is assuming that there is no emigration.

A greater emphasis is planned on the job creation potential of native Irish firms instead of the over-reliance on multinationals, many of them from the United States, which have provided most of the new employment opportunities over the past 30 years since foreign investment was actively encouraged. While the jobs in the subsidiaries of the overseas firms are usually well-paid and contribute much to the economies of the areas where they are located, there have been some sudden shocks such as the transfer by Digital of its main European operations from Ireland to Scotland.

With about $17 billion worth of public investment programmed to pour into the economy between now and the end of the century, the Fianna Fail-Labor coalition government is determined to make an all out effort to tackle the worst unemployment crisis in the history of the state. The irony is that most other aspects of the economy are performing well, and in many cases better than most of Ireland's EC partners.

One third of the investment funds will be steered toward the new Department of Enterprise and Employment under Labor Minister Ruairi Quinn, who will spearhead the job creation drive. The rest of the funds will be distributed around the other departments with the bulk going to infrastructure development in transport, job training, and agriculture.

Already the country's main development agency, the Industrial Development Authority, has been broken up into smaller, more autonomous units which will deal separately with indigenous firms and the overseas ones. The Irish firms will be expected to increase their job creation record by 20 percent to 11,000 per year. The overseas firms have a smaller target of 8,000 to 9,000 jobs per year.

These are gross figures and do not take into account job losses, which in past years have practically wiped out the gains provided by new jobs. Hence, much emphasis will be on ensuring that existing jobs are protected in the face of the increased competition from the EC single market.

Small businesses will be a priority as they have tended to be neglected in the past when the policy was to attract multinationals in the electronic and chemical sectors. But precisely how firms are to be encouraged to take on new workers is still being worked out.

There will be substantial job potential in the major infrastructure projects in the road, rail, and ports sectors, but these jobs are often not permanent. The government is now appealing to the labor unions and employers to "make sacrifices" to ensure that they will not price themselves out of international markets when negotiating the new national program on pay increases later this year and thus deprive young people coming on the labor market of the chance of getting jobs in Ireland.

—Joe Carroll

ROME

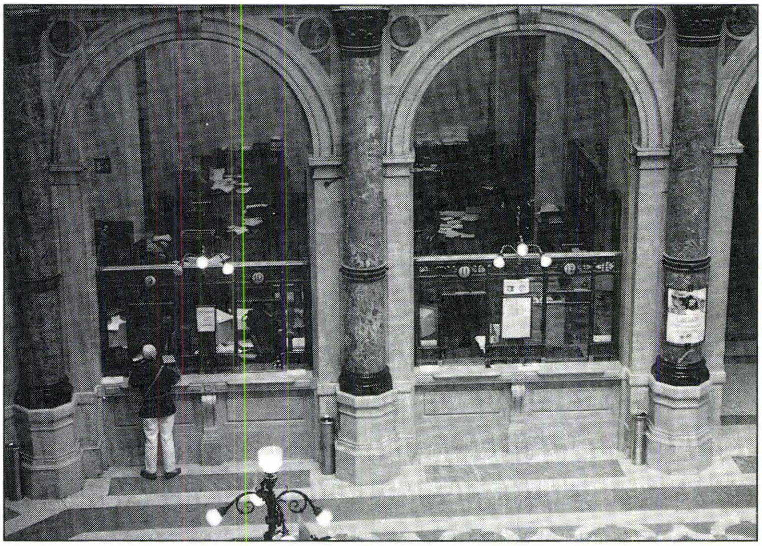
NEW IDEAS OLD PROBLEMS

Unemployment? One fights it by inventing new lines of work. In Italy, where in the past three months 123,000 jobs have been lost, many individuals are getting by through a variety of self-employment ideas.

In Milan, an agency offers a free service to help "recycle" the unemployed. An interesting picture emerges from the forms filled out by the candidates. Many disappointed company directors and not-so-young, specialized workers have presented themselves at the agency that is helping to teach people how to change their lines of work and their lives. Mainly, they offer their services in fairly obvious activities: consultation, import-export, translating, and retailing.

Many others have come up with new creative ideas for work on their own. One person has thought of renting out works of art for receptions; another would like to open a cemetery for animals. One is betting on ecological underwear—intimate wear made of environmentally friendly materials. One of the more unusual proposals is for a restaurant specializing in alligator meat—a difficult prospect since alligators are not indigenous to Italy. The aspirations of another gentleman appear a bit easier to realize—opening a factory specializing in making scissors that fit both right- and left-handers.

These ideas confirm that a healthy entrepreneurial spirit exists in Italy and signal a work force that won't give up. However, that doesn't erase the harsh reality of the worst unemployment crisis in Italy in the last 50 years.



One bright spot in Italy's economy is the banking industry, which has been bolstered by the arrival of German, Japanese, and US banks.

"Europe is dying of too much unemployment," stated the economic daily newspaper *Sole 24 Ore*, which belongs to the Confederation of Italian Industrialists. Without wanting to appear too pessimistic, it is, however, difficult not to underline a fact that makes the situation even more alarming: in Europe, 40 to 50 percent of the unemployed have been without a job for over 12 months.

It is even hitting one sector that for a while had been in constant growth—the services sector. Only two years ago, 40,000 jobs were lost in Italian industry. They were compensated, however, by an increase of 100,000 new "desks" in the services sector. In 1993, on the other hand, while industry is hurting (500,000 jobs have been lost) the service sector is gasping, too, with 80,000 fewer jobs. There appears only one happy island—banks. Banks continue to multiply as Japanese, American, and German financial institutions continue to arrive in Rome and Milan.

In Italy, the discouraging situation that all Europe shares is aggravated by another. Unemployment is devastating the South, widening the chasm that threatens to cut the country in two. Of the 123,000 jobs lost in three months, 108,000 of them disappeared in the regions south of Rome. The North, which rotates around the dual business poles of Milan and Turin, actually gained jobs. As in the rest of Italy, the North has lost jobs in agriculture and industry, but there has been an increase in positions under the heading "other activities," a phenomenon that is a source of preoccupation for Italian economists.

The annual rate of unemployment nationwide is 10.75 percent. This is high, but it is below the EC average, which in 1993 is forecast at 11.5 percent. But when Italy is divided by regions, one finds that unemployment in the South rides at 16.3 percent; in the Center, which rotates around Rome, it falls to 7.6 percent; and in the North it is barely 5.7 percent. In comparison with Germany, where the average rate of unemployment is 6.5 percent, France (11.5 percent) and the United Kingdom (11.5 percent), this explains why in the North the ideas of the Lombard League are gaining ground. Umberto Bossi, the leader of this new conservative political formation, makes no secret of wanting to abandon Southern Italy to its own destiny.

—Niccoló d'Aquino

BRUSSELS

BELGIUM FACES TOUGH DECISIONS

Belgium's Prime Minister, Jean-Luc Dehaene, returned from the G7 summit in Tokyo in early July like a man transformed. Whatever effect President Clinton's words in Tokyo on the need to take action on jobs and unemployment might have had on his six fellow G7 leaders, they certainly made an impact on the Belgian Prime Minister, who was attending in his capacity as President of the EC's Council of Ministers.

Dehaene gave a press interview on his return to Brussels, in which he said: "It has, above all, been underlined and confirmed for us Europeans that the link between economic growth and growth in employment is no longer valid today. We are passing more rapidly than we believed from an industrial society to a post-industrial society, where employment will go on diminishing in the industrial sector."

He emphasized his view that the rules of the labor market in Belgium had become too rigid and that more flexibility was needed. It was necessary, he said, to create jobs in other sectors, but in order to do this, employment laws needed to be relaxed and the taxation system must be reorganized so it bears less heavily on employment.

Belgian Prime Minister Jean-Luc Dehaene returned from the G7 summit in Tokyo like a man transformed.

In fact, surveys have repeatedly shown that the nonwage costs of employing people in Belgium are among the highest in the world. The average cost to an employer of taking on new labor is about double the actual wages he will have to pay out.

Dehaene has received the message, but it will be no easy task for him to take the necessary remedial action. An ever-rising Belgian priority at present is to get its budget deficit down from around 6 percent of GNP to 3 percent by 1996, which would enable it to enter the EC's Economic and Monetary Union at the earliest possible date. To achieve this there is no room for tax cuts of any kind, unless they are more than balanced by increases in other forms of taxation.

Dehaene's left-center coalition of Socialists and Christian Democrats looks like making heavy weather out of any rebalancing of the tax system. Yet the cost of failure to reach an agreement will be heavy.

With 11 percent out of work, Belgium has one of the EC's highest unemployment rates. It has tried all the usual prescriptions of early retirement, job-sharing, retraining programs and the like, with little overall effect. Unless it succeeds in slashing its employment taxes, the dole line threatens to become a permanent feature of the Belgian way of life.

—Dick Leonard

LONDON

TAKING A PAGE FROM THE US

The UK has been looking to America for innovative new ideas to try to help get some of its 3 million unemployed back to work, and over the last few years a succession of British ministers have visited the US to study projects such as Workfare.

This summer the UK Employment Secretary David Hunt has crisscrossed the US on the trail of new programs to help combat the United Kingdom's unemployment mountain. He will be back in the US in the fall for President Clinton's proposed G7 summit to tackle the global job crisis.

A Workfare program modeled on the US program has now been introduced in a number of small pilot areas in the UK. It offers the carrot of more money for jobless people who take part in state-run job projects, with the stick of reduced dole money (unemployment insurance) if they refuse.

It is part of a $350 million package of measures announced earlier this year to help an extra 100,000 return to work. The government described this as an "exciting change" in the approach to unemployment.

There are good reasons for London to study Washington's experience. In the depths of its recession, US unemployment peaked at under 8 percent, while the UK reached 10.6 percent. The US rate is already below 7 percent, while the United Kingdom's stands at 10.4 percent. In the US, the proportion of jobless counted as long-term unemployed is 6 percent in the UK, it is a staggering 33 percent.

There are also clear differences between the US and UK approaches to this mod-

This summer, UK Employment Secretary David Hunt crisscrossed the US in search of ideas to help combat unemployment.

ern plague. Mr. Hunt preaches the virtues of competitiveness and an active labor market policy while his US counterpart places worker participation at the top of his list of priorities.

The UK now plans to join forces with the US in an unprecedented joint initiative aimed at reducing hard-core unemployment. Impressed by America's success in creating two million jobs, Mr. Hunt explained: "We want to work together to try to find out the answers, because we have very similar problems which may be best examined jointly."

The UK government is at once cautious about Workfare and attracted to it. The caution arises from its incompatibility with the British government's increasingly individualistic approach to unemployment. The attraction arises because, in the wake of a very large public spending deficit, any idea that might save money is considered worth examining.

President Clinton has espoused the creed of reciprocal responsibility—that no one who can work should be allowed to stay on welfare forever.

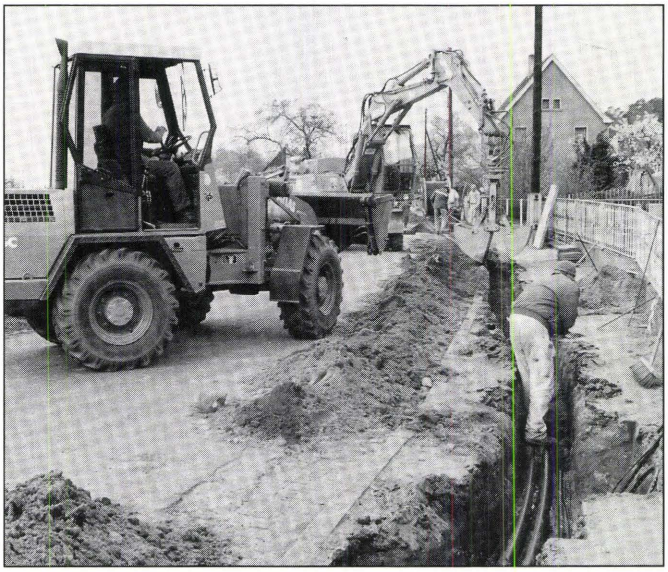
However, if British ministers are attracted by that, they are less enthusiastic with some of the other aspects of the Clinton unemployment program, including plans to give workers a stronger voice in corporate decision-making, index-linking a minimum wage, and seeking, through a commission on labor-management relations, a new partnership at work.

—David Lennon

BERLIN

GERMAN UNEMPLOYMENT EDGES UPWARD

Most forecasters in the United States, including those in the Clinton administration, expect a cyclical economic recovery to reduce the US unemployment rate to between 5.5 and 6 percent by 1996. In Germany forecasters say that even if the economy picks up unemployment will not decrease. Prognos Institute of Basel predicts that in 1995 every sixth job-seeker in Germany will be out of work. This means a job gap of 6.7 million. This gap—today already at 5.2 million—will increase by 25 percent by 1995. Prognos' figures are higher than the official figures because they include the "unused manpower reserves" or the people who have no hope of finding a job or those who do not register as unemployed because they have no claim to dole payments. Prognos expects that the number of unemployed will fall by the year 2010 to 2.6 million due to negative demographic developments. In West Germany unemployment will increase from this year's average of 7 to 9 percent in the year 2000, says Prognos. In East Germany, on the other hand, they expect it to stay constant at 19 percent. Official figures for 1993 show 14 percent unemployed in East Germany.



There is an abundant supply of labor in eastern Germany, but it needs to be adapted to the requirements of a market economy.

There is a general agreement that only by an unparalleled use of labor market policy measures can soaring unemployment in East Germany be limited to an average 1.2 million during the year. Migration and the flow of commuters have helped. Without job creation programs and short-time allowances another 800,000 people would have lost their jobs. Without early retirement and further training schemes, yet another 1.2 million would have faced unemployment. The Federal Office of Labor in Nuremberg expects "another significant reduction of jobs in 1993, while it will be impossible to step up labor market policy measures because the coffers are empty."

There is an abundant supply of labor in East Germany, but it needs to be adapted to the structures and requirements of a market economy. This means that extensive retraining and advanced training are required. The Institute of Employment Research emphasizes that investment, economic, public, financial, and structural policies inducing employment must have absolute priority over supportive labor market policy, indispensable though it is in East Germany at the moment. As the relief offered by labor market policy will be lower in the future, unemployment in East Germany will probably be higher than its present average of 1.2 million people out of work.

"The present tremendous restructuring process going on in Germany also means that people are laid off and the companies are getting leaner," says Professor Horst Siebert of the Institute for Global Economy in Kiel. "It is not a contradiction," he says, "that an economic recovery will not reduce unemployment figures." In his view, what is needed is reduction of excessive institutional fat in the regulation of product markets and the labor market as well. For example, if a German firm wants to introduce an additional shift on Saturday because of pressing orders, it has to get the agreement of the workers council, often four weeks in advance. The workers council frequently uses it as a bargaining instrument to extract more benefits. On average Germans work 37.5 hours a week and have a contractual paid vacation of five to six weeks.

The country's leading entrepreneurs are not satisfied with the performance of the present coalition of Christian Democrats and Liberals under Chancellor Helmut Kohl. They say they would accept an unemployment rate average of 5.7 percent as "unavoidable." But under Kohl, the unemployment rate has exceeded the 7 percent mark in western Germany, and in eastern Germany it is more than 15 percent, and no relief is yet in sight. Even Economic Minister Günter Rexrodt expects for 1994 some 3.7 million unemployed or 9.6 percent for all of Germany.

Next year is an election year, and unemployment will no doubt be the main issue.

—Wanda Menke-Glückert

AMSTERDAM

UNEMPLOYMENT IN THE NETHERLANDS

The recession is relatively mild in the Netherlands, and although unemployment is rising at an alarming 15,000 people per month out of work, there is no sense of panic like in the early 1980s, when unemployment went up with a tenfold increase. Balance sheets of private corporations have greatly improved since the previous crisis, largely thanks to wage moderation over the past 10 years. Also the government budget, although not yet balanced, looks much healthier than 10 years ago. But unemployment is clearly up this year, to 400,000 or 700,000 people—depending on a whether a narrow or broad definition of unemployment is used.

In the eighties, an expanding economy helped generate impressive job creation for many sectors of the population, among them part-timers, school graduates, and women returning to the labor market. But while the politically sensitive unemployment figures went down, the number of individuals in disability programs—with much higher entitlement payments than the unemployed—rose dramatically. Nowadays, with a population of 15.5 million inhabitants, the Netherlands counts over 900,000 people who have been declared unable to work. Together with early retirement programs and persons on sick leave, almost two million people of working age are outside the country's regular economic activity. Not surprisingly, the Netherlands has one of the EC's largest proportions of people out of work.

While this low labor participation was long neglected, it has become the main concern in the present economic downturn. Instead of government job schemes that proved to be of little effect in the eighties, the current emphasis is on getting people back to work.

Since so many people receive some kind of entitlement, social security payments and taxes are extremely high in the Netherlands. The government is now looking at ways to diminish the gap between gross and net salary payments, while at the same time freezing entitlements. The purpose is to increase the incentives to find a job and to make working more attractive than collecting welfare.

But income distribution continues to be a sensitive political issue in the Netherlands. As a result, the steps taken to improve the functioning of the labor market are small, and their effects will take time. Like in the eighties, the government puts much emphasis on wage moderation as the best way to fight unemployment. Plans for a wage freeze are under discussion.

—Roel Janssen

PARIS

ROW OVER VIRGIN'S SUNDAY SALES

With 3.2 million people out of work in France and 10,000 more joining them every week, it would seem logical to welcome any additional chance for employment, no matter what day of the week it was offered. However, a French law dating way back to 1906 has designated

EUROPE CREATES JOBS IN THE US

At a time when the cry for "jobs, jobs, and more jobs" resounds across the US, three recently released studies extol the job producing virtues of European-owned firms operating in the United States.

European companies provide millions of trade and investment-related jobs in the United States, conclude two companion studies commissioned by the European-American Chamber of Commerce, a Washington-based association of 80 European and American multinational companies. More precisely, the studies reveal that European-owned firms, which provide jobs in every state of the union, directly employ 2.9 million American workers, or 3 percent of the country's total private sector work force. European Community member countries alone reportedly provide more jobs in the US than do all other nations combined. When indirect employment, which is fueled by European-owned firms' demands for raw materials, capital, and other inputs, is considered the total employment figure jumps by another 4.8 million to a staggering 7.7 million jobs, or 7.2 percent of all US private sector employment.

A third study, *European Investment in the United States,* conducted by KPMG Peat Marwick for the Commission of the European Communities in 1992, surveyed senior executives of mostly European-owned firms headquartered in the US. Over half of the European companies interviewed revealed plans to expand their US activities during 1993, while a quarter of these companies expressed interest in acquiring new US operations in the next few years. Executives from some 500 European affiliates boldly predicted that they would create an additional 10,000 jobs in 1993. Among the top European subsidiary employers in the US are Hanson and BP American of the UK, with 50,000 and 40,000 employees, respectively; the Netherlands' North American Philips with 41,000; and Siemens of Germany, employing some 35,000 Americans.

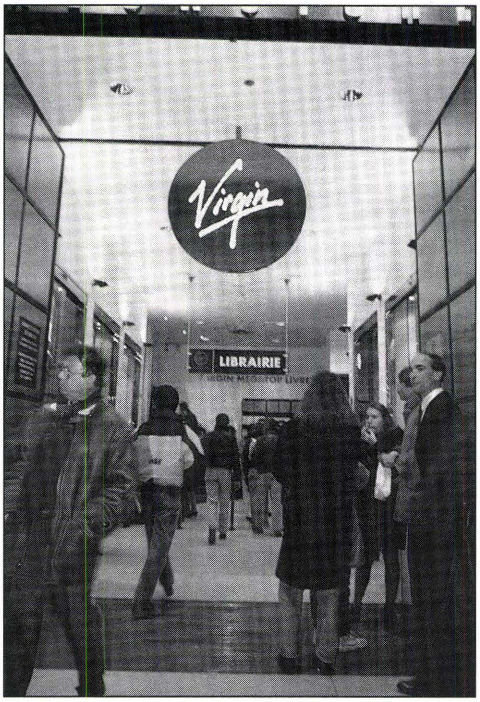
The 4,000-plus European affiliates operating in the United States "make the kinds of contributions the Clinton administration talks about in terms of economic growth, job creation, and competitiveness," insists Willard Berry, President of the European-American Chamber. According to one of the Chamber's studies, *Jobs and Investments of European Firms Operating in the United States*, the growth-enhancing contributions of European firms include: job creation, the transfer of valuable technology and know-how, and the funneling of hundreds of billions of dollars into the economy in the form of payroll, capital, operating, and research and development expenditures.

This study further asserts that not only do European firms create jobs, but they create the high-skill, high-wage jobs so critical to improving living standards and so much on the minds of policy makers these days. European affiliates tend to be "in sectors where you need high-skilled workers, where the kind of production you do requires a lot more than just assembling basic components and cheap labor," says Berry. In fact, half of US employment and more than one-third of US investment by European-owned firms is concentrated in the high-wage, high-tech manufacturing sector, the research shows. European firms employ more than 10 percent of the manufac-

Sunday as an obligatory day of rest for all salaried workers. Certain dispensations are allowed for the food trade, emergency services, and so on. Some short term exemptions can also be granted, as was the case with the Virgin Megastore on the Champs Elysées.

Trouble began this summer when Virgin's special authorization ran out and was not renewed by Paris police headquarters. The giant record and book retailer decided to carry on as usual and continued to open for business on the Sabbath. The employees who were collecting double pay and the customers who came by the droves were pleased with the move, but the trade unions and some smaller businesses were not.

Virgin was promptly served with a court-order forbidding further Sunday trading and threatened with a fine of $50,000 for every time it continued to defy the law. The store's management weighted the amount of the fine against the money that flows into the tills every Sunday—a hefty 20 percent of the net sales—and decided it would rather pay up than shut up. To show that its motives were not purely mercenary, Virgin was quick to point out that it employed 30 extra people on Sundays, at double the normal rate of pay and that they were mostly students who were only too glad of the opportunity to work on weekends.



To sell or not to sell on Sunday? The Virgin Megastore has touched off a fierce debate among Parisians.

The store's defiant stance was supported by an enthusiastic crowd who gathered every Sunday to applaud and cheer when its steel doors opened at noon. Inside, a petition supporting Sunday trading was signed by 450,000 loyal customers.

But the powers that be were determined to have their way with Virgin and in August upped the fine to an impressive $800,000 (later lowered to $200,000) for every infraction of the law. Richard Branson, the Virgin Group's outspoken owner, promptly counter-attacked. "We intend to open 30 other stores in France and employ 1,000 people," he announced on French radio. Without the right to open on Sunday, however, he warned, "we will not carry out our expansion plans, which means that we will not be recruiting those 1,000 people and that

turing work force in New Jersey, West Virginia, South Carolina, and Maryland. Moreover, this same study indicates that European subsidiaries pay wages that are 20 percent higher on average than those of US firms as a whole. Executives of European subsidiaries interviewed by Peat Marwick considered access to skilled, educated manpower to be an important inducement. "Many states are now competing [for foreign investment] with training programs" by ensuring adequate training of employees as an incentive for investment, says Mar Dee Baker, Director of International Development at Peat Marwick.

European manufacturing firms also help the US to remain on the technical cutting edge, outspending their US and foreign counterparts as a whole on new plants and equipment and investing "significantly higher" amounts in the US on research and development, according to the *Jobs and Investments* study. Through such high-tech firms as the UK's ICI and the Netherlands' North American Philips, Europeans transfer know-how to the US in such diverse areas as herbicide-tolerant corn and advanced lighting. European firms also engage in such philanthropic pursuits as educational programs, neighborhood improvements, and support for the arts.

"We welcome European investment. It brings us technology and new management techniques as well as capital, thus promoting our economic growth. Naturally, we expect Europe to welcome our investment too," says William Barreda, Deputy Assistant Secretary for Trade and Investment Policy at the US Department of the Treasury, hinting at the need for mutuality in transatlantic relations.

"We welcome European investment. It brings us technology and new management techniques as well as capital, thus promoting our economic growth. Naturally, we expect Europe to welcome our investment too..."

As the largest single market for American exports, the largest source of American imports, the most generous supplier of foreign investment, and the primary destination for American investment abroad, Europe looms large in the economic future of the US. "The US and Europe cannot afford a rift in their relationship—especially at a time when job creation has become a compelling priority," insists Jacqueline Grapin, President of The European Institute, a nonprofit center for transatlantic exchange. "Investment," she says, "including foreign investment, plays a major role in job creation and, contrary to conventional thinking, developments have shown that trade follows investment rather than the reverse."

Perhaps President Clinton's international jobs summit and the EC summit in December will provide the next significant opportunity for the US and Europe to confront their shared problems of unemployment, job creation, and the need for technology development. In any event, some observers like Baker remain optimistic, "The US will continue to be a very attractive market. It's going to be a smart market for European investment. That's not going to change.... Even if more roadblocks are put in place, it is still going to be a very enticing road."

—Gina Gianzero

the 30 who now work on Sundays at the Virgin Megastore will lose their jobs."

Trade unionists and small shopkeepers were outraged by what they called Branson's attempt to "blackmail" the authorities. They claimed that large stores do not create any real employment by staying open on Sundays; all they do is take work away from smaller businesses and destroy family life.

At this point Virgin decided to beat a strategic retreat. It agreed to keep its doors closed on Sundays until the government could review the case "calmly." It will not have long to wait. An extensive five-year employment plan recommending many changes to the existing labor law is coming up for debate in the French Parliament this month.

One of the proposals that has the backing of France's Labor Minister Michel Giraud is the loosening of restrictions on Sunday trading. And it just so happens that a second Virgin store in Paris, in the new Louvre shopping arcade, is scheduled to have its grand opening in November. Timing, as they say, is everything.

—Ester Laushway

ATHENS

AT THE MERCY OF THE GODS?

Ancient Greeks believed that there were gods who would aid those in need. One might argue that if ever there were a time when Greeks most needed divine intervention, it is now—during a period of mounting unemployment and slow growth throughout Europe and intensifying pre-electoral pressures in Greece, the country's tenacious Minister of the National Economy, Stephanos Manos, has vowed to undo the destructive interventionist policies of previous governments and to satisfy demanding targets for convergence with other EC countries.

In Greece, the government has long been viewed by many as an inexhaustible font of goods, services, and patronage. A poignant example concerns the provisions of employment, which many assume to be the responsibility of the state. Accordingly, the public sector in Greece, which includes many state-owned utilities, firms, and banks, has grown corpulent with superfluous employees. "The solution to unemployment has come through the public sector expansion... Clientelism in the public sector has been an historic phenomenon," remarks Zafiris Tzannatos, a Greek labor economist, referring to the large number of politically motivated appointments.

Indeed, throughout the 1980s, deficit-financed job creation and preservation were the norm. The government often took control of ailing enterprises to avoid job losses. Wider public sector employment accounts for approximately 30 percent of total non-farm employment. In addition to saddling the country with double-digit inflation, chronic deficits, and a debt that embarrassingly exceeds GDP, the interventionist policies of the 1980s have left Greece with a legacy of extensive public sector interference in labor markets and a consequent structural employment dilemma.

The cyclical unemployment has served only to compound existing structural unemployment problems. Unemployment estimates of 9.2 percent in 1992 and 10 percent in 1993, although lower than those for several other EC countries, are the highest levels experienced in Greece for many years. Unemployment among the young and women is especially severe, estimated to reach 30 and 16 percent respectively. Urban areas have been particularly hard hit; unemployment in Athens is reported to be substantially higher than the national average. This employment situation is hardly improved by an anemic economic growth rate of about 1.5 per annum.

As in many other European countries, the prescription for better economic and employment performance in Greece has included non-inflationary macro policies and structural reforms to improve the flexibility of labor and product markets. Not surprisingly, this prescription closely resembles that required to move Greece toward convergence with its EC partners. Among the more salient aspects of the convergence program is a targeted decrease in employment in the public sector and the privatization and streamlining of many public enterprises—policies that threaten to increase unemployment at a time when it is growing most virulently and when the political costs of weaning the Greeks from state-provided employment may be especially high. Although the figures are constantly changing, estimates reveal that as a result of privatization or liquidation, employment in the public sector had dropped by 18,000 by the end of 1992. A government document, released in April 1993, states that, "by 1993 the overall number of state enterprises will have decreased by half, phasing out some 55,000 public sector jobs."

In deference to persistent opposition from unions, contractors, and senior politicians, the government has offered generous compensation packages and retraining programs. It has also relied on a gradualist strategy that replaces only one out of every two retiring employees, "reducing size by natural waste rather than by firing," says Tzannatos. Another more politically palatable strategy being pursued involves reducing the attractiveness of being a civil servant. "With the incomes policy, they have effectively frozen civil service wages for quite some time," says Tzannatos. "The attractiveness of working for the public sector has been [concomitantly] reduced." Government estimates reveal that real public sector wages have been slashed by more than 14 percent since 1991.

The government's more open approach to labor relations has included freeing collective bargaining for private sector enterprises from government interference—an important divergence from government-imposed wage increase requirements of the past. The removal of impediments to part-time and temporary work and a fourth work shift have further enhanced labor market flexibility. Modifications to the pension schemes that increase employee contributions and the number of work years needed to qualify also diminish labor market rigidities, as well as reduce financial burdens on the state.

Many challenges still remain, such as the elimination of pro-labor rules restricting the number of monthly layoffs employers can make without government authorization and the removal of some of the highest employee dismissal costs in the European Community. Perhaps the greatest structural challenge confronting Greeks, however, is its historically low labor productivity growth rate: half the EC average since 1979. Greece must move its production structure away from low-wage jobs to high-skill, high-wage jobs if it is to compete in the increasingly technologically sophisticated global market and achieve the type of growth required for better long-term employment performance. Clearly, the gods can expect to be busy in Greece for quite some time.

—*Gina Gianzero*

COPENHAGEN

NEW ATTEMPTS TO CREATE JOBS

Reducing unemployment in Denmark next year is the first priority of the Danish four-party coalition government, led by Social Democrat Prime Minister Poul Nyrup Rasmussen. If it is not successful, the budget deficit will reach a level which may discredit any attempt to stabilize the Danish currency at a level close to the Deutsche mark. A failure is also likely to lead to a break-up of the coalition before the next general elections due in the fall of 1994.

The government has been honest, or foolhardy, enough to quantify its ambitions, namely a drop of 20,000 people from the present unemployment level of 350,000, or about 10 percent of the work force. To achieve this, the government has relaxed its fiscal policy, cutting some of the edge off the world's highest marginal income taxes, initiated labor market reforms, aiming to increase the skills of the unemployed, and creating incentives to start new companies. In total, the government growth package is scheduled to create 40,000 new jobs.

The labor market reform is the most novel of these new measures. Danish unemployment benefits, at 90 percent of a worker's pay up to $17,000 per year, are high by all EC standards, and these benefits are available for a period of seven years, subject to participation in job programs, which normally provide few, if any, new skills.

Now unemployed Danes can choose to train themselves in approved programs or improve their education, without losing their unemployment benefits. Also to combat unemployment, the local government labor market authorities will increase surveillance and supervision of the unemployed after three months unemployment. Most of the unemployed Danes who do find new jobs, do so within this period of time, and this group needs no assistance.

The seven-year benefit period is divided into two parts. In the first, of four years duration, some kind of job (typically in government) or training program will be offered, and the unemployed individual is required to be offered at least one year's activity of this type in the first period. During the second three years, it is the government's objective that the unemployed should work at least 20 hours a week in government or private sector jobs. Unemployed may also do social, environmental, or cultural work that does not compete with the existing market structures in these fields.

To help create more places of work for the unemployed, the government is also introducing three incentives to those with jobs to temporarily leave the labor market. All Danes can ask for one year's leave to educate themselves, drawing the maximum unemployment benefits during that time. Similarly, parents can ask for one year's leave with full unemployment benefits to be with their children, and if the employer is prepared to offer the job temporarily to an unemployed person, anyone can ask for one year's sabbatical, i.e. leave without any specific purpose. In all cases, employers and employees have to reach mutual agreement on the leave, and this may of course be the limiting factor.

How many unemployed people find new jobs as a result of all of these initiatives not only depends on the quality of the programs, but also on the level of economic activity, which determines the demand for labor. The government is optimistic, with a growth forecast for 2.9 percent for next year. The assumptions are a revival of private sector demand and more growth on the Danish export markets next year. However, none of this can be guaranteed.

—*Leif Beck Fallesen*

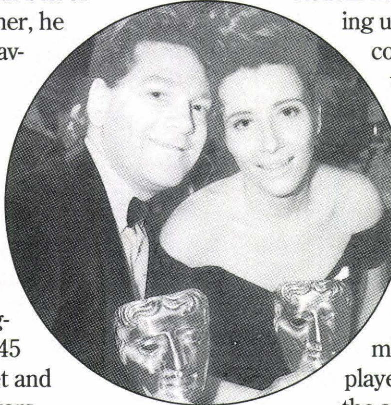
PHOTO CREDITS

Cover: Piko/Sipa
p 8 German Information Center
p 9 National Museum of American Art, Smithsonian Institution Transfer from US Dept. of Labor
p 10–11 National Museum of American Art, Smithsonian Institution
p 13 Patrick Piel/Gamma Liaison
p 14 Piko/Sipa
p 17 Patrick Forestier/Sygma
p 20 Granger Collection
p 23 Goldberg/Sygma
p 24–25 Adenis/Sipa
p 26 David Kampfner/Gamma Liaison
p 27 Nucor Corporation
p 28 Jane Scherr
p 29 (Weidenbaum) Washington University in St. Louis (Thurow) Donna Covency/MIT
p 32–33 Calcinai/Dossier/Sipa
p 34 Philips
p 36 TradeARBED, Inc.
p 37 Grazia Neri/Black Staf
p 38 (top) Embassy of Belgium (bottom) British Information Service
p 39 German Information Center
p 41 Mounir/Sipa
p 44 Solo/Sipa
p 45 Sygma
p 48 Nimatallah/Art Resource, NY © 1993 ARS, NY/SPADEM, Paris

NEWSMAKERS

Kenneth Branagh (33), the golden-haired boy wonder of British cinema, does not believe in resting on his laurels. While *Much Ado About Nothing*, his fourth film as star/director in as many years, was netting more than $20 million at the American box office this summer, he was already having the sets built for his next film, *Frankenstein*.

It is being shot at **Shepperton Studios** in England, but its $45 million budget and some of the stars are coming from Hollywood. **Robert de Niro** will play the Creature opposite Branagh in the title role, with **Helena Bonham-Carter** (*A Room With a View* and *Howard's End*) as the leading lady.



Kenneth Branagh and Emma Thompson

After starring with him in four of his films (*Henry V, Dead Again*, *Peter's Friends*, and *Much Ado*), Branagh's wife **Emma Thompson**, who won an Oscar for her part in *Howard's End*, will not be joining him in front of the cameras this time. Her absence might mean the end of a long-running joke about the couple that has Emma coming home, Ken shouting, "I'm in the kitchen!" and her begging, "Oh, can I be in that, as well?"

• • •

He is the only composer to have worn a wet suit to the world premier of his first opera. But then Frenchman **Michel Redolfi** had his work, *Crysallis,* performed in Lisbon's municipal swimming pool, and the audience, dressed in bathing suits, lay back to listen with their ears in the water.

For the past 12 years, Redolfi has been staging underwater concerts for which Europeans and Americans alike have taken the plunge. "When music is played in water, the audience starts vibrating with the resonance," he explained. "You listen with your body instead of with your ears." Those really keen to immerse themselves in Redolfi's creations come equipped with scuba gear. Others drift on floats, and some cling timidly to the side of the pool which is heated to 91° Fahrenheit and fitted with four waterproof amplifiers.

The musicians wear oxygen tanks and lead-weighted belts and drop to the pool bottom, where they play instruments specially designed by Redolfi. He is down there, too, operating a waterproof console to mix the different sound levels.

For his operatic debut, Redolfi had the added technical difficulty of making it possible for sopranos **Susan Belling** and **Yumi Nara** to sing underwater. French architect **Jacques Rougerie**, who, as it happens, specialized in underwater hotels, came up with a large bubble to house the diving divas.

Redolfi is now busy preparing another operatic production in the Olympic pool in Lille, and for next March he is planning a three-week installation in Brussels that will let visitors drop in to listen to his water music at any hour of the day.

• • •

Raul Gardini, former head of the Italian foods-to-chemicals group Ferruzzi, committed suicide two months ago. In Venice, there are whisperings that his ownership of a palace on the Grand Canal may have played a part in his suicide.

The **Palazzo Dario**, built in the 15th century, is said to have a curse hanging over it. With chilling regularity, its successive owners have met with misfortune or tragedy. **Giovanni Dario**, who commissioned the palazzo as a wedding present for his daughter, died poverty-stricken, and she died of a broken heart. **Rawdon Brown**, a friend of the English poet **Robert Browning**, bankrupted himself on it and committed suicide. The French poet **Henri de Regnier** died there of malaria. The tenor **Mario Del Monaco** almost bought it but thought better of it after having a car accident during the negotiations. Another owner, **Count Filippo Delle Lanze**, was murdered there by his lover. **Kit Lambert**, promoter of The Who, died in mysterious circumstances in England shortly after he had acquired the palazzo. And the owner just prior to Gardini, Venetian financier **Fabrizio Ferrari**, lost his entire fortune.

It is no wonder that the building described by tourist guides as "the prettiest palazzo on the canal" is known among locals as the **"Palazzo Maladetto"**—the Palace of the Damned.

• • •

Luciano Benetton, the knitwear tycoon with the flair for controversial publicity, is showing his enthusiasm for a united Europe. He has decreed that in the future, instead of carrying a "Made in Italy" label, his clothes will sport a "Made in Europe" tag.

• • •

Mikova, a tiny Slovakian hamlet in the foothills of the Carpathian mountains, was the birthplace of the prince of pop art, **Andy Warhol**, who died in 1987. But it is the nearby town of Medzilaborce that opened the world's first **Andy Warhol** museum, complete with two giant red and white Campbell soup tins at the entrance.

Originally meant to be housed in the dilapidated former post office of Medzilaborce, the museum ended up inside the mausoleum-like concrete building that was once the communist cultural center. It was opened in September 1991 by Andy's brother **Paul**, a chicken farmer from Pennsylvania. To mark what would have been Warhol's 65th birthday this year, the good people of Medzilaborce gamely dedicated their annual folk festival to him.

—*Ester Laushway*

ARTS & LEISURE

FILM

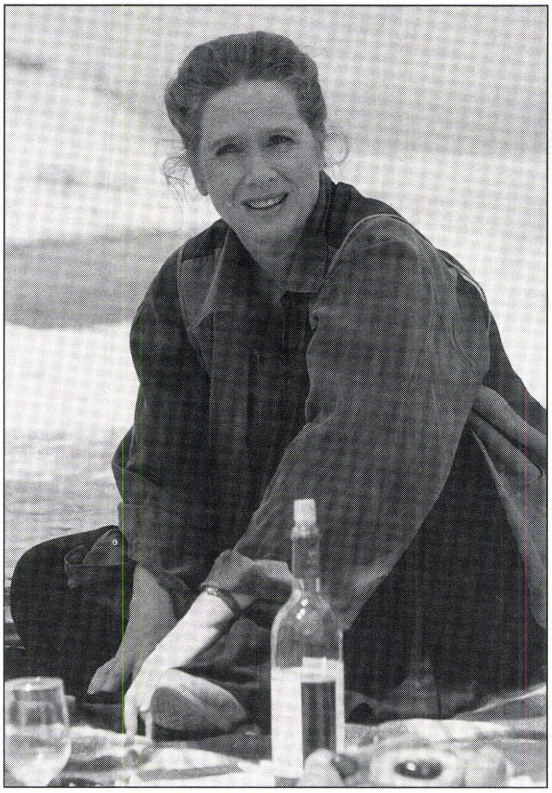
In the past, whenever actress Liv Ulmann did an interview to promote one of her movies, the conversation sooner rather than later swung around to Swedish director Ingmar Bergman for whom she did many of her most memorable films, including *Cries and Whispers* and *Scenes from a Marriage*.

Now, she has written and directed her first feature film—the Danish *Sofie*, widely praised by the critics—and, once again, the Bergman name pops up very quickly. How much did she learn from the Swedish genius who, incidentally, is the father of her daughter Linn, now 26.

At first, her response sounds a bit bristly. "Please don't overlook that I appeared on the stage and in films for seven or eight years before I even met Bergman," she says. "As an actress I got a lot of trust from him, a lot of self-confidence, too. But my life didn't start and end with Bergman."

"He is needy of the talent of the actor. He has to use the actor's ability to show emotions, to participate with the actor's experience, and because he is so good, he allows that to happen in a framework that is inspiring and wonderful. So yes, if I am influenced by Bergman, it is because I had that freedom, and I was loved by a wonderful director. He is an extraordinary man and to this day my best friend."

Sofie, starring a group of outstanding actors, including Karen-Lise Mynster in the title role, Ghita Norby, and the superb Erland Josephson as the family patriarch, was written and directed by Ms. Ulmann. It cost only $2.5 million (an extremely low budget for an elaborate two-and-a-half-hour film) and tells the very moving story of a Jewish family in Denmark at the turn of the century. It was taken from the 1932 novel *Mandel Philipsen & Son* by Henri Nathansen.



Liv Ulmann wrote and directed *Sofie*.

"It all came about in a very strange way," Ulmann relates. "Nordisk Studios in Oslo sent me a script someone had done from a Danish novel. They wanted my opinion as a woman and wondered whether I could do an adaptation. So I wrote them back a 30-page letter, and they replied asking whether I could write the script and direct the film as well.

"It came absolutely out of the blue. I really had no dreams at all about directing, but now that I've done it, and I am so proud of the picture which took two years of my life, there is nothing I would rather do. I feel that all those years as an actress have just been years of preparation for this."

Sofie is a Jewish family saga, truly a story about "family values" in the most positive meaning of the term, and even though Ulmann is Christian, she feels she has a great sympathy with Jewish beliefs and traditions.

She gets angry when she recounts how some of the European critics have called *Sofie* long and slow. "It is precisely the 'long and slow' that this film is all about," she fumes. "It is about life and about the movement and the echo of a time that is no more, when things had their beginning and a middle and an end and something even before the beginning and after the end.

Oddly, Liv Ulmann's very first stage role was Anne, the Jewish teenage heroine in *The Diary of Anne Frank*. Born in Tokyo in 1938, she started her career in Norway, inevitably moved from the theater to films, and then met Bergman, who made her a household name around the world, the essence of intelligent, highly dramatic, and emotional performances combined with a natural charm and the embodiment of subtle European sex appeal.

A lot of that is still very much in evidence today. Ulmann at 54 still radiates intelligence, sensitivity, and appealing directness. She is married and lives in Boston, and she seems completely at ease in her own skin, unpretentious, untheatrical, and unabashedly proud of her *Sofie*.

Yet she is also well organized and quite precise. An interview lasts one hour, not a minute more. Anything to be said can be said in that time, and then on to the next appointment, the next call, the next plane to catch.

Her life is very busy, very much a continuation of her years as an actress when she traveled between Hollywood and Europe, in a film one day, in a play another. Somehow she also found time to write two books—*Changing* and *Choices*. *Changing*, an unconventional and moodily introspective autobiography, became an international success and was translated into 25 languages.

In Hollywood, the lovely lady known as Bergman's protégé was extremely well liked, but not exactly a howling success on screen. "Looking back on that period it was a little like a birthday party, in fact a succession of parties. Socially, I had a great time," she recalls. "I did four pictures in a year. None of them were hits. I think I closed down two studios, but a couple of my pictures—like *Abdication*—were really quite good. By that time it turned out that I wasn't going to be a Greta Garbo. I was already on Broadway and very successful in *The Doll's House* and *Anna Christie*."

In the years that followed, Ulmann made more movies for Bergman, including *Autumn Sonata* and *Scenes from Marriage* and—more or less by accident—got involved with refugee problems, thanks in part to a trip she took to Thailand where she met the Jewish philosopher Elie Wiesel. She went to Israel and fell in love with that country. "I am just one of those gentiles who gets involved," she says, smiling.

Eventually, Ulmann, who was named the official representative of UNICEF, got around to doing a documentary on the children of Auschwitz survivors, and today she is also actively involved in the International Rescue Committee and a Paris-based organization called the Universal Cultural Academy, which operates under the auspices of French President François Mitterrand and is a kind of think tank evaluating the rights and wrongs in the world.

What next for Liv Ulmann? "Well, I have a couple of options as a writer/director," she shrugs. "It's such a big investment in time because I want to write the script myself. While I am thinking about it, I may even act again, but if I do that it will be mostly for economic reasons."

—Fred Hift

BOOKS

Who's Bashing Whom? Trade Conflict in High Technology Industries
By Laura D'Andrea Tyson
Institute for International Economics
324 pages, $25

This is the book that helped get Laura Tyson the job as Bill Clinton's chief economist, the chairmanship of his council of economic advisors. It is too long by a third, but in places *Who's Bashing Whom* is a lively read. It contains case studies of US-Japanese conflict on semiconductors, super-computers, pagers, and cellular phones. But the best chapter is on commercial aircraft and the US-EC fight over Airbus subsidies.

The book offers tantalizing clues about where the Clinton administration high-tech policy is headed if Laura Tyson's views prevail. She wants America to be more like Europe and Japan. To wit, after an analysis of how $5 billion of Airbus subsidies succeeded in weakening Boeing and McDonnell Douglas, on page 211 Ms. Tyson draws this conclusion: "the United States will have to replace its outmoded and expensive military industrial policy with a civilian industrial policy. Rather than hope that foreign intervention in the (aircraft) industry will cease, the United States will have to respond with offsetting interventions at home."

The book contains persuasive evidence of how the Japanese work together to keep their markets closed. There is an illuminating account of Motorola's agonizing battle to get its pagers and cellular phones into the Japanese markets. As with semiconductors, US trade negotiators were instrumental in finally getting the American producers in. Ms. Tyson rightly concludes that it is often the threat of punitive retaliatory duties (under section 301 of US trade law) that gets results for US negotiators.

Ms. Tyson views herself as a patriot. She views the Europeans and Japanese as serious, skilled competitors in high-tech, and she wants the Americans to prevail. She writes, "We can no longer afford to ignore the efforts of Japan and Europe to promote their own high-technology producers.... Confronted with these realities, we must devise macroeconomic, trade and industrial policies that promote our own high-technology industries..."

Laura Tyson's decade at Berkeley, where she taught in both the business and economics faculties, made her sensitive to the problems of the Silicon Valley. Her book is a contribution to the debate over fair versus managed trade. And while she is not a protectionist, neither is she the mere "cautious activist" she professes to be. Laura Tyson is an interventionist who favors a significant role for the government in advancing the industries and firms she regards as vital to economic well-being.

—Barry D. Wood

Beyond the Wall: Germany's Road to Unification
By Elizabeth Pond
Twentieth Century Fund
367 pages, $29

Thanks to Elizabeth Pond's exhaustive research and clear vivid writing *Beyond the Wall* is partly a thorough history and partly a political thriller. She fleshes out the details of the dramatic events of November 9, 1989, when East Berliners rushed to the exits of the Berlin Wall and firmly demanded "Open the gates!" The armed but vastly outnumbered border guards made their unthinkable choice and let them pass and enter West Berlin, which was barred to them for 28 years. Carried away by the emotion of the moment jubilant East Berliners cried in disbelief with tears of joy in their eyes "crazy, crazy." The scenes of the champagne-flowing, flag-waving, tearful reunions of that momentous night left nobody untouched. "Even the GDR border guards and (National People's Army) troops were swept up in the jubilation, metamorphosing swift redrawing of the political map of Europe. Ludwig Marcuse's bon mot comes to mind, "You have really witnessed it only in your recollection."

Pond probes deeply into the first successful "bloodless revolution" and into personal stories of people behind it. "It took real courage for the 70,000 Leipzigers to gather on October 9, 1989,...and to press for democracy. They were frightened, but they marched anyway with little hope that they would succeed. This civil courage has been largely forgotten," Pond says. She describes how tense and dangerous the situation was and that it was a miracle that the police held back and that there were no provocations by the Stasi (security forces).

Pond has also compiled a full historical account of the road to German unification which has been neglected by the press. Few Americans realized just how vigorous the United States' support for German unity was. Washington twisted British and French arms ruthlessly to get full Western support for German unity. German Foreign Minister Hans-Dietrich Genscher called it a "seamless" coordination.

Beyond the Wall is an engrossing, fascinating "second draft of history" and an agglomeration of wonders that pulled the wall down, ended the cold war, and tore apart the Soviet empire.

—Wanda Menke-Glückert

Please note there is a $4.00 shipping and handling charge per shipment of free publications requested from the Bookshelf. Payment must be in the form of a check or money order payable to: E.C. Delegation.

COMMUNITY BOOKSHELF

SEPTEMBER—OCTOBER

To order these publications, please check the desired items, fill out the order form and **enclose a self-addressed mailing label.**

☐ **The Budget of the European Community.** *Europe on the Move, Commission, Brussels. 1993, 10 pages.* Basic information on EC expenditure. **Free**

☐ **Preliminary Draft General Budget of the European Communities for the Financial Year 1994: Overview.** *SEC(93)800, Commission, Brussels, May 1993, 32 pages.* **Free**

☐ **The Commission's Work Programme for 1993–94.** *Bulletin of the European Communities, Supplement No. 1/93, Commission, Brussels, 1993, 69 pages.* Collection of documents on the legislative program. **Free**

☐ **The Challenge of Enlargement: Commission Opinion on Sweden's Application for Membership.** *Bulletin of the European Communities, Supplement No. 5/92, Commission, Brussels, 1992, 59 pages.* **Free**

☐ **Transport in the 1990s.** *Europe on the Move, Commission, Brussels, 1993, 10 pages.* **Free**

☐ **The Community and the Third World.** *Europe on the Move, Commission, Brussels, 1993, 10 pages.* Second edition. **Free**

☐ **Public Opinion in the European Community.** *Eurobarometer No. 39, Commission, Brussels, June 1993, 165 pages.* Survey results from the spring of 1993. **Free**

☐ **European Investment Bank Annual Report 1992.** *EIB, Luxembourg, 1993, 116 pages.* **Free**

☐ **EIB Lends 17 Billion Ecus in 1992.** *EIB Information No. 75, EIB, Luxembourg, February 1993, 8 pages.* Summary of EIB activities in 1992. **Free**

☐ **Researching the EC: Official Sources.** *Office of Press and Public Affairs, Washington, DC, 1993, 9 pages.* Outlines the legislative process and the related documents and discusses print resources for research. **Free**

☐ **Data Bases: Online to Europe.** *Office of Press and Public Affairs, Washington, DC, 1993, 11 pages.* Guide to EC databases and their content. **Free**

☐ **Portrait of the Regions, Volume One: Germany, Benelux, Denmark.** *Statistical Office, Luxembourg, 1993, 298pp.* Describes the many regions that comprise Germany, Benelux and Denmark. For each region, you'll find information on area, regional strengths and weaknesses, population patterns and trends, employment, economic status, the environment, and more. Color maps, diagrams, and tables. $140.00

☐ **Retailing in the European Single Market 1993.** *Commission, Brussels, 1992, 215pp.* Documents retailing information in the European Community highlighting historical developments, retail structures, and much more. With tables, charts and maps. $55.00

☐ **Labour Force Survey Results, 1991.** *Statistical Office, Luxembourg, 1993, 257pp.* Presents the detailed results of the 1991 Community labor force survey. Includes important data on population and activity; employment; working time; unemployment; and search for work. $40.00

☐ **Old Age Replacement Ratios, Volume One: Relation Between Pensions and Income from Employment at the Moment of Retirement.** *Statistical Office, Luxembourg, 1993, 123pp.* Seeks to establish and apply a method of calculating old age replacement ratios throughout the EC. Provides information on: average salaries; employment net income; Social Security pension; severance allowances; and net retirement income. $25.00

☐ **Digest of Statistics on Social Protection in Europe, Volume Three: Survivors.** *Statistical Office, Luxembourg, 1993, 224pp.* Describes the main features of national benefits available to survivors throughout each Member Country. It looks at benefit expenditure, welfare schemes, the survivor's function, and proposed future work. $25.00

☐ **European Money and Banking Statistical Methods, 1993.** *Statistical Office, Luxembourg, 1993, 290pp.* Outlines the methods used by the Member States of the EC and by the countries of the European Free Trade Association in the compilation of banking and monetary statistics. Examines interest rates, monetary institutions, banking products, and more. $30.00

☐ **Strengthening Citizen Action in Local Communities.** *Statistical Office, Luxembourg, 1993, 74pp.* Explores various methods to strengthen the contribution of citizen action in disadvantaged urban areas. Focuses specifically on local community groups and the role they play in improving social integration and cohesion. $14.00

☐ **Panarama of EC Industry, 1993.** *Commission, Brussels, 1993, 1198pp.* A unique statistical survey of important developments in more than 180 sectors of industry and services throughout the EC. Easy-to-read tables and graphs illustrate recent trends in European industry. Specific topics addressed: cross-border mergers; the largest groups at world and EC level; cooperation between small- and medium-sized enterprises; defense related industries; and much more. $175.00

☐ **Part-Time Work in the European Community: The Economic and Social Dimension.** *Statistical Office, Luxembourg, 1993, 61pp.* Considers the economic and social dimension of part-time work, and provides in-depth information on flexibility and employee needs. Advantages and disadvantages of part-time work are also assessed. $10.00

☐ **Participation in Health and Safety Within the European Community.** *Statistical Office, Luxembourg, 1993, 30pp.* Examines how well the mechanical engineering, electrical engineering, banking, insurance, and retail trade sectors participate in health and safety practices throughout the EC. $10.00

ORDER FORM—FREE PUBLICATIONS

Mail to Bookshelf Orders, European Community, 2100 M Street, N.W., 7th Fl., Washington, D.C. 20037.

Please send me the free items I have checked. **Enclosed is a self-addressed mailing label.**

Enclosed is $4.00 check or money order for shipping and handling payable to E.C. Delegation.

Orders accepted for shipment to U.S. addresses only.
Please allow 3 weeks for delivery.

Name ______________________

Organization ______________________

Address ______________________

City ______________ State ______ Zip ______

ORDER FORM—PRICE PUBLICATIONS

Mail to UNIPUB, 4611-F Assembly Drive, Lanham, MD 20706-4391.
1-800-274-4888 (US), 1-800-233-0504 (Canada), 1-301-459-7666.
Please send me the price publications I have checked above. NOTE: Add postage and handling as follows: US, 5% or $2.50 min. Outside US, 8% or $3.00 min. State and local taxes: MD-5% and NY-varies.

____ My check for $__________ is enclosed. (Orders from individuals MUST BE PREPAID before publications are sent.)

____ Please send me the free European Community Catalog of Publications.

☐ VISA ☐ MasterCard Number ______________

Expiration date __________ Signature ______________

Name ______________________

Organization ______________________

Address ______________________

City ______________ State ______ Zip ______

IN CLOSING...

Spain Acquires Thyssen Collection

Pablo Picasso's *Harlequin with Mirror.*

Spain has recently acquired the Baron Thyssen-Bornemisza art collection. Valued at a reported $350 million, the collection of 775 paintings, frescoes, and sculptures is considered to be among the most valuable private art collections in the world. The transaction has been six years in the making, and the collection had been on a 10-year loan to the Spanish government since last October.

The collection, which includes works by El Greco, Velázquez, Goya, Rubens, Rembrandt, Watteau, Caravaggio, John of Flanders, Dürer, Van Gogh, Degas, Gauguin, Monet, Kandinsky, Vlaminck, Picasso, and Hopper, is the result of 60 years of art acquisitions by the Baron and his late father, who made a fortune in shipping.

A large majority of the works are presently on display in the recently renovated Villahermosa Palace in Madrid which was inaugurated "Museo Thyssen" by the King and Queen of Spain last fall. The remaining 70 paintings and eight sculptures will soon be exhibited in the Monasterior de Pedralbes in Barcelona.

SEND A PACKAGE ABROAD WITHOUT SPENDING A BUNDLE.

If you're paying exorbitant prices for all of your expedited deliveries, consider EMS-Express Mail International Service™ from the Postal Service. It's the perfect way to send an important international package at a price that's not out of this world.

Your package will get special handling and quick, reliable delivery, door-to-door. But you pay considerably less, often under half what our competitors charge.*

For your free EMS starter kit call **1 800 456-3600, Ext. 539.**

If you're tired of paying a bundle for all your overseas packages, **we deliver for you.**

*based on published rates

UNITED STATES POSTAL SERVICE

Nonstop to London.
Showers expected upon arrival.

British Airways' new arrival facilities at London's Heathrow and Gatwick airports are making quite a splash. Now, ClubWorld℠ and First Class passengers can enjoy a hot shower and breakfast or even catch up on business in our private lounge. You'll be off to a flying start. *It's the way we make you feel* that makes us the world's favourite airline.

BRITISH AIRWAYS
The world's favourite airline®