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West Europe Report

(FOUO 57/79)

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WEST EUROPE REPORT

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COUNTRY SECTION

INTERNATIONAL AFFAIRS

ANALYSIS OF OECD WORLD ECONOMIC PROJECTIONS STUDY

Paris FUTURIBLES in French Sep 79 pp 3-19

[Interview with Jacques Lesourne by Gritti Haumont: "Handling the Unforeseeable"]

[Text] Question: Following the publication of the final Interfuturs report, is there a central idea emerging from all of the reflections entertained in the context of this project?

Answer: Throughout this entire long exercise, I asked myself whether a basic idea did indeed emerge from this analysis, an idea that would make it possible to organize the various facts of life and tendencies that were emerging in outline. For a long time I did not find any. But then, one day, it occurred to me that this idea was indeed contained to some extent in a remark by Daniel Bell and, on the other hand, in my book on "Systemes du Destin" [Systems of the Future]. The statement by Daniel Bell? "Governments have become too big for small problems and too small for big problems." The observation in "Systemes du Destin?" The existence of two control insufficiencies, one of them on the level of the national system which is not capable of guaranteeing the integration of long-term phenomena and short-term aspirations of the citizens and the other one we find on the level of the international system which suffers from insufficient regulation because it is not hierarchized. These two control inadequacies furthermore are entirely in line with two parts contained in the statement by Daniel Bell.

Now, most of the elements evidenced by the Interfuturs report revolves around this main idea. Thus, the problems of worldwide interdependence, energy, resources, and change in the relative positions of the countries are directly tied to the inadequacy of controls on the international level, that is to say, the fact that governments have become too small for big problems.

On the other hand, the problems deriving from changes in values, modifications in the content of growth, and resistance toward adaptations in developed societies are diabolically related to inadequate controls on the national level or the fact that governments have become too big for "small" problems.

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Question: A certain number of permanent points and abrupt changes did emerge as a result of this exercise. What are the major upsets which might materialize?

Answer: There is obviously a good deal of arbitrariness when you want to draw up a list--"the list"--of major upsets which are going to materialize when you deal with a field as vast as the international economy! But I will try to play along with your question.

Some major evolutions are shaping up above all concerning the relative economic positions of the major regions. There are three striking changes here. The first one is the rise of the Third World, but a "differentiated" Third World, at that. By the middle of the next century--as we have known for a long time--it will account for the major portion of the world's population. At one extreme it will consist of countries which, because of their economic growth level, will move close to the present-day developed countries; at the other extreme, that is to say, essentially in South Asia and Black Africa, we are going to have countries where the per-capita income will remain extremely low. By regrouping these countries on the basis of per-capita national income, mankind by the end of the century would thus be distributed as follows: 34 percent of the people would be living in developed countries (with more than \$1,000 (1976 level) of average income); 28 percent would live in the poor countries (something like \$300 or less in income); and 38 percent would be spread between the two of them.

Here is the second major phenomenon in the economic area: the progressive change of the role of the United States who, after having been the unchallenged regulators of the world economy for the last quarter of this century, will find its international position modified. One cannot properly speaking use the term "decline"; this will instead be a situation of maturity where you will have the parallel existence of important trump cards and elements of weakness. Hence you will have the following situation: far from withdrawing within its borders, the United States will, in the international game, play a card more directly inspired by its interests, in the narrowest sense of the word.

The third phenomenon--which the Japanese described with that Far-Eastern sense of poetry--is the appearance of the "two wheels" of the world economy. One of them will remain the Atlantic wheel which comprises the east coast of the United States, plus Western Europe, with the participation of certain major countries of Latin America, such as Brazil. Its importance will rather have a tendency to decline. The other wheel will be the Pacific which will go from California to China, Southeast Asia, and Australia, including Japan.

So much for the geopolitical domain--but there will be other major transformations here. Let us mention here the major technological adventures of which there are four. By far the most important will be the electronic adventure, the closest one, but also the one that will be most widespread within the social fabric. Then comes the breakthrough of biology which is further distant but which will have considerable consequences in the field

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of medicine, pharmacy, and agriculture. In the third position we have the evolution of the major sources of primary energy and methods of transforming primary energy into secondary energy. The fourth one, finally, perhaps least essential, will involve the utilization of the sea and space, with the exploration of the oceans being the more promising by the way.

Another major phenomenon which, by the way, is difficult to analyze but which this Interfuturs report did not wish to skip over in silence, concerns the change in values in the developed countries. This is not a simple evolution of social demands in response to changes in income, relative price levels and technology; instead this goes much deeper and involves the transformation of preference systems themselves. The changes--which would take shape around a search for liberation and deep roots--undoubtedly will be adopted by the majority only gradually; but, while being adopted by a rather large portion of the population, they will probably be demanded in more extreme forces by minority groups. They could be such as to make the developed societies difficult to govern since governments will be persuaded to go in for even more complex arbitration between, on the one hand, the traditional demands which will retain a certain amount of strength, and the new demands, expressed in a heterogeneous manner, depending upon the social group involved.

Let us continue drawing up our list: so you want another field subject to future upsets? Well, you have the field of the institutions. One might in effect fear a crisis among the two major economic institutions upon which the prosperity of the advanced industrial societies was built after World War II: The market and the government as protector. It is the balance between the market and the government as protector which permitted the most harmonious forms of growth achieved by certain advanced industrial countries. Now, problems are emerging at this time which touch on the two poles of this equilibrium.

The protector-state is suffering from regulatory inadequacies. Are not the health and education systems going through extremely serious crises in most of the developed countries? As for the market, its difficulties come from the appearance of nonmerchandise services for which it is ill suited from the challenge to the way in which it "figured" the future, from the multiplication of "external factors," which prices do not take into account.

The developed countries thus will have to face institutional problems that will be difficult to resolve.

Two major tendencies now emerge as a function of this "list" of changes and evolutions: the first is the inevitable slowdown of economic growth. Growth will henceforth not only be slowed down but it will also be irregular. We already have an example of that in the form of the repercussions of the political phenomena in the petroleum producing countries. The second one concerns the development of international interdependence, that is to say, the growth of interrelationships between the various countries. These countries will constantly be torn between the temptations fully to participate

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in this game of interrelationships (enjoying the advantages and very reluctant to suffer the consequences in terms of uncertainty) or, conversely, they will withdraw from it partly. What they would then sacrifice in terms of income level they would perhaps gain in terms of choice of ways of life or decline in their vulnerability.

Through these several facts, which are certainly among the most essential, although they do not constitute an exhaustive list, we find the main idea of the double control inadequacy from which we started.

Question: It seems that an important economic pole appears here, that is, Japan and China. How do you view their influence on the international scene?

Answer: Let us talk of the "paradox" of Japan. This is a paradox because Japan would like to increase its share of international income whereas it has neither the energy resources nor the raw materials needed and whereas the development of its agriculture is in any case limited by lack of space. The case of Japan therefore is particularly interesting since it evidences one major fact in the development of human societies: the thing that counts is not so much the resources but rather the capacity to adjust to a situation and to combine all the assets which one has in the most effective manner possible.

Japan's strength? It rests on the adaptability of Japanese society, on its keen sense of community, on the ability of its major economic units to make decisions. In other words, it resides in attitudes and ways of behavior.

The more open the international economic system is, the more will this strength of Japan be expressed on the economic level. The Interfuturs scenarios show that rather well. In the North-South rupture scenario (see below), Japan's growth rate is more under attack than that of the United States or even that of the EEC. It is also more sensitive than the American growth rate with respect to the development of a form of protectionism between the three major poles of the North even though in this case Japan does derive some compensation from the increased intensity of its links with Southeast Asia.

By the end of the century, at least on the basis of a certain number of assumptions, Japan will become a country whose per-capita income will be on the same order as that of the United States. On the other hand, while Japan's share of worldwide income will rise from 6 percent to 10 percent (and that is a rather reasonable assumption), this situation is not such as to permit that country to take the place of the United States as the regulator of the world economy.

You want an example of these factors which will give Japan real power? Its position with respect to certain major future technologies. This is the country which has made the most coherent effort in the field of electronics.

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Apart from the United States, it is in Japan that you find the most ambitious component development program. That country is also very well placed in the pharmaceutical field which will be one of the preferred points of application of biology. In other terms, it will be making a considerable effort to assure its future.

Question: What about the case of China?

Answer: China raises at least two questions.

Here is the first one: has China entered an era of political stability, so that effective economic strategies will be pursued in a regular and persevering manner? On that topic, the Sinologists are not always in agreement: for some of them, after the enormous wave of the revolution (which lasted longer in China than anywhere else because it ended only with the Cultural Revolution), after the death of the founders, China should enter a period where priority will be given to the search for growth and management. Others think that the balance between the various political groups embodied in the tendencies represented within the Chinese Communist Party by the various factions or provinces have not yet been attained. It seems however that the first assumption is more in line with historical dynamics.

The second question is this: assuming that China pursues effective economic policies, what will be the vigor of the Chinese economy's response? This question is easier than the preceding one.

Over the past 25 years, as a matter of fact, during period when political life did not prevent the normal development of the economy, the Chinese economy did exhibit a capacity for positive reaction to a favorable environment. It is therefore reasonable to think that this will be the same in the future.

But China will have to solve two major problems: it will first of all have to bring its population expansion under control because, it seems, the limitation of population growth has not yet been assured. (The real level of the Chinese population is still largely unknown.)

On the other hand, it will have to develop its agriculture: from the food viewpoint, the balance between requirements and output remains excessively fragile. The Chinese as a matter of fact believe that they will not be able to cover their requirements for agricultural products for industry before the last decade of the century because they would have to give priority to the crops necessary to feed the population. We must not forget this: China is above all an enormous agricultural country. Industrial growth thus might be limited by the obligation of having to give priority to demography and agriculture. The presence of major petroleum and coal resources will make it possible greatly to increase its energy output which of course is a prior requirement for the expansion of industrial production. China will also have to select an industrial development model between the Soviet-style bureaucratic

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model and the more decentralized model and it will have to aim at a realistic balance between the basic industries and the more closely consumer-related industries. The current industrial program, it seems, places the accent both on the steel industry and metal production, on transportation, on telecommunications, and electronics (to which China quite justifiably attaches great importance).

These facts point to the following finding: it is not entirely impossible that a portion of China (the eastern provinces) might be really industrialized by the end of the century. Between now and the end of the century, the Chinese national income should grow between 6 and 7 percent per year (a reasonable figure in the opinion of most experts), whereas industrial output would go up by about 10 percent per year. These rates could correspond to a per-capita income on the order of \$1,000 (1976 level) by the year 2000; that would therefore put China in the middle group (between developed countries and poor countries. With a population presumably around 1.2 billion inhabitants, it would hold a share of the international income on the order of 6 percent, that is to say, a little more than two-thirds of Japan's share.

China thus would not become a big power starting as of the end of the 20th century but it would at that moment have the foundations which would enable it to play a major role in the 21st Century.

One word about the Chinese military problem: China's capacity to transform its territory into a nuclear sanctuary determines its freedom in foreign policy matters. This objective undoubtedly can hardly be attained before 1990 or 2000.

This analysis therefore excludes two extreme images of China which are often presented as rather likely:

A China which over the next 10 years has become a big power in the international economic game. This image does not take into account the economic time span necessary for economic growth. Similarly improbable is the image of a China forever backward, always torn by domestic political difficulties and incapable of asserting itself on the international scene.

Question: The Interfuturs exercise should have been oriented toward action and the decision-makers. How can the decision-makers use it? What was the reception given to that report by the political authorities in France and abroad?

Answer: The accomplishment of a research effort of this type must avoid two reefs which, by the way, explains the methodological analysis that follows. Either it is based on a collection of distinct studies on narrow topics, directly tied to the concerns of the specialists in which case it loses sight of relations between the fields involved, or it concentrates on the analysis of the interdependence of problems and, in so doing, adopts a too broad view to take up one or the other field with sufficient precision.

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The need for reconciling these two approaches in research enables us better to understand the use that can be made of this kind of report. It is quite evident that the report cannot draft proposals to such a precise point that it would suffice in practice to transcribe the idea in the form of bills to be passed into law.

On some of the topics taken up, the report cannot go down to the necessary details. One must also understand that, given its intergovernmental nature, it can only sketch broad action outlines--because the transcription of ideas expressed in terms of decision-making cannot be identical for the United States, Japan, Finland, or Spain. From that viewpoint there are necessarily major differences between a study on a national scale and an international report.

What, then, is the primary interest of such an exercise on an international scale? Engaging in lengthy reflection on long-term developments would involve the administrations of many different countries. Getting one or the other problem to be discussed on the same terms in Japan, France, or Finland, in other words.

The OECD is an extraordinary turntable in this respect because it guarantees the dissemination of documents to the competent administrations in the various member countries.

Question: What are the main ideas emerging from the report as far as action is concerned?

Answer: There are five major guidelines.

First of all, it is essential for the governments to contribute to the creation of a positive attitude toward the future in the developed societies. The citizens of those countries certainly are not indifferent to the future in medium-range terms. But entirely too often there are two extreme attitudes confronting each other: on the one hand, you have dreams, utopia, the future of happy tomorrows; on the other hand you have predictions of disaster, fear of the Last Judgment and terror by the year--whatever.

Governments must therefore try very hard to develop an understanding among the citizens as to what is going on or what might happen during the next decades; this is so because these evolutions will determine their future life but also that of their children. When you measure the efforts made to inform the population about the future, one is bound to be struck by the disproportion between their volume and the real importance of the stakes. This absence of information is even more striking when one discovers--through a relatively recent public opinion survey--that 70 percent of the American population a few months ago did not believe in the reality of the energy crisis.

You might also think of the gaggles of candidates to high office in certain countries who, at the moment there is an increase in interdependence, confuse

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the names of important countries! The fact that the interdependence of problems keeps growing day after day and that these problems come up all over the world and on a level that is difficult to reach makes their understanding of the average citizen an increasingly delicate thing. For us French, when we talk about the Common Market, we know our partners. There was a long historical community between France and Germany, between France and Great Britain, between France and Italy; La Fayette and the two world wars brought the United States very much among us. And Russia has always been a European partner. But China or Korea do not have this same "proximity!"

Besides, the compartmentalization of problems, to which we had become accustomed, does not work any longer. The second major lesson is known to all but it is always a good idea to repeat it: the developed countries must loosen the petroleum "noose" which they put around their necks. This finding is not incompatible with the fact that resources should, in the long run, permit a substantial increase in energy consumption.

Here is the third guideline: manage the change within the advanced industrial societies, in other words, adjust to the evolution such as it has chances of coming about.

The big difficulty here will consist in finding a synthesis between three complementary policies. The first one assigns priority to the adaptation to the industrial context at all costs, starting with the finding that the defense of structures or enterprises without a future is no longer a possible way to proceed within the probable state of worldwide interdependence. Just think of Japan which closes factories five years before they cease to be profitable!

The second one essentially seeks to prevent the rise of what I would call "growth cutoffs" by trying to preserve what to my mind is the essential achievement of the past 25 years, that is, a form of socially balanced growth.

The big problem here no less involves the choice of objectives as well as the choice of instruments. As a matter of fact, any policy that is aimed at not introducing any growth cutoffs is based on a certain number of instruments (social support payments, subsidies to enterprises settling in certain regions, distribution of loans). But the instruments conceivable during a period of strong growth, when structural adaptation is easier, cannot be adequate for the period of time which we are now getting into. We are for example living in a situation of double unemployment--unemployment connected with the economic situation as such and structural unemployment. Now, everybody knows that, in the first case, the fight against unemployment presupposes a wage hike whereas in the second case it is necessary to reduce wages (decline in wages which however does not signify a drop in available income; the wages represent the cost borne by the enterprise whereas the income is what the individual gets out of that).

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Here is an essential debate for the France of today. It illustrates this problem of the choice of instruments permitting adaptation but avoiding the creation of growth cutoffs.

The third policy seeks to keep up with changes in values to the extent that new values begin to become majority values. But here again the opening is very narrow. If we go too fast, we risk running into the resistance of a small portion of the population who will not yet have adopted those values. If we go too slowly, we will wind up with a social production and national income makeup which will be less suited to the aspirations of individuals.

Any developed country must define its own synthesis between these policies and then translate it in pragmatic terms in fields such as labor market management, social security, the definition of arbitration between education and culture as well as education and individual development.

This brings us to the fourth guideline: the need for the developed countries to spell out the long-term strategies in their relations with the Third World. These strategies will have to recognize the existence of common problems while avoiding generalizing them too much because the progressive differentiation of the Third World will make it possible to complete solutions through actions on the bilateral or multilateral level. Here are two examples of elements which could be introduced into these long-term strategies:

The developed countries should contribute to the perfection of suitable technologies, using all of the current scientific gains, but taking into account economic contexts in which the relative cost of labor and of capital will be different; right now, a worldwide industrialization is developing which creates unemployment. It rests as a matter of fact on technologies which are designed for situations in which capital is abundant and labor is rare;

Aid to the developing countries should be reconsidered in terms of its amount, in terms of its geographic distribution (aiming it at the poor areas), and in terms of its sector distribution (giving priority to infrastructure and agriculture since the future of most of those countries is a function of the growth of their food resources).

These strategies should take into account the problems which the various groups of Third World countries will have to solve. Thus, the West was wrong in being the accomplice of a development policy for Iran which entailed serious difficulties. But while Khomeyni is only a historical accident, the Iranian development model could only lead to growing blockages.

Why reject the integration, into the world markets, of certain countries which are in the process of succeeding (such as South Korea or Singapore)? They only implemented Guizot's phrase "get rich" which rather well describes the past attitude of the developed countries toward the Third World. One cannot today refuse to integrate into the "bourgeoisie" of "have" countries those that have been successful in their takeoff.

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Here is the fifth field of action: since no country will henceforth by itself play the role of regulator, it would be a good idea to have new forms of international cooperation permit the management of worldwide interdependence. It is out of the question that this could be handled through international bureaucracies (it would be better to improve the operation of the existing organizations). Each country must make an effort to rethink its internal administrative organization as a function of the interface with the outside world and it must take into account the effects of its decisions on the other countries. Thus it is inconceivable for certain countries, without advance warning, to permit themselves to stop their imports from other countries whereas the latter have sometimes engaged in lengthy efforts to penetrate new markets and develop an industrial sector as a consequence of that.

Question: What is the upshot of this project?

Answer: The upshot from such a project can be considered on several levels.

On the level of each country, first of all: it is essential for the administrations and leadership circles to study the report, to assimilate its content, and to rethink certain issues as a function of national specificities. To take an example in France, the Planning Commissariat in preparing the Eighth Plan, decided to establish three long-range prospects study groups one of which concentrates on the prospects of France's international relations. Now, this group started with the Interfuturs report (Jacques Lesourne is the chairman of that group) but it goes much further in the analysis of certain problems particularly concerning France, for instance, regarding the internal problems of the EEC. This is one way of using the Interfuturs report: the methods of course will differ widely according to the country involved.

A second way to use the report is to insert it into the current work of the OECD. With its committees and study groups numbering several hundreds, this organization is studying the most diverse problems which the developed countries with a free-enterprise system have in common. Numerous questions raised by the report will therefore be taken up again in the working programs of the various directorates under the OECD secretariat. This will make it possible to come out with operational conclusions as we go along.

A third way to use the report is found directly on the level of intergovernmental cooperation; for instance, last February, 50 high officials from 20 OECD countries met on the invitation of the French government to discuss the preliminary version of the Interfuturs report. They simultaneously took up--and I want to emphasize the importance of this word--the long-term economic growth of the developed countries, strategies in dealing with the Third World, and the evolution of international cooperation.

But permit me one final thought: a few years ago, the research director of the Philips group remarked: "The big companies are like elephants: you push

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them and you pull them but you never really know in what direction they will go." That applies to Philips and it applies even more so to the international economy or to mankind! In other words, regardless of the importance of a report of this type, it cannot by itself modify the course of events but it can contribute to modifying attitudes.

In "Les Systemes du Destin" I had already talked of the need for a policy of a thousand paths.

In particular, the Interfuturs report can reconcile future prospects and the decision-makers. The preceding exercises concerned with international future prospects often proposed a vision of the world that was incompatible with that of the decision-makers: excessively globalizing or not enough political or entirely too "utopian" (in the positive sense of the word utopia); the decision-makers were not involved in these exercises. The work of Interfuturs, in spite of certain inadequacies, proposes a more complex vision but also a more realistic vision of our possible future. By the same token, they should contribute to our doing a better job in taking into account the long-term aspects of the policies of the developed countries.

Scenario A. Vigorous Growth

Hypotheses

Collegial management of interests and conflicts within the developed countries; increased commercial liberalism, North-South integration, increasingly intensive participation of the Third World in worldwide economic exchange but with differentiation according to developing countries.

Sustained economic growth in developed countries without rapid change in values.

Convergent evolution of relative productivities in developed countries.

Macroeconomic Image

Within 25 years, world output was multiplied by 3.4 and per-capita income grew 2.3 times. The shares of the major regions in the worldwide gross domestic output were greatly modified (from 31 down to 19 percent for North America, from 20 down to 16 percent for the EEC, from 6 up to 10 percent for Japan, from 10 to 30 percent for the Third World, including China, while the Eastern European countries remained steady at about 16 percent).

With a per-capita income on the order of \$10,000 (at 1970 level), North America and Japan came ahead of the EEC (with \$9,000) and Eastern Europe which is at a figure of, around \$8,000; at the other extreme, Black Africa and South Asia remain very poor areas with \$380 and \$210 per-capita, respectively.

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In terms of regional per-capita income distribution, the present situation is not fundamentally altered: in 1975, the OECD countries, with 20 percent of the world's population, produced 66 percent of its income; in 2000, these figures will be, respectively, 16 percent and 53 percent.

Scenario B. Gradual Growth

Hypotheses

Hypotheses identical to those of scenario A concerning the nature of relations between the developed countries, between the developing countries, as well as between the two groups. On the other hand, the developed economies will experience moderate growth which will differ according to three variants.

Variant 1: Slowed expansion. Changes in values will be fast and the growth slowdown will be the subject of a consensus because it will be accompanied by a transformation of the content of "social production" (in the broadest meaning of the term).

Variants 2 and 3: Gradual and penetrating growth of Japan. In these other two variants, on the contrary, there will be no essential evolution of unanimously accepted values and the growth slowdown will spring more from structural adaptation difficulties on the national and international levels, rather than from a conscious desire as in variant 1.

Macroeconomic Image

In 25 years, between 1975 and 2000, world output is multiplied by 2.9 and the per-capita output is only doubled.

The share of the OECD out of the worldwide gross domestic output will drop from 62 percent to 50 percent. The share of the Third World (including China) will come to 32 percent; Eastern Europe will be around 18 percent.

The per-capita income will drop as compared to scenario A: United States (\$8,130), Japan (\$8,230), EEC (\$6,110). The various developing regions will find their incomes reduced.

As for scenario B-3, it is not yet expressed on the 2000 horizon by major modifications in the macroeconomic image even though Japan's share grows while the share of Europe shrinks. At the start of the next century, on the other hand, major gaps will begin to appear.

Scenario C. North-South Rupture

Hypotheses

Scenario introduced to analyze significance of North-South confrontation. It is characterized by the implementation of "uncoupling" strategies by a majority of developing countries.

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Collegial management effort on the part of the countries of the North which accentuate the domestic liberalization of their trade; slower growth without change in values within those countries; absence of convergence of productivity rates due to the fact that the major zones of the OECD have been differently affected by the North-South split.

Macroeconomic Image

It transmits an unambiguous message: the North and South are seriously affected by the rupture.

Between 1975 and 2000, the world's output is increased only 2.4 times and the per-capita income is only \$1,500 (1970 level) at the end of the century. Considerable impact, taken in various ways by the different regions:

The United States: its share of international income will decline only 30 percent instead of 40 percent in the heavy-growth scenario but the per-capita income nevertheless is slightly smaller than in scenario B-2;

EEC: much harder hit; its share will shrink by 40 percent, as against 30 percent in the strong-growth scenario; the per-capita income will barely come to \$4,500;

Japan: its share will drop from 6.3 to 5.3 percent and the per-capita income will grow only 1.9 percent per year or \$3,600 (1970 level), roughly, by the end of the century.

The share of the Third World will now represent 33 percent out of international income but the per-capita income will only come to \$640 as against \$890 in scenario A.

Scenario D. The Rule of Protectionism

Hypotheses

This scenario is characterized by the fragmentation of the group of developed countries and a rise in protectionism with emergence of spheres of influence centering around the three poles represented by the United States, the EEC, and Japan. These spheres include regional groupings (on a continental scale) of developing countries; the flow of trade and capital will develop preferentially within these spheres.

These hypotheses are tied in with the assumption of slower growth partly caused by the destabilization of the flow of trade. The absence of convergence of productivity rates here results from the different impact of the fragmentation process upon the major zones of the OECD.

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Macroeconomic Image

Around the year 2000, the three poles of the OECD should--by restructuring their economic activities--manage to compensate for the efforts of commercial constraints imposed upon the North and they should benefit from the liberalization of trade with the South. The image thus is less catastrophic than in scenario C. International income reaches 2.8 times the 1975 level; per-capita income has almost doubled.

North America improves its per-capita income (\$8,450 at 1970 prices).

Japan steps up its cooperation with Southeast Asia and the South. Compared to scenario B-2, its income goes down (\$7,560).

The EEC is most hard-hit by the protectionism of the North. Its per-capita income is only 60 percent of that of the United States (\$5,680).

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INTERNATIONAL AFFAIRS

STRAUSS: FRG, FRANCE SHOULD COOPERATE IN MILITARY, AFRICAN POLICY

Paris L'EXPRESS in French 29 Sep 79 pp 56-60 LD

[Interview with CSU leader Franz Josef Strauss by Branko Lazitch: "Brandt's Ostpolitik Has Been a Fraud"--date and place not specified]

[Text] L'EXPRESS: Despite the fact that you were never a member of the National Socialist German Workers Party, your political adversaries in Europe often represent you as the spokesman for German nationalism. Is there no risk that your candidacy could arouse some anxiety among a European opinion so sensitive to the demons of German's past?

Franz Josef Strauss: I call this assertion--stemming from a mixture of ignorance, prejudice and hypocrisy--willful slander. It belongs to the arsenal of psychological war whose architects brand anything conservative as nationalist and sometimes even fascist. True, they mention "national socialism" less often because they do not want to recall the fact that both Marxism and national socialism constitute forms of collectivism. Ever since I learned to think in political terms I have seen nationalism as the gravedigger of Europe.

I have not merely proclaimed this on innumerable occasions but I worked in support of Europe's unity at a time when the same political adversaries of mine were still seeking to neutralize the FRG and achieve a confederation with the part of Germany that is under communist rule.

My political credo can be defined as follows:

I am an integral liberal, not just someone with liberal tendencies;

a modern conservative, not a reactionary;

an enlightened patriot (national), not a nationalist; and a man with a social conscience (social), not a socialist.

This credo is based on Christian teaching in accordance with the broadest interpretation of the concept.

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I dispute the validity of the belief that only a bad German can be a good European and regard as mistaken the view that the Germans should play the role of repenting sinners until the end of time. We Germans must overcome, without forgetting them, the dark chapters of our history. We have no right to overlook noble chapters because a very dark period once occurred.

Not must we tamper with the truth, as if all crimes in the course of history have been committed by Germans only and all other peoples have been angels. For, after all, World War II, which was instigated by Hitler, started with a pact between Hitler and Stalin.

There are now other reasons for "a certain anxiety" in Europe apart from my candidacy for chancellorship--I have in mind, for instance, the strategic situation in and around Europe, the socialists' blindness in the face of increasing dangers and the dramatic symptoms of conflicts now taking shape.

Those who now deny the Germans the right to also show their national feelings and a national awareness oriented toward Europe and purified by history and to put forward their legitimate national interests are committing a crime against Europe.

L'EXPRESS: During the European elections struggle against a socialist Europe was one of your slogans. Are you not being indiscriminate in thus lumping together three kinds of socialism--that of the communist parties in power in the East, that of Euro-communists in the West and that of social democracy as known in West Germany and Austria, for example?

Franz Josef Strauss: It is the leader of French Socialists who stated before the European elections: "There will be a socialist Europe or no Europe at all." This is the first major difference between us--we believe that Europe must be a political fatherland for all the families which come within the democratic spectrum--conservatives, liberals, left-of-center and right-of center democratic forces and, obviously, social Christians who combine the best elements of the concepts of various democratic organizations and should achieve a synthesis of them all. I reject the claims to everything advanced by the socialists, who want to confine Europe in a straitjacket of a reactionary ideology like Marxism.

I believe that the classification of the left mentioned by you in your question is erroneous. True, there is a difference between communist parties in the East and in the West, namely, the fact that the former are in power and the latter are not. But the common bond of faith in Marxism-Leninism and subordination to the Soviet Union is stronger. This also applies to the so-called Eurocommunist parties of Spain, France and Italy, which have freed themselves from neither. However, the concept of Eurocommunism is more fiction than deliberate fraud unless it is both at one and the same time. The democratic concept that, irrespective of the way in which it has achieved power, a party can be deprived of it through democratic elections

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appears nowhere among Eurocommunists. Socialist parties are either oriented toward Marxism, especially in countries where social democratic parties also exist, like Italy and France, or they unite both Marxist and liberal forces under one label as they have done in the FRG and Austria.

It is, in fact, within the SPD that this tension is most obvious. Its two principal trends are represented by social democrats, who want to extend the welfare state as far as possible without transforming society, and Marxists who seek to transform society fundamentally, primarily through collectivization of means of production. A revolutionary streak can also be observed among the latter. They dream about a democratic way to socialism. Hence their displeasure with Chile, not only because of Pinochet but also because Allende's Marxist experiment--a democratic way to socialism--failed in that country and threatened to lead, through chaos, to communist dictatorship. They cannot understand that consistent socialism is bound to lead to Marxism and that consistent Marxism cannot be reconciled with democratic freedom.

All the programs of the German Social Democrats display this tragic schizophrenia--the desire to reconcile Marxism with democracy. This applies to the 1891 Erfurt program, with 1925 Heidelberg program and even the 1959 Bad-Godesberg program which used a skillful covering-up technique and should therefore be mainly read between the lines. What is at stake in the spiritual sphere in this century is the path between freedom and collectivism, between the individual and the masses and between man and organization. Marxism, communism, fascism and national socialism are all monstrous products of the same antiritual mold. This is why it is quite logical that certain major protagonists and champions of fascism both in Italy and in Germany were products of socialism. This is what I mean when my friends and I struggle under the banner of "freedom or socialism."

L'EXPRESS: You have always been one of the most persistent critics of the Ostpolitik initiated by Willy Brandt and of detente. What changes do you propose in this policy?

Franz Josef Strauss: Willy Brandt's Ostpolitik was based on an error of interpretation of the Moscow partner's attitude, self-delusion and fraud with respect to the public. This is why it has led to agreements which violate the famous principle of Italian diplomacy "patti chiari amici cari" (clear agreements make good friends). For many years, I have held the view that it is necessary to conclude agreements with our Eastern neighbors. However, such agreements cannot be negotiated in the manner of Egon Bahr, as if it was a question of a television movie about bogus diplomats, whose length is determined in advance, and with a feeling of naive respect or even admiration for the opposite side. If you recall all the problems which have arisen between Germany and Russia (World War I, Rappalo, the interwar period, the Hitler-Stalin Pact, World War II, partition of Germany and so forth), you will realize that no second-rank negotiator [sous-negociateur] can find clear-cut solutions like a magician and conclude clear agreements.

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The correctness of my judgment has been confirmed by the memoirs of Helmut Allardt, who was our ambassador to Moscow at that time. This experienced diplomat subjects to crushing criticisms the way Egon Bahr conducted the negotiations and the results he achieved.

I also feel that my opinion is vindicated by the judgment delivered by the Karlsruhe Federal Court on 31 July 1973 in which it clarified an interpretation of the agreements with the East which was unequivocally rejected by Moscow. Now the Federal Government led by Willy Brandt stated that it agreed both with the court's verdict on the subject and with Moscow's interpretation. This is where the main point of my criticisms lies.

Anyone in favor of peace must be in favor of detente. But what is detente? My view on this point has always been similar to the view now held by Henry Kissinger. This is why what follows is valid with respect to a real policy of detente:

First, Moscow cannot determine on its own what detente is and what it is not.

Second, the policy of detente must neither be based on nor arouse illusions. This means that it must neither weaken the will for defense nor prepare the ground for inter-European or inter-Atlantic dissensions.

And, third, detente is indivisible. There will be no real and lasting detente as long as the Soviet Union prepares and implements political changes in other countries, mainly in the third world, with a view to creating new situations of dependence. Despite all the efforts to insure detente, and all the conferences on security and cooperation in Europe, our continent remains exposed to two dangers:

First, direct military pressure on its eastern border and outside Europe, and

Second, encirclement: both of NATO on its two flanks and, outside Europe, in the third world, especially in the Middle East and Africa.

Unfortunately, the Americans have ceased to be consistent adversaries of this dual strategy, but it must also be said that Europeans have failed to support them. You can neither refuse to recognize the merits of this large-scale and long-term Soviet strategy nor to ignore it stupidly by shutting your eyes to it. I do not believe that the Soviets are planning a major war, but the Soviet Union is prepared to consider any military option. However, it has been achieving its objectives with less risk to itself because of the West's political paralysis. The danger lies in the fact that the Soviet Union underestimates the West--this could lead to a conflagration once the West has to admit, for instance, that a new division of the world has taken place against it. This is why I am in favor of a policy of detente devoid of self-delusion and ideology which could insure peace for all in the long term.

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L'EXPRESS: Is there a correlation between the two following facts: Your meeting with Leonid Brezhnev in May 1979 and the stopping of Soviet press attacks against you in which you were called "revanchist" and an "advocate of cold war"?

Franz Josef Strauss: I believe that Mr Brezhnev is a remarkable statesman who embodies, within the limits imposed on him by Soviet policy, the objectives of his empire's political expansion skillfully and consistently but who certainly does not want any major war. Like myself, he firmly believes that war is no longer at the origin of all things but an end of everything and that there are always more problems which cannot be resolved after a war than before. Let us add that he realizes the importance of good Russian-German relations for the two peoples. During our talk he heartily agreed with me when I stated that everything went very well for the two peoples--the Russians and the Germans--when they lived peacefully side by side and very badly for both when they were at war with each other. As a partner I might be less convenient but more reliable than Brandt or Schmidt. There is perhaps a link between this and the fact that these senseless and slanderous attacks against me have quieted down.

L'EXPRESS: In your opinion, are Franco-German relations satisfactory or do you intend to put forward new ideas concerning this subject during the election campaign?

Franz Josef Strauss: Franco-German relations should not be the subject of statements during the election campaign; they should be a natural result of a joint historical destiny, awareness of mutual dependence, belief in common tasks and indivisible responsibility for Europe's future. However, the French and Germans should also achieve friendly cooperation in other parts of the world, for instance, in the spheres of security and development of the African continent. Franco-German relations are certainly good but it is necessary to develop them further in certain spheres, including that of energy and raw material supplies for our economies and also that of military cooperation --from joint arms production--this is already taking place in some limited sectors--to a joint defense program.

L'EXPRESS: What are your views on the present relations between Europe and the United States?

Franz Josef Strauss: Relations between the United States and Europe are neither as bad as the communists would like them to be nor as good as they should and could be. This is why the "creeping" estrangement which has been taking place between the United States and Europe since Vietnam and Watergate should finally be stopped since for Europe the question of its relations with the United States is a question of a free and secure common future. It is only within a strong and confident alliance with the United States that Europe has a historical opportunity for preserving its right to self-determination and, at the same time, can insure for itself a right to codetermination in the sphere of international politics. Europe has not yet responded

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to a challenge which is consistent with its size, its population, its economic power, its capacity for scientific and technical achievements and, especially, its historical and intellectual heritage. Despite increasing international political, military and economic threats, Europe has not yet managed to adopt an unanimous and resolute attitude toward some vital problems relating to foreign policy and economic and energy defense. Nor has it been able to speak with one voice on the international scene. It has been unable to do this not because of any lack of any clear-cut views on the political requirements of its security and on international relations but because of internal political weakness and partisan political tactics.

This is why Europe has been unable to firmly take in hand its own destiny and assume in international politics responsibilities which the Americans would be willing to leave to it today rather than tomorrow. As Jean-Jacques Servan-Schreiber said, Europe has an appointment with history. It is up to us to insure that we keep it. If we do, there may be a better chance of insuring that once it is freed from an excessive burden and overcomes its inability to act, the United States will resume the role to which it is entitled and that, furthermore, France and Germany will cooperate more closely to insure greater independence for Europe.

L'EXPRESS: Should the West play "the Chinese card" and if so how?

Franz Josef Strauss: The PRC is a big power which is of fundamental importance for the balance and correlation of forces both in East Asia and on a world scale because of its size, its population and its scientific and technical potential. Its reintegration in active international politics through an open-door policy toward Europe, a friendship treaty with Japan and the establishment of full diplomatic relations with the United States has not only been an indication that the bipolar world of Yalta has come to an end but has also been an example of global interdependence and universal interpenetration of all political problems.

Any inference from all this that the West should conclude a military alliance with China would run counter to geographical and military facts and political possibilities. But good relations with China based on economic, technical and scientific cooperation in accordance with prevailing circumstances are both a requirement of realpolitik and a natural consequence of the European ostpolitik.

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COUNTRY SECTION

FRANCE

BRIEFS

NEW MILITARY UNIT--The 31st demibrigade, the new French intervention unit for use in overseas operation theaters, will be set up in 6 months. It will include the 4th marine infantry regiment, to be garrisoned in Perpignan and Rivesaltes; and the 21st marine infantry regiment, equipped with the AMX-10 light armored vehicle, which is to depart the Sissonne compound and be garrisoned in Frejus. With a strength of 2,500 men, this unit will be especially adapted to average-size operations in Africa and on Mediterranean shores. [Text] [Paris VALEURS ACTUELLES in French 1 Oct 79 p 22]

CUBANS FEARED GOLDMAN--Pierre Goldman, author of "Souvenirs obscurs" [Dark Souvenirs], was perhaps killed by secret agents from Havana. Goldman, formerly very close to the Antillean and Venezuelan revolutionaries, and watched closely by the French counterespionage services for that reason, had reportedly increased his criticism of the Castro regime lately. The Cubans decided to get rid of this man who was liable to reveal certain of their subversive methods used in the Antilles. [Text] [Paris VALEURS ACTUELLES in French 1 Oct 79 p 22]

INTELLIGENCE SERVICES ALERT--The French intelligence services were able to inform the government very quickly concerning the delivery to Algeria by the USSR of six MiG-25 reconnaissance aircraft. These very advanced aircraft, whether piloted by Soviet pilots or not, can change the strategic balance in the Western Mediterranean. [Text] [Paris VALEURS ACTUELLES in French 24 Sep 79 p 19]

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ITALY

PROPOSED MEASURES FOR REFORM OF CREDIT SYSTEM

Milan CORRIERE DELLA SERA in Italian 7 Sep 79 p 13

[Article by Nerio Nesi, the president of the National Labor Bank]

[Text] On the problem of the reform of the banking law, which is currently under discussion by the finance minister, we are publishing an article by Nerio Nesi, the president of the National Labor Bank, who proposes a new strategy for the credit system in Italy.

In Italy, during the last 20 years, public opinion, economists and the monetary authorities themselves, have paid little attention to the strategic and structural aspects of financial intervention. The credit system has been seen and analyzed more as an instrument for the transmission to the economy of the impulses of the monetary policy than as a component of the economy having its own particular function. There has, therefore, been a lack of in-depth consideration and progressive updating on the role of the system as such.

The situation presents a quite different aspect in other countries: in the United States as early as 1961 the "Commission on Money and Credit" began to deal with the problem and in 1970 the "Hunt Commission" was given the task of reexamining the basic structures of the system; but even in Europe and in particular in England, in France and in Germany, important structural changes have occurred in recent years. In France, the results of the "Majoux Commission," which proposes a courageous territorial decentralization of financial activity, have just recently been released.

Last May, the German banking association published the text of the Gessler Commission's conclusions under the very significant title, "Basic Problems of the Credit Economy."

In Italy, except for the research conducted by the Luigi Einaudi Commission, practically nothing has been done in this area and debate on this subject, which has been so prominent in recent years, concerns much more casual and

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sometimes scandalous aspects of banking and financial activity rather than the analysis of its main structures and its strategic prospects.

And yet even recent painful events cannot fail to call our attention to the fact that the Italian banking system is going through a profound identity crisis which does not concern this or that man, this or that institution, but the system in its entirety. It will be useful, therefore, to begin to set forth--beyond the occasional discussions--some firm points; all the more since the eighth legislature of the Republic, which opened a few months ago, will not be able to avoid dealing in an organic way with the proposals which the government will certainly submit to the parliament.

I will try here to point some of the goals which should be aimed at, on the basis also of the discussions which, very opportunely, are being thoroughly examined within the banking system itself.

- A) To increase technical and operational efficiency, that is the capacity to produce the services of intervention, using techniques which minimize unit costs;
- B) To improve the quality of the product, that is of the totality of banking and parabanking services;
- C) To reconcile investment efficiency with that of the transmission of the monetary policy: that is to say to seek the type of structure in which the monetary policy (and above all relations with foreign countries) and the domestic credit policy can be better reconciled.
- D) To reinvent the development of the transmission function of the long-term economic policy: that is to say to reexamine the system of credit incentives and of the distribution of decisions between the moment of economic policy entrusted to the political and administrative organs and the moment of credit economy within the competence of the credit institutions.

If these, generally, are the administrative goals at which to aim, their realization suggests the affirmation of some basic principles; here they are, in their barest outlines:

- A) the exercise of credit constitutes a function of public interest, by whatever public or private subject it is carried out: it is necessary, therefore, to define legislatively the unit of the legal state of all the banking enterprises to allow all the institutions the same operative possibilities in Italy and abroad.
- B) The banking system must be competitive, efficient and profitable; the competitiveness must be based not on the search for continually greater size, but on a technical and operative challenge capable of extending to the banking systems of other countries. To do this, we must reexamine the conditions of dehierarchization and despecialization which were characteristic of these years, addressing fixed categories of banks to fixed functions.

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C) We must restore to the selection of credit and to the appraisal of the banker the role which has been taken away by welfarism and by dispersion of responsibility; it is imperative to defend the respective responsibilities of the deliberating organs and of the administrative organs of the credit institutions. The role of the former, in a European version of the system, must aim to define the general lines and those of strategic and structural order of the institutions, rather than at analyzing the individual credit operations to be entrusted to the evaluation of the administrative organizations.

D) The policy of cash flow requires a centralization and a national coordination concerning the rate policy, the limits of the wallet, the limits of the increase of credit, the activities of the institutions for special credit which are to be brought back to operative unity, and the assisted credit.

E) We must, on the contrary, recognize a role in the regional institutions in some sectors in which these same institutions already have general powers: agrarian credit, credit for crafts, credit for real estate and for construction, and credit for local governments.

F) The area of public ownership of the Italian banking system is sufficiently extensive and the presence of a strong private financial structure is being maintained and safeguarded just as the presence in Italy of branches of foreign banks must be favored and developed. In compensation, the presence of Italian banks in other countries, especially of the EEC, must be strengthened and ramified.

G) The Italian banking system needs a high level of capacity for action in the international capital markets. The introduction of our country into such markets must be administered through a financial foreign policy coordinated by competent ministers and by the Banca d'Italia; we must expand the integration of the capital markets in Europe: the European market must be kept open and working, even if under the control of the central banks, the large Italian banks must be put in a position--with proper financial norms--to act on the same level of competition with the great foreign banks.

H) Finally, the policy of credits for exports and the Italian banking and financial presence abroad must be seen as a whole with the administration of the financial reserves of the country; such a policy must be carried out with criteria of flexibility intended to favor, under the control of the Banca d'Italia, the preconstitution abroad of money-producing centers and units, in the future interest of the Italian economy.

The objectives which I have indicated and the affirmation of the principles necessary for the attainment of such objectives, will find during the coming months operative verifications both in parliament and in the organs of government.

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One can disagree, obviously, with one or more of such objectives and principles; what I believe is beyond discussion is the necessity for our country, even in this sector, to provide itself with a general strategy.

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