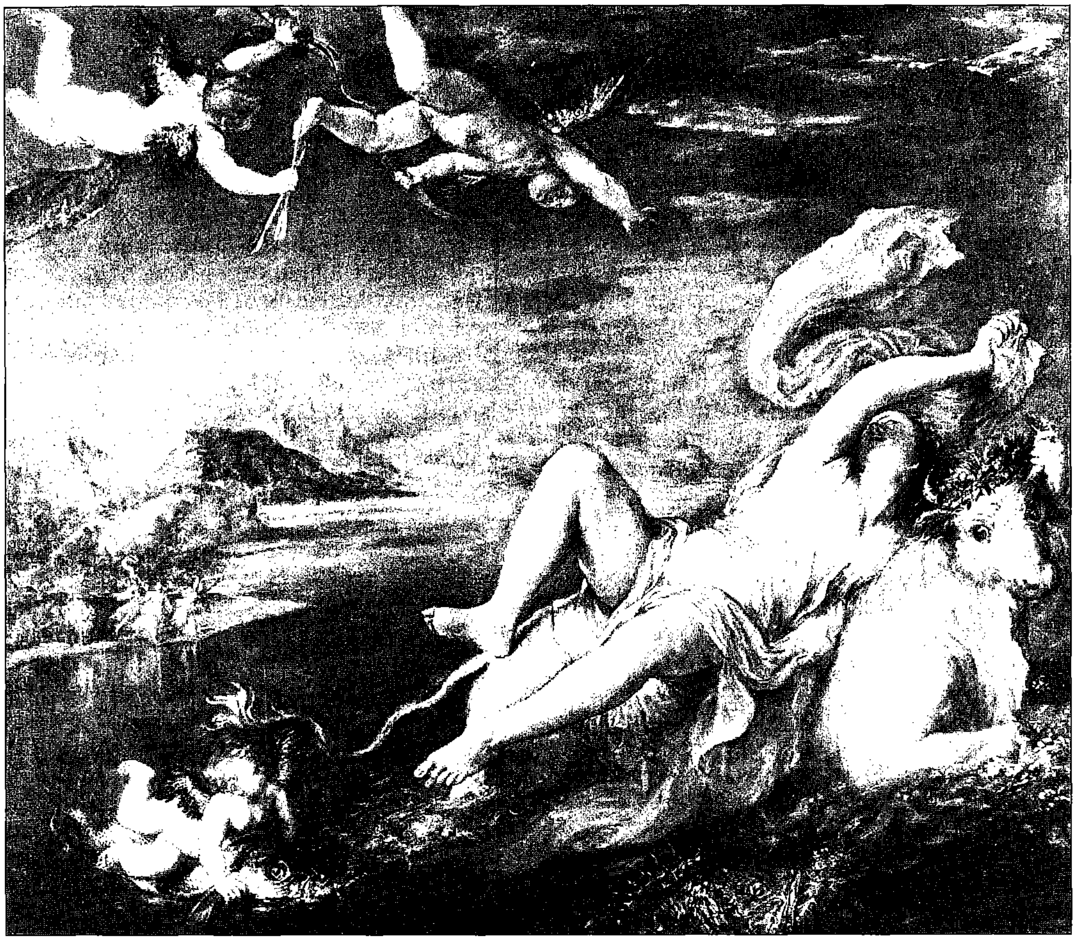

Titian's The Rape of Europa *(1561).*

Europe 1992

The Greeks named Europe for the princess Europa, who, according to myth, so charmed Zeus that he transformed himself into a bull and carried her off from the Middle East to Crete. Zeus promised her that their sons would rule "over all men on earth." Europe has often seemed, in another sense of the word, no more than a myth. Although Europeans have often spoken of their common culture, Europe has been mostly a word on the map, a name for a continent that gave birth to both the world's greatest cultural achievements and its bloodiest wars. Suddenly, however, the elusive goal of European unity seems within reach. The 12 nations of the European Community have agreed to merge into a Common Market by the end of 1992. Many believe that political unity will necessarily follow. And now the dramatic eclipse of communism raises the prospect that Eastern Europe may join. Here, Steven Lagerfeld describes the journey to 1992; Josef Joffe points to the formidable obstacles that remain.

EUROPHORIA

by Steven Lagerfeld

A specter is haunting Europe—the specter of "1992." But unlike the specter of communism invoked by Karl Marx and Friedrich Engels more than a century ago, this one does not inspire dread among the major powers of Europe. To the contrary. They are encouraging it to materialize.

What will actually appear remains a mystery. Some Europeans imagine a Europe economically integrated, a colossus larger than the United States in population (324 million versus 244 million) and nearly its equal in gross national product ($4.6 trillion versus $4.9 trillion). Others, going considerably beyond, envision the eventual development of a politically and culturally unified United States of Europe in which every Parisian or Berliner is a European first, a Frenchman or a German second.

Meanwhile, we Americans look on like confused spectators, alternately cheered or frightened by thoughts of what the grand climax may bring. Will the apparition take form as a fanged and unfriendly protectionist Europe? Will it become a stronger, healthier ally? Or will it remain the benign old ghost we've known for so long?

The drama of 1992 provides endless cause for speculation, but only this much is certain: Europe has not even a ghost of a chance of soon achieving the grand aims of the millenialists. Indeed, it now seems clear that Europe will fall short of the concrete goals its leaders set for 1992. [See box, p. 64.] Whatever is or is not going to happen will take far longer.

Brilliant publicity is making a historic development seem even more earth-shattering than it is. Take the "1992" slogan itself. The official deadline for implementing the program is actually December 31, 1992, which gives the European bureaucrats who are supervising the project, the "Eurocrats," an entire year to hustle stragglers onto the bandwagon. There is a list of exactly 279 directives to be written and implemented. The checklist serves to remind one and all of exactly how far along Europe is on the road to blissful fusion. (Only 145 directives to go!)

And then there is the very term European Community. The 1992 program represents the culmination of what used to be called the Common Market, but that sounds too, well, common, as if it involved old women in shawls selling vegetables in a village square. By some mysterious process, Common Market has largely dropped out of everyday use, replaced by the sleek and sophisticated term, European Community, or, better yet, simply "the Community." Americans have good reason to worry about U.S. competitiveness in the post-1992 world: The Europeans have clearly learned a thing or two about advertising.

This latest episode in what has been a toddler's wobbly march toward European integration began in December 1985, when the leaders of the EC nations met in Luxembourg to endorse the Single European Act. The Common Market was then in such disarray and its goals so long delayed that hardly anybody noticed. As political scientist Stanley Hoffmann recently observed, the leaders themselves did not seem to understand exactly what they were undertaking. The goals were certainly ambitious. The Act contemplated nothing less than the complete abolition of internal frontiers among the 12, allowing the free movement of people, goods, and capital. "The European Community's 1992 campaign," the London *Economist* cheered last May, "is doing to red tape and government controls what Harry Houdini did to chains, straps and manacles."

The key to achieving all of this is the implementation of the 279 directives. Some of those that have been written are dozens of pages long, dealing with matters as mundane as noise standards for lawnmowers and as significant as guidelines for corporate mergers and acquisitions. These directives are aimed at eliminating three kinds of barriers among the member nations: physical, technical, and fiscal.

The physical barriers—passport checks and the like—are enormous. One study found that a tourist's ordinary 750-mile trip by car from London to Milan takes 58 hours, while a similar journey within the United Kingdom takes only 36 hours. For freight-carriers, the delays are even more excruciating. A trucker hauling a load of goods from Spain to France might be required to present dozens of documents at the frontier to satisfy, among other things, export and import licensing requirements, health and safety regulations, and trade-quota laws (any Japanese TVs in there?). Average wait at European borders: 80 minutes. Total costs: $10 billion annually, not counting $5.5 billion in foregone trade. All of these internal border controls are to be abolished.

Technical barriers range from variations in national standards for such things as fruit juices and jams to national laws which prevent cross-border sales of insurance policies. These are extremely costly obstacles. As things now stand, for example, differing national standards force manufacturers to make seven models of the same TV for the European market.

Finally, there are the fiscal barriers: the separate national tax systems of the EC members. The target here is indirect taxes, such as value-added taxes (the equivalent of sales taxes). Today, rebates and payments of these taxes as goods move from country to country are a major cause of border delays. "Harmonization" is supposed to cut through all the paperwork. But no attempt is being made to harmonize direct taxes on personal or corporate income.

If all of these objectives are achieved, the EC estimates that it will give the collective gross domestic product (GDP) a jolt of up to 6.5 percent spread over several years,

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create as many as two million new jobs, and reduce consumer prices. All told, perhaps a $300 billion payoff. A less optimistic estimate by Data Resources Inc. takes into account the fact that parts of the 1992 agenda are not going to be completed by the deadline. It projects only a .5 percent increase in GDP. Europe will profit, but judging by the behavior of its stock markets, there is no economic bonanza just around the corner.

The beginning: Officials celebrate the inauguration of the European Coal and Steel Community in 1952. At right is Jean Monnet, the father of modern unity efforts and the ECSC's first president.

Economists' forecasts are even more unreliable than usual because so much about the ultimate shape of Europe after '92 remains uncertain. Even if the EC could write *finis* to every one of the 279 directives on January 1, 1993, it still may find itself poorly prepared to compete in the global economy. The causes of "Eurosclerosis" have little to do with markets. The world is a market, and West Germany (*not* Japan) is already the world's largest exporter. The fact that the United States is a "single integrated market" did not spare it from paying dearly for overregulation and corporate flabbiness during the 1970s, and European industry today is generally far more heavily regulated, far more coddled, and far flabbier than American business was only a decade ago.

Of course, the abolition of frontiers within Europe will lower costs for the big multinational firms that already operate across borders—not only European companies but the likes of IBM and Toyota—and allow smaller ones to forage for new business. What the Europeans need more than anything, however, is a large dose of what John Maynard Keynes called the "animal spirits" of capitalism to get them into the competition in computers, biotechnology, and other emerging industries. They already have efficient producers; they need good innovators. This is what British Prime Minister Margaret Thatcher and members of the Bruges Group have been arguing.* But most Europeans still seem determined to keep capitalists in zoos.

Ideally, '92 should be good for the entire world economy as well as for Europe. Not only should foreign business find new markets in Europe, but European firms should become more competitive on a global scale. The worry is that the Europeans will compensate for the lowering of internal trade barriers and the painful adjustments this will inevitably require by creating even stouter walls—quotas, domestic-content rules—against outsiders. This is the Fortress Europe scenario.

American anxieties on this score fluctu-

*The Bruges Group is a London-based organization of free-market-oriented intellectuals. Created after Mrs. Thatcher's famous September 1988 speech in Bruges, Belgium, attacking the notion of a European "superstate," the Bruges Group generally favors the 1992 initiative, but fears that Brussels will use it to increase regulation of European business.

ate from week to week. At stake is the nation's largest ($76 billion) market for exports. Early in 1989, Washington and American business were up in arms when the EC banned imports of American beef from cattle that had been fed growth hormones, erasing in one fell swoop $100 million in U.S. exports. The EC was not deterred by the absence of scientific evidence that the hormones are harmful to humans. Needless to say, this raised U.S. suspicions that the Brussels bureaucracy was actually more concerned about the health of Europe's cattle industry than the well-being of its citizens.

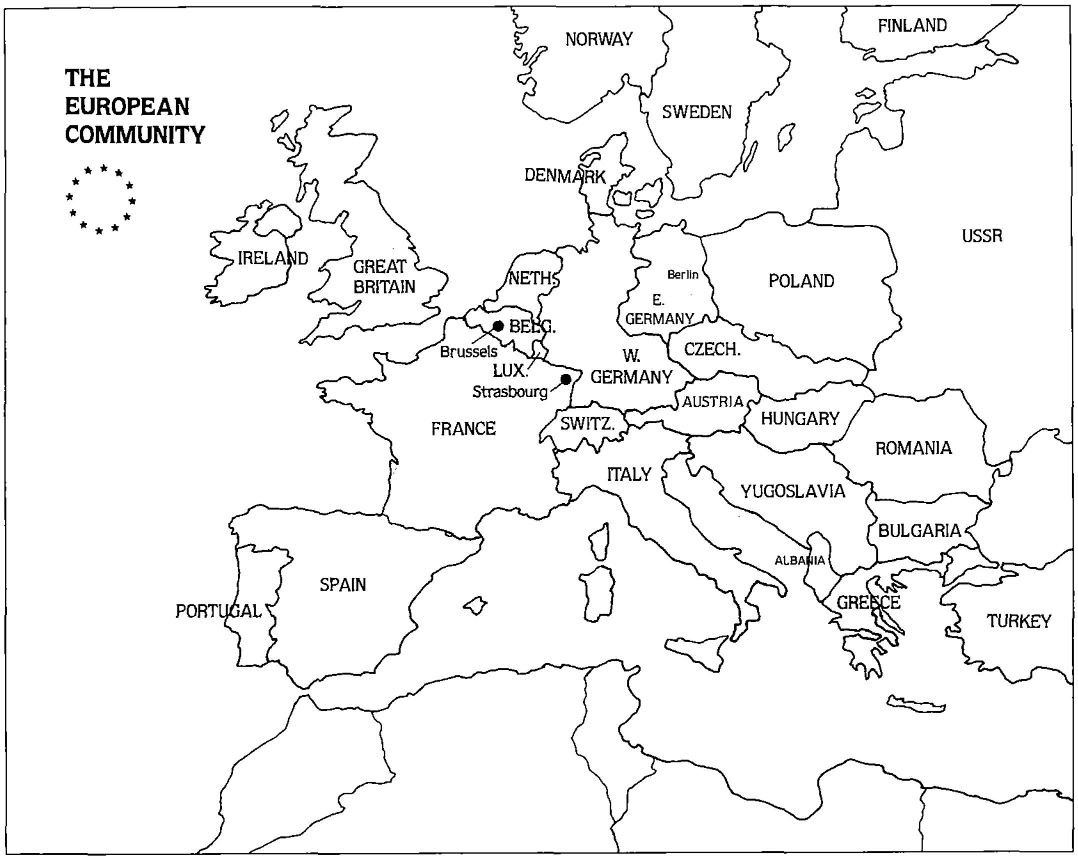
At the same time, Willy de Clercq, the EC commissioner in charge of external trade, was talking recklessly about the principle of "reciprocity," or what we Americans call "managed" trade. And France's Socialist prime minister, Michel Rocard, was moaning and mixing metaphors about "a Europe of the jungle, a house open to the four winds, a plane without a pilot." Reciprocity has many meanings. But what de Clercq had in mind was the antithesis of free trade. Like many other Europeans, he favors tit-for-tat trade policy: We'll let you sell $1 million worth of steel here if you let us sell $1 million worth in your country.

But Mr. de Clercq is gone now, and, for a variety of reasons, the prospects for free trade are a little brighter. In April, the EC backed off from a plan that would have required reciprocity in banking. Under the plan, U.S. or other foreign banks would have been able to operate like European banks, with headquarters in, say, Paris and branch offices throughout the EC, only if European banks had the same privileges here in the United States. The problem is that even American banks don't have those privileges in the United States. Under federal law, banks must be chartered in every state in which they operate; they cannot simply receive a charter in one state and open branches in the other 49. So the EC proposal would have required either a change in federal law (and the structure of American banking) or the forfeiture of the European market. Fortunately, the EC was persuaded to drop reciprocity, at least for the moment. But it has warned that it will monitor the treatment that European banks receive in the 50 states (and other countries), and may think again about reciprocity if it feels that they are suffering discrimination.

Although it received very little attention in the press, the United States dodged another very large bullet—a cruise missile, really—last September. Once again, four-legged creatures that go "moo" were at the center of the controversy.

U.S. pharmaceutical companies have developed a hormone-like substance called Bovine Somatotropin (BST), which turns ordinary dairy cows into blue-ribbon milk producers. EC Agriculture Commissioner Raymond MacSharry worried that BST would enable Europe's largest dairy farmers to drive smaller operators out of business. Nudged by Europe's environmentalist Green movement, MacSharry proposed a subtle change in the rules of the game that could have had very far-reaching consequences. Normally, decisions about whether to allow imports of substances like BST are governed by three criteria: the safety, efficacy, and quality of the product. MacSharry suggested creating a fourth criterion: socioeconomic impact. If adopted, the new criterion would allow the EC to ban imports of BST—even if it were proved safe, reliable, and effective—on the (dubious) ground that it would hurt Europe's small dairy farmers.

Of course, that is the kind of thing the EC does anyway, but now it must resort to subterfuge to do so. (Last June, for example, the EC adopted new "quality" stan-



COMPARING THE U.S. AND THE EC

	Population (Millions)	GDP Per Capita ($)	Gov't Expend. (As % of GDP)	Unemp. Rate, 1988	Percentage of Land in Agriculture	Population Per Sq. Mile	TV's Per 1,000 Pop.	Trade with U.S., 1988 ($ Billions)	U.S. Trade Surplus/ (Deficit) ($ Billions)
Belgium Luxembourg	{10	11,802 14,705	52 44	10.2 1.7	47 49	319 133	301 253	{11.9	{2.9
Denmark	5	13,241	58	- 5.6	66	119	386	2.6	(.7)
France	56	12,803	52	10.3	58	102	402	22.3	(2.1)
West Germany	61	13,323	47	6.2	48	245	379	20.8	(12.2)
Greece	10	6,363	43	7.4	70	76	174	1.2	.1
Ireland	4	7,541	55	17.6	81	51	260	3.6	.8
Italy	57	12,254	50	11.9	58	190	255	18.4	(4.8)
Netherlands	15	12,252	60	9.5	54	356	467	19.7	5.5
Portugal	10	6,297	44	7.0	48	111	157	1.4	.06
Spain	39	8,681	42	20.1	62	77	322	7.4	1.0
United Kingdom	57	12,340	44	8.3	77	233	534	36.4	.4
United States	244	18,338	37	5.4	46	26	813	..	..

Sources: *World Development Report 1989*; U.S. Department of Commerce; Organization for Economic Cooperation and Development; Statistical Offices of the European Community; *Statistical Abstract of the United States 1989*.

dards for canned sardines which Moroccan fishermen cannot easily meet but that Spanish and Portuguese fishermen, just by coincidence, can.) Under MacSharry's proposed "fourth criterion," the EC would not be forced to defend its protectionist dodges. And while the potential European market for BST is relatively small, consider what damage the fourth criterion might do if it were applied to other areas—who knows, maybe even to America's multibillion-dollar soybean exports to Europe.

In September, the EC avoided a final decision on BST but banned the use of the substance for 15 months. In 1991, however, a final decision is due on BST and, far more important, the fourth criterion.

While individual U.S. industries have shrieked when their interests have been threatened by EC actions, American business no longer seems to be greatly alarmed by the possibility of a Fortress Europe. "For those that can meet the challenge," *Fortune* magazine enthused last April, "Europe will be an exciting new frontier of growth." Big Business in particular has always treated Europe as a single market, and it has been putting its chips on 1992. (U.S. direct investment in Europe rose from $79 billion in 1983 to $126 billion last year.) Its great concern is that U.S. subsidiaries in Europe receive the same treatment under Community law that EC companies receive. So far so good.

But the great surge of American investment in Europe is partly related to a second worry, that a united Europe will erect even more import barriers than the individual countries already maintain. Here the precedents are less encouraging. The suave assurances of EC officials that they mean to block only Japanese imports only reveal how little they value and understand free trade. The EC's new domestic-content rules for semiconductors, for example, will create "forced investment," as manufacturers are compelled to open new plants in Europe rather than in the United States or elsewhere. Intel, a large American computer chip-maker, has already begun building a $400 million plant in Ireland.

The face of the new Europe—fortress or something else—is not simply going to appear out of the mists on New Year's Day, 1993. It will be built piece by piece, as a result of a thousand-and-one independent negotiations over obscure trade matters such as BST. And it is worth pointing out that few sturdy fortresses have been built so haphazardly. There are already some gaps in the earthworks that have been thrown up so far. In October, when the EC announced its new "nonbinding" quota limiting American-made fare to 50 percent of what is broadcast on European television stations—the most alarming of all EC trade actions so far, affecting a $2 billion U.S. market—Spanish, Greek, and Portuguese officials privately told the U.S. government that they would ignore it.

The United States, the EC's largest foreign trading partner, finds itself in a curious position as 1992 approaches. After World War II, Washington nudged Western Europe toward some form of integration, seeing a united Europe as a stronger bulwark against the Soviet Union and as a hedge against another conflagration in what John Foster Dulles, President Dwight D. Eisenhower's secretary of state, once called the "rickety fire hazard" that was Europe.

At the same time, American (and other) diplomats of the day were convinced that autarkic trading blocs, such as Japan's Greater East Asian Co-Prosperity Sphere, Britain's Commonwealth "sterling bloc," and Germany's special arrangements in Eastern Europe, had contributed to the outbreak of the war. Virtually nobody anticipated that Europe itself might someday threaten to become a protectionist trading bloc. Today, much of Washington's old enthusiasm for European unity is gone. While the diplomats in the U.S. State Department murmur politely encouraging things about 1992, their pin-stripe suits are damp with sweat. At the Commerce Department, under Secretary Robert A. Mosbacher, good manners have been abandoned. Mosbacher has demanded, rather implausibly, an American "seat at the table" where the EC is establishing its trade policies. Led by Carla Hills, the U.S. Trade Representative, government trade negotiators are hoping for the best, even as they take a hard-nosed attitude toward the Europeans.

During the 1950s, Washington largely stood aside for fear of seeming to meddle. It applauded as the Europeans took their first step toward unity: the treaty creating the European Coal and Steel Community (ECSC) in 1951. This was a French initiative, inspired by Jean Monnet, a smallish, dapper economist—something of an Anglophile, if that can be said of a Frenchman—who had spent most of his career in public service outside of France and had preached the need for a united Europe since the 1920s. There was a clear economic motive behind the ECSC: The French feared the eclipse of their steel industry as West Germany's revived. But as Monnet wrote, the higher purpose was "to make a breach in the ramparts of national sovereignty which will be narrow enough to secure consent, but deep enough to open the way towards the unity that is essential to peace." By that he meant essentially peace with Germany. The quest for Franco-German rapprochement is also central to 1992.

Soon after the creation of the ECSC, Monnet and others engineered several bold attempts to form stronger pan-European unions. These foundered on nationalist sentiment. The European Defense Union was scuttled in 1954 by Gaullist French legislators, who couldn't bear to see French troops serve under non-French generals. As a kind of compromise, six European nations—Belgium, France, the Netherlands, Italy, Luxembourg, and West Germany—signed the Treaty of Rome in 1957, thus giving birth to the Common Market. The treaty created the European Economic Community (EEC) with the long-term aim of "establishing a common market and progressively approximating [harmonizing] the economic policies of the member states." (The name was officially shortened to the European Community in 1967, although common usage has changed only recently.) That meant abolishing tariffs and other barriers to the free movement of people, services, and capital within the EEC. Left out—or at least left ambiguous—were efforts to integrate not only the markets but the economies of the six nations. That would require, for example, the creation of a single currency and a unified tax system, and Europe's leaders were not yet prepared to surrender that much national sovereignty. They still aren't, despite Monnet's prediction that growing economic cooperation would lead to political union.

Eisenhower himself had hailed European unification as "a new sun of hope, security and confidence... for Europe and for the rest of the world." Even so, the EEC was born only a dozen years after the end of World War II; Europeans were not about to embark upon a utopian adventure. The Common Market puttered along, as had been hoped, and accomplished its first great task, the elimination of intra-EC tariffs, in 1968, more than a year ahead of schedule. There progress more or less came to a halt.

The oil-price shocks of the 1970s and the rise of Japanese competition turned the Common Market nations inward. Each vainly sought its own solutions to the de-

WHAT'S SPROUTING IN BRUSSELS?

BRUSSELS—The young Eurocrat squeezed into a tunnel-shaped office in the European Community's drab headquarters building could hardly tear his eyes away from the documents overflowing his desk. At 6:30 in the evening he seemed unfazed by the prospect of another all-nighter. He was, after all, building a new Europe.

"We used to be seen as these awful, overpaid, underworked bureaucrats," the German banking expert said cheerfully. "Now we can hold our heads up. We're the people with ideas."

After years of stagnation and inactivity, the thousands of functionaries who work for the European Community couldn't be riding a bigger wave. The impending fusion of 12 nations into a "single integrated market" has put them in charge again. They not only have something to do, it's something important.

"Five years ago, I was considering whether I should go to the private sector. I wouldn't dream of doing that now," said a British foreign-trade functionary.

The implementation of the 1992 project, a massive undertaking requiring 279 new Europe-wide directives that must make their way through a complex, seven-stage approval process, has the halls of the sterile Berlaymont building buzzing. From trucking to banking to taxes to television, the separate markets of Western Europe are being opened up to reforms and competition, and the new rules of the game are being written here.

One new regulation will wipe out a third or so of the German trucking industry, the official in charge of drafting it says, with a hint of satisfaction in his voice. Another will change the way Italy trains its dentists. Another will overturn a Danish prohibition against tin cans—unless the Danes succeed in getting an exemption; it's a hot issue in Denmark.

The importance of these rule changes has brought dozens of American companies and law firms to Brussels, to monitor and to lobby the European Community. Not only are these enterprises hiring former U.S. diplomats to open doors, they are stealing some of the EC's best and brightest for the same purpose. (A conservative estimate is that there are 20,000 European and foreign lobbyists working in Brussels.) In cases where retirement and pension rules discourage the ex-Eurocrats from accepting large salaries, private-sector employers offer free chauffeured limousines and other extravagant perquisites.

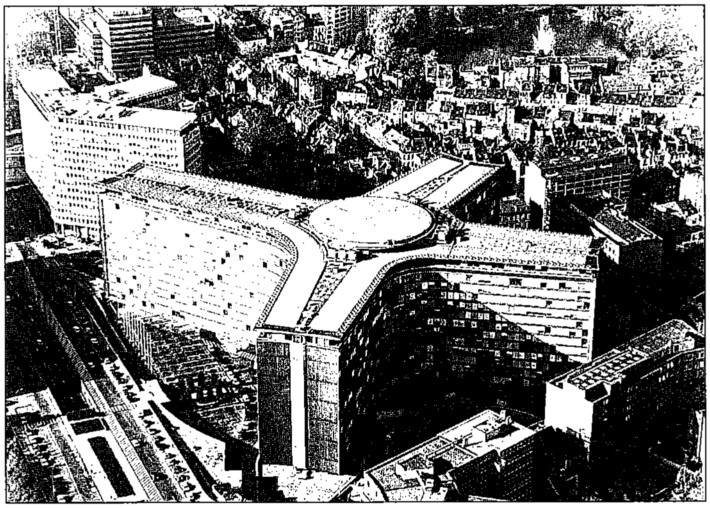
Brussels itself is bulging at the seams with an influx of hopeful favor-seekers. The city's famous two- and three-star restaurants—where lunch is generally a three-hour affair—are overflowing with lawyers, lobbyists, and officials. Real-estate prices, though still low by European standards, have tripled during the past three years. And speculators are obviously hoping for more. Whole residential neighborhoods near the EC buildings are boarded up and shuttered; developers are holding on to the once-cozy town houses, awaiting even higher prices before reselling them or replacing them with office buildings.

Despite the surge of enthusiasm, the 18,000 employees of the EC, never famous for their efficiency, remain bound by bureaucratic tradition. The entry a few years ago of Spain and Portugal, in fact, has made the machinery of the European Commission and its sister body, the European Parliament, more cumbersome than ever. With nine official languages and a staff composed of citizens of all 12 countries, the EC is a living Tower of Babel, in danger of gagging on its many tongues.

At an informal level, the problem is less severe. Low-level staff meetings are usually held in French or English, the de facto working languages at the Berlaymont. But when the higher-ups get involved, national pride steps in and few demean themselves by speaking tongues other than their own. That means 12 interpreters if six languages are spoken at a meeting, 27 if all nine are used. (Why do those combinations not make mathematical sense? Because some languages can't be translated directly into some others. Few interpreters are fluent in both Greek and Danish, for instance. So the speaker's language must be routed through a more common tongue first.)

Just to make things more difficult, the Germans are under new instructions from home to demand that all documents be presented in German as well as French and English, no matter how low-level the meeting or transitory the issue. They've been known to walk out of conferences or refuse to participate if their native tongue isn't used, even though many of them speak three or four languages fluently.

Squabbles aside, the Eurocrats remain on the list of Belgium's best-paid employees. Many earn over six figures in dollars, and, though his salary is not public information, Jacques Delors, the president of the European Commission, is said to earn more than President Bush. No wonder that some of Europe's steepest restaurant and taxi prices can be found in Brussels and Strasbourg, France, the home of the European Parliament.



The Berlaymont Building

The Parliament is no less Byzantine than the Commission. Made up of 518 directly elected members from all EC countries, it holds its full sessions in Strasbourg, more than an hour from Brussels. Is that hard on the legislative body's staff? Ask them if you can find them—they're based in Luxembourg, more than 100 miles from Strasbourg.

With dreams of traveling less, Parliament has authorized the construction of a huge new complex, including a legislative chamber, in Brussels. Work has been underway for months, but France and Luxembourg have not agreed to the move, and they have the power under EC law to veto it indefinitely. When asked what the building will be used for if Parliament never shows up, EC staff members mumble something about a convention hall.

Despite its bizarre politics, the European Parliament is a lean machine in some respects. It has a total of about 3,200 staff aides, compared to about 18,000 for the U.S. Congress. The most important committees, dealing with such issues as taxation and monetary policy, have six staffers at the most. The average committee staff in the U.S. House of Representatives numbers in the fifties or sixties, with some staffs exceeding 100.

Like the Commission staff members in Brussels, members of Parliament are increasingly feisty these days. Seated by party, not by country, they bicker over the wording of bills, jeer at the president (a Spaniard named Enrique Baron Crespo) in the time-honored style of backbenchers throughout Europe, and openly read newspapers while business is being conducted in the chamber. Once a docile rubber stamp for the Commission, Parliament reached new levels of obstreperousness last fall when a rightist member loudly and lengthily protested what he saw as a procedural slight to his party. He went on at such length that Baron cut off his microphone, but the rightist continued until he was removed by ushers.

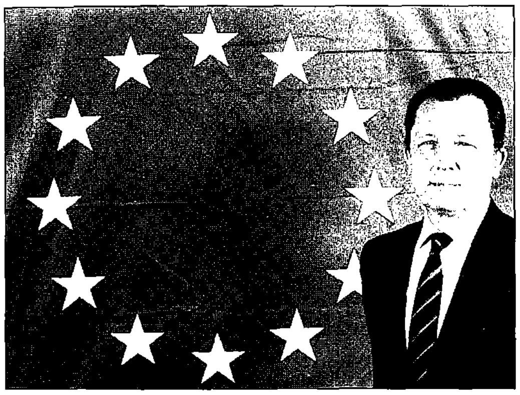
Parliament features more famous faces than before as well. Former Minister Willy de Clercq, French arch-rightist Jean-Marie Le Pen, and French Communist leader Georges Marchais—all are members, as are several lesser-known British lords and ladies and a descendant of the Hapsburg dynasty.

The leaders of the 12 European member nations view the increasing power of the EC bureaucracy with some misgivings. British Prime Minister Margaret Thatcher, for one, has decried the possibility of a "European super-state exercising a new dominance from Brussels." Other countries couldn't be more pleased with the prospect of a stronger Brussels.

Italy, for instance, has been a strong advocate of expanding the single market into an all-encompassing political union. That is because the Italians, who have seen one government after another topple since the end of World War II, have reason to believe that the Brussels bureaucracy might do a better job of running Italy than the Italians have.

—*Anne Swardson*

Anne Swardson is a business reporter for the Washington Post. *She visited five EC nations recently under a fellowship from the Eisenhower Foundation.*



Wrapped in the flag of Europe: Jacques Delors, the president of the European Commission.

cade's recessions, energy shortages, and chronic inflation. It was during this period that "nontariff" barriers (e.g., quotas) proliferated, aimed against both outsiders and fellow members of the Common Market.

The Common Market was not entirely moribund. In 1973, three new members joined the original six: Denmark, Ireland, and Great Britain. (Greece entered in 1981, and Spain and Portugal joined in 1986.) Or, to use the EC's overblown terminology, which frequently sounds like mumbo-jumbo borrowed from the Loyal Order of Moose: First there were the Six, then Enlargement, then the Twelve.

In 1978, the EC created the European Monetary System. Responding to the destruction of the postwar Bretton Woods international monetary system by President Richard M. Nixon during the early 1970s, the member nations agreed to coordinate the foreign exchange rates of their currencies.* By minimizing fluctuations in, say, the value of the Belgian franc compared to the German mark, the system lowered the risk of doing business across borders and encouraged trade within the Common Market. The system is not without costs: Participating in it basically means marching in step with West Germany's powerful *Bundesbank*, which sits like an elephant on inflation, oblivious to the temptation of low interest rates and economic expansion.

At the same time, a new European Currency Unit was created. Some day, it may serve as the EC's universal currency. For now, however, it is used only in a few paper transactions. The *ecu*, as it is sometimes called—some would like to rename it the *monnet*—has been minted in small quantities and is legal tender only in Belgium. (It is worth about $1.10.) But even at the Brussels airport, at last report, you can't buy a newspaper with one.

Despite these accomplishments, the EC was so paralyzed by quarrels among its members that the Council of Ministers refused in 1982 to pay for an official celebration of the 25th anniversary of the Treaty of Rome. Pieter Dankert, the Dutch president of the European Parliament, compared the EC to "a feeble cardiac patient whose condition is so poor that he cannot even be disturbed by a birthday party."

Three years later the patient was fit to chase nurses around. The Europeans realized that they were being left behind as the world economy began to recover from the global recession of the early 1980s. Instead of being a comfortable Number Two to the friendly United States, they faced the prospect of straggling in at Number Three behind a surly America and remote Japan. They were (and still are) combating high unemployment. Europe's basic industries—steel, autos, and the like—were no match for the Japanese and other Asian competitors. Far worse, Europe was falling further and further behind both Japan and the United States in computers, semiconductors, electronics, and a host of smaller high-tech industries. While Ronald Reagan was declaring it to be morning

*Britain, with its special ties to the United States and its historical ambivalence about close involvement with continental Europe, long delayed joining the EMS. Recently, however, Prime Minister Margaret Thatcher tentatively agreed to throw the pound into the EMS pot.

again in America, Europeans were still struggling along with their flashlights.

In 1984, Wisse Dekker, president of Philips, the Dutch electronics giant, declared that the failure to complete the "homework" given in the 1957 Treaty of Rome was the source of Europe's distress. He proposed to realize the promise of the Common Market with a plan he prematurely dubbed "Europe 1990." The Common Market had been launched during the 1950s for reasons of state, over the opposition of much of European business, which was then wed to local markets. "Now the situation has been reversed," observed Giovanni Agnelli, the chairman of Fiat, "it is the entrepreneurs and corporations who are keeping the pressure on politicians to transcend considerations of local and national interest. We believe that European unity is our best hope for stimulating growth and technological innovation, and for remaining an influential presence in the world."

The project got the capable leader it needed in 1985, when Jacques Delors, a former finance minister in the Socialist government of France's François Mitterand, became president of the EC's Commission, or executive arm. (He was recently appointed to another four-year term.) Delors, one of the architects of Mitterand's disastrous scheme to nationalize large sectors of French industry, was a very curious choice. But he seemed to grow larger than life in a job that had only diminished other men.

Delors immediately set out to "complete the internal market." By June 1985, he and Lord Cockfield, an EC commissioner from Britain, had drafted the White Paper which laid out the 1992 program. By the end of the year, they had won the endorsement of the 12 leaders of the EC nations for what was called the Single European Act. It committed the 12 nations to the 1992 program, and it introduced a crucial reform in the governing institutions the EC had created since 1957. Today, there are four key institutions:

- *The Council of Ministers.* The EC's supreme body, it is comprised of the 12 leaders of the member nations (or their representatives), with final power to approve or disapprove EC actions.
- *The Commission.* Now headed by Delors, it is the EC's executive branch, with 17 Commissioners (the equivalent of cabinet secretaries) appointed by the Council and some 12,000 "Eurocrats," headquartered in Brussels.
- *The Court of Justice.* Based in Luxembourg, it is the EC's 13-member "supreme court." It deals chiefly with trade and business disputes involving both governments and individuals.
- *The Parliament.* Sitting in Strasbourg, France, its 518 members are elected by popular vote in the EC countries. The Parliament is the only democratic body in the EC organization, and the only body that lacks a clear function. Controlling about 30 percent of the EC's $50 billion budget, it has few other powers. Ever hopeful, ever helpless, the members sit in eight political groupings from left to right, rather than in national delegations.

The big change wrought by the Single European Act was the limitation of members' veto powers. Before the Act, any nation could veto any proposal in the Council. Now, the veto power is sharply limited. Most decisions are reached by "qualified" (i.e. weighted) majority votes. This new chemistry encourages the members to compromise rather than play "chicken."

The Act also broadened the powers of the European Parliament, transforming it from a 98-pound weakling into a 99-pound one. Now it can veto petitions for EC membership and trade agreements with non-EC nations. And it can request changes in directives and regulations drawn up by the Commission, although these alterations are subject to the Council's approval.

European enthusiasts hope that these new powers will transform Parliament into something more than the glorified university eating, drinking, and debating club it has been. But in the parliamentary elections held last spring, only 59 percent of the European electorate bothered to vote—not bad at all by American standards, abysmal by European ones.

In EC-speak, Parliament's shortcomings and the problems they represent are referred to as the "democratic deficit," as if they amounted to nothing more than a troublesome budget item. But as many observers have pointed out, Parliament may be the key to the European adventure. So far, the business of European integration has been conducted largely over the heads of most Europeans, by politicians and unelected technocrats like Delors. Even though Europeans are generally far more willing to concede autonomy to the state than Americans are, the technocratic drift of the '92 effort could ultimately be its undoing. Outright opposition to 1992 is now scattered. By majorities of around 80 percent, Europeans have long supported greater integration—in the abstract. But they could be in for a big surprise when more and more of the '92 directives are implemented: when French beers find their way into West German stores, or when British (or American or Japanese) companies buy out Spanish manufacturers, or when Dutch electronics workers are laid off because plants are shifted to low-wage Greece. The EC itself has estimated that completion of the '92 program could cost Europe 250,000 jobs per year during the first years of the plan—although many more would also be created. And what if a recession comes along?

But even if Europe fails to realize the dream of unity, some of Americans' worst fears about a protectionist Europe may still come true. It is entirely possible that a Disunited States of Europe will choose a more protectionist course. Long before Mr. Delors came along, the EC created a Common Agricultural Policy (CAP), a program of subsidy and protection so enormous ($33 billion) and comprehensive that it dwarfs the U.S. farm program. Under the CAP, Europe subsidizes crops, supports farm prices, limits certain imports, and heavily subsidizes exports (i.e. "dumping"). European crop subsidies, for example, launched Italy into competition with California in the kiwi fruit market; because of European export subsidies, American farmers have lost substantial markets for wheat and chicken in Egypt. Overall, CAP costs American farmers billions of dollars in exports annually. It is a major target of U.S. trade negotiators. The Europeans know that it is a scandal-ridden pork barrel, but they stand by it.

In another pre-Delors venture in cooperation, England, France, and West Germany in 1966 created a consortium called Airbus Industrie to compete with Boeing and McDonnell-Douglas in the global civilian aviation market. By 1972, the Airbus A300B took to the skies, and today the consortium manufactures high-quality products which claim about 25 percent of the world market for airliners, most of it wrested from its two U.S. competitors.

European breasts swell with pride when Airbus is mentioned. Yet the consortium has been on the dole for 20 years. Subsidies from the five European governments that now participate (Spain, the Netherlands, and Belgium have joined the consortium) have run into the billions—Boeing estimates $15 billion over the first 18 years—although the exact amount remains a secret. The consortium operates like a monumental corporate "share-the-wealth" chain letter. Fuselage sections, nose landing-gear doors, ailerons, and other components are built at 67 different plants scattered throughout the five nations, then ferried by giant cargo planes called Super Guppies to the central plant in Toulouse, France. After assembly, each Airbus is flown to Hamburg, West Germany, where its interior is fitted. Then back to Toulouse for delivery—sometimes at prices below cost, critics charge—to the customer.

Europlanners seem to think that this is a terrific way to create 200,000 jobs and strike a blow at the Yanks, never mind the fact that European taxpayers (and America's unsubsidized workers) are footing the bill. They would like to see more ventures of its kind. Thus, last fall's quota on imports of U.S. television shows came with a cherry on top: a $275 million handout to foster a European answer to Hollywood.

These are not encouraging models of intra-European cooperation. Add to them Delors' controversial plan for what is called a Social Dimension—an expensive and all-embracing European welfare state—and one can easily imagine the EC seeking a cozy, protected, but ultimately suicidal retirement from the world marketplace.

But a variety of factors will probably prevent the Europeans from erecting an impregnable Fortress. Some of the EC nations (West Germany, Britain, and the Netherlands) have traditions of relatively free trade, and all have various needs for foreign goods. The Irish, Danes, and Dutch, for example, have no domestic auto industries of their own. As a result, they lust after Toyotas and Nissans. Jagdish Bhagwati, an economist at Columbia University and the author of *Protectionism* (1988), argues optimistically that their huge overseas investments now give European (and other) corporations every incentive to oppose protectionism. The same is increasingly true of governments. The global economy is blurring national distinctions—American trade negotiators, for example, now find themselves trying to keep open foreign markets for Honda automobiles built in Ohio. And Bhagwati also points out that in this new environment, protectionism is largely futile. World trade grew very rapidly even during the protectionist 1970s.

All of this suggests only that at best Europe's markets during the 1990s will not be much more closed than they are today. Some observers believe that a slight opening is even possible. At this point, one can only guess. But a significant dismantling of protectionist policies now seems out of the question.

European unity was conceived in the name of peace and international amity, designed to end the divisions among nations that led to two world wars. For it to end up as little more than an elaborate support for outmoded protectionism would be worse than disappointing. It would be tragic.