A Letter From EUROPE

A monthly update on the European Community from its Delegation in Washington

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RESTRICTIONS ON IMPORTS

"Hog Butcher for the World
Tool Maker, Stacker of Wheat
Player with Railroads and the Nation's
Freight Handler".

That is what the poet Carl Sandburg saw 71 years ago when he looked at Chicago in the spring of America's industrial age. But now another age has dawned. Is the relentlessly rising tide of imports eliminating American industry? Is America, in the trenchant words of Lee Iacocca, becoming a "nation of video arcades, drive-in banks and McDonald's hamburger stands". If so are foreign imports responsible?

According to Kenneth Brown of the American Enterprise Institute and Robert Lawrence of the Brookings Institution the answer is no. America is not de-industrialising. Both these economists point out that the share of manufacturing in the Gross National Product has been quite stable. Because productivity has increased dramatically in manufacturing, employment has not risen as fast in this sector as in the service sector, but output has kept pace. American industry has adapted well to a changing world economy.

What is really happening is not de-industrialisation but a realignment of industry reflecting at least two forces of structural change.

The first is high energy prices. Even though oil prices have been slipping we are still adjusting to the price increases of 1973 and 1979. Energy intensive materials are being used more sparingly; cars, for example, are being made with less steel than ten years ago. Meanwhile countries such as Japan and the US in particular have turned to more energy efficient high-tech products as electronics, communications, computers, biotechnology. This has been backed by higher R & D expenditure in the United States than Japan, Britain, Germany and France combined.

The second factor is the relative United States position in world trade. The US emerged from World War II as the dominant economic power. But the lead the US gained from a huge industrial base while other nations had their economies destroyed could not last. Many other countries have acquired comparable factories but at lower wages, so US exports have had to become less capital intensive and less reliant on unskilled labour.

But what about the flood of imports? From 1982 to 1984, Mr. Brown notes, net manufactured imports rose $60 billion (with total manufactured goods imports up $62 billion and exports up $2 billion). But meanwhile US manufacturing output soared $370 billion. Imports however are surging both because the US economy has grown more rapidly over the last two years than other industrial countries and because the dollar has gone from strength to strength. Over the last two years the US economy has grown more than in any previous post-war recovery, and 1984 was the best single year since 1951. Exports shared in this gain and have increased over this recovery about in line with previous recoveries. The US has also maintained its share of exports in many products. For example the US world share of computer exports is 36 percent, aerospace 31 percent, office equipment 30 percent. Imports have been out of line, increasing at close to double the usual rate. This is partly because other countries have not been growing as fast, but it is mostly because of the dollar which has appreciated by over forty percent in the past four years, making foreign goods a bargain.

Restricting imports would sap the vitality of US industry and restart inflation. With less foreign competition, efficiency would decrease and productivity would fall. That could lead to the de-industrialisation of America. It could also aggravate the dollar problem. Import restrictions would encourage retaliation, but to the extent they were effective the US trade balance would improve and the dollar would go up not down.

There is no one simple cure, but it is necessary to tackle the disease rather than the symptoms. We in Europe are trying to improve our growth rates which will help. Another crucial element is lower interest rates in the US which are unlikely to be achieved without a significant reduction in the budget deficit.

Roy Denman

""INDOW ON THE EUROPEAN COMMUNITY

Delors Commission

"The time is right for the Community to take advantage of the favorable climate" and begin building a powerful and fully integrated Europe, Jacques Delors told the European Parliament this month as his newly assembled Commission moved into position to take up the broad agenda of its four year term. The Delors Commission is being greeted with great enthusiasm in Europe; not only is the quality of the new team high, but with several of its longstanding difficulties resolved the Community stands on the verge of both closer integration and an economically and politically important enlargement. Delors, who served until recently as France's Finance Minister and is known as a long time advocate of a stronger Europe, is clearly determined overcome the EC's immediate and longer ange problems by strengthening cooperation both within the Commission and among the various institutions of the Community. Delors acted quickly and effectively last month to allocate areas of responsibility among his Commissioners, and to tighten coordination among those areas; the result has been the emergence of a tightly knit "collegiate team" that will, as Delors put it, "play the key role of engineer on the European construction project."

The new Commission faces enough routine and immediate problems - the 1985 budget, agricultural pricing policy, completion of the enlargement negotiations, and so on - to keep it more than fully occupied in the months ahead. But more ambitious and comprehensive, and even crucial, goals are shaping the Delors agenda. "Europe's credibility is at stake," he told the Parliament, insisting that action must be taken to complete a true "Common Market" in Europe, to strengthen the European Mon-~tary System and expand the use of the :opean Currency Unit (ECU), and to narrow economic differences between member states to generate higher growth and more jobs. Community-wide collective bargaining between employers and unions as a "spur to initiative," coordination and exchange in industry and research, modernization of Europe's production structures, discipline in the management of the Common Agricultural Policy, "turning the tide of unemployment," and other matters essential to the building of Europe will also occupy the incoming Commission. But addressing these problems in a comprehensive and meaningful way means the "paralyzing state of confusion" in Community decision-making must be surmounted, Delors warned; the EC must "steer a course between the twin traps of limited pragmatism and precipitate action," working within the framework of existing rules to avoid the stalemates on important issues that have hindered progress on integration in the past. "We need to endow ourselves with economic, technological, financial and monetary strength...based on democracy and justice," Delors told the Parliament. "We have to start without delay."

Four members of the new Commission served previously: Lorenzo Natali (Italy), in charge of enlargement, cooperation and development; Claude Cheysson (France), Mediterranean policy, North -South relations; Karl-Heinz Narjes (FRG), industry, information technologies, research and science; Frans Andriessen (The Netherlands) agriculture and fisheries.

New members include Lord Cockfield (UK), internal market, customs union service, taxation, financial institutions; Alois Pfeiffer (FRG), economic affairs, employment, credit and investments, Statistical Office; Grigoris Varfis (Greece), regional policy, EP relations; Willy De Clercq (Belgium), external relations, commercial policy; Nicolas Mosar (Luxembourg), energy, Euratom supply agency, office of official publications; Stanley Clinton Davis (UK), environment, consumer protection, nuclear safety, forests, transport; Carlo Ripa di Meana (Italy), institutional questions, information policy, culture, tourism; Henning Christophersen (Denmark), budget, financial control, personnel and administration; Peter Sutherland (Ireland), competition, social affairs, education; and President Jacques Delors (France), secretariat-general, legal service, spokesman's group, monetary affairs, and coordination of structural funds.

Clarity on Pipes and Tubes

"To our great relief on both sides of the Atlantic, it looks like the issue of pipes and tubes has been solved," remarked EC Ambassador Sir Roy Denman following the successful conclusion early this month of negotiations between the Commission and the USTR over the controversial trade dispute. Rising EC exports of pipe and tube steel to the US in 1984 prompted American representations to the Community about a 1982 exchange of letters calling for consultative procedures should diversion from carbon steel products to pipes and tubes occur, and in late November the Administration, in a surprise move, unilaterally imposed an embargo on the European products. The new self -restraint accord, to be policed by an EC export licensing system, will limit Community exports to 7.6% of the American market for the next two years, with a 10% limit on the subcategory of oil country pipes and exceptions for products in short supply in the US. Community officials said the accord - called by USTR Brock "a fair agreement that should operate to our mutual advantage" - would hold EC pipe and tube sales to about 730,000 tons in 1985. 60,000 of the 100,000 to 200,000 net tons which arrived and were warehoused during the embargo will not be included in the 1985 quota.

Budget: Horns Locked

The European Parliament rejected almost unanimously last month the 1985 calendar year EC budget submitted by the Council of Ministers. This rejection, together with the ongoing dispute between the two bodies, has made it necessary for the Community to adopt an emergency spending procedure and has put the future of some new programs in question.

The Parliament's action was prompted by the Council's decision to submit a budget covering only the first ten months of 1985, with supplementary funding in the last two months to cover the year's expected $98 million shortfall. The EP rejected this approach, insisting on a budget covering the full year, and the emergency procedure of "provisional twelfths" that allows the Commission to release funds only on a monthly basis was then implemented. The procedure also prohibits financing for any programs not included in the 1984 budget; spending to support projects in some 23 new areas will therefore be withheld until a new budget can be drawn up and approved by the Parliament - a process that may take several months.

Italian Presidency

The rotating presidency of the EC passed this month from Ireland to Italy, and Rome plans to use its six month term to accelerate the enlargement negotiations, revitalize the EC's institutions, and strengthen monetary and political cooperation among the Ten. Foreign Minister Andreotti, addressing the EP this month, outlined Italy's plans and promoted the idea of an intergovernmental conference this year on a proposed Treaty of European Union.