

**Bankers Trust
Company**  **Country
Assessment**

International Economics

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BRIEFING NOTES ON EUROPE

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EUROPE'S CRISIS

I. FUNDAMENTAL ISSUES: POLITICS OF ADJUSTMENT TO:

STRINGENCY
HIGH TECH/LDC CHALLENGE
RECOVERY FROM WWII/GENERATIONAL CHANGE
U.S. LOSS OF HEGEMONY/IDEOLOGICAL AMERICA

II. MANIFESTATIONS

- A. WESTERN EUROPE
 - BUDGET CRISES
 - EEC CRISIS
 - LOSS OF CONFIDENCE
 - THEATER NUCLEAR WEAPONS CONTROVERSY
 - AMBIVALENCE ON MIDDLE EAST
 - SEVERE TENSIONS WITH U.S.

- B. EASTERN EUROPE
 - REGIONAL FINANCIAL CRISIS
 - VIS A VIS WEST
 - VIS A VIS USSR
 - POLISH EXPLOSION
 - YUGOSLAV DISINTEGRATION
 - ROMANIAN FOREIGN POLICY INDEPENDENCE
 - HUNGARIAN ECONOMIC DEVIATION

WEST EUROPEAN ADJUSTMENT

THE CHALLENGE

LIMIT WELFARE COSTS
ABANDON OLD INDUSTRIES
MOVE INTO HIGH TECH

IS GERMANY LOST? Coal, steel, railways, autos

THE TRACK RECORD

FRANCE, FAR AHEAD, SABOTAGED BY MITTERAND
BRITAIN/WEST GERMANY HAVE ADJUSTED FASTEST
SOCIALIST PARTIES HAVE ACCEPTED THE IDEA OF STRINGENCY
FINANCIAL CRISIS MOSTLY AVERTED
VERY LITTLE STRUCTURAL ADJUSTMENT YET

RISKS:

RISING PROTECTIONISM
RISING SUBSIDIES
ANGER AT JAPAN, US
FOCUS ON EAST EUROPE, LDC MARKETS

EEC CRISIS

PROBLEMS:

- BRITISH CONTRIBUTIONS
- BUDGET CRISIS: LIMIT TO PROCEEDS OF 1% VAT
- COMMON AGRICULTURAL POLICY
- ENLARGEMENT
 - GREECE IN
 - PORTUGAL/SPAIN DUE

END OF 1983 FAILED SUMMIT

PROPOSED DEAL:

- BRITISH GET PARTIAL REBATE
- FRENCH ACCEPT SOME REDUCTIONS OF FOOD SUBSIDIES
- GERMANS AND SOME OTHERS INCREASE VAT
- OLIVE OIL...NOT COVERED BY CAP
- EC EXPANDED

IN FUTURE:

- BRITISH-FRENCH-GERMAN CORE DIRECTORATE
- RUN CAP
- NEGOTIATE TRADE
- CUSTOMS UNION

MUCH MORE MODEST ROLE IN:

- FOREIGN POLICY
- INDUSTRIAL POLICY

EMS

MODEL I: RIGID, WITH COORDINATION ON GROWTH, INFLATION

MODEL II: FLEXIBLE SNAKE

WEST GERMANY

CORE PROBLEMS

ADJUSTMENT: COAL, STEEL, RAILWAYS, AUTOS, CHEMICALS...
THEATER NUCLEAR ARMS/REAGAN/NATIONALISM
EAST GERMANY
POLARIZATION

DEVELOPMENTS

SOCIAL DEMOCRATS FAILED TO ADJUST
REAGAN TRIGGERS CRISIS OVER MILITARY POLICY
KOHL IMPLEMENTS AUSTERITY
ACCEPTS OSTPOLITIK
ACCEPTS MITBESTIMMUNG
DEPLOYS WEAPONS
BACKS GERMAN REUNIFICATION IN MOSCOW
--COOPTS NATIONALISM
FINANCES EAST GERMANY: \$400M
CONTINUES PURCHASE OF EAST GERMANS @ \$35,000

RESULTS: KOHL GOVERNMENT CONSOLIDATED
ECONOMY GROWING
SDP MOVES LEFT, WEAKENED

KEY DOMESTIC ISSUES:

35 HOUR WEEK
INTERNAL SECURITY
BUDGET DEFICIT
LAMBSDORFF AND KIESSLING SCANDALS

EASTERN EUROPE

CORE PROBLEMS
ADJUSTMENT
NATIONALISM
WORKING CLASS MOVEMENTS
NET BURDEN TO USSR

OVERALL PATTERN: COMMUNIST POLITICAL POWER SQUEEZES IMPORTS
LIMITED ADJUSTMENT

POLAND
TECHNOLOGICAL FAILURE
WORKERS MOVEMENT
TOO BIG, TOUGH TO INVADE

YUGOSLAVIA
FINANCIAL CRISIS: FLIGHT OF CAPITAL
LOSS OF TITO, "THE ONLY YUGOSLAV"
FAILURE OF ROTATING LEADERSHIP
KOSOVO

HUNGARY

I. POLITICAL

MOST STABLE POLITY IN EASTERN EUROPE
BASIC STRATEGY SINCE 1956: JANOS KADAR
BOW TO RUSSIANS IN FOREIGN POLICY
COOPT THE REVOLUTIONARIES
GREATEST CULTURAL FREEDOM IN SOVIET BLOC
GREATEST ECONOMIC FREEDOM IN SOVIET BLOC

II. ECONOMIC

MOST MARKET-ORIENTED BLOC ECONOMY
PRIVATE COMPANIES CAN HAVE UP TO 30 EMPLOYEES
BIG PUBLIC COMPANIES ARE BEING SPLIT UP
PRIVATE GROUPS CAN RENT PUBLIC COMPANIES FOR OWN ACCOUNT

MOST OPEN ECONOMY IN BLOC
PRIVATE FIRMS CAN TRADE ABROAD

MOST DYNAMIC AGRICULTURE IN BLOC
COLLECTIVIZED IN 1950s, BUT:
SELL IN SEMI-OPEN MARKET
ONLY FOOD EXPORTER IN BLOC
PROFITS CAN BE INVESTED IN PRIVATE INDUSTRY
SOME FARMERS EXPORT FLOWERS IN PRIVATE PLANES FROM PRIVATE AIRPORTS

III. MAJOR CONTROVERSIES/PROBLEMS

REGAINING BANKS' CONFIDENCE
INEQUALITY
DEGREE OF: PRIVATIZATION
DECENTRALIZATION
CULTURAL FREEDOM
OPENING TO WEST

REFORM PROPOSALS:

NEW FORMS OF OWNERSHIP
LARGE EXPORTERS SET OWN PRICES
SOME FIRMS CHOOSE OWN MANAGERS
COMMERCIAL BANKING
MULTIPLE POLITICAL CANDIDATES

DECLINES IN:

LABOR FORCE
TERMS OF TRADE

AUSTRIA

CENTRAL CHARACTERISTICS

STABLE DEMOCRACY

SOCIALIST PARTY DOMINANCE

--POLITICAL

--CIVIL SERVICE

--TIED TO UNIONS

BENIGN UNION/MANAGEMENT RELATIONS (SOZIALPARTNERSCHAFT)

WESTERN LEANING NEUTRALITY

ISSUES

BUDGET/OVERSTAFFING

"CORRUPTION"

LEADERSHIP

APRIL 24 ELECTIONS

KREISKY DIDN'T GET ABSOLUTE MAJORITY

KREISKY RESIGNED

SOCIAL DEMOCRATS FORMED COALITION WITH FREEDOM PARTY

FREEDOM PARTY HAS VICE CHANCELLOR, 3 MINISTRIES

ECONOMY	1983 (est.)	1984 (proj.)
UNEMPLOYMENT	4.5%	5.2%
INFLATION	3.7%	5.3%
GROWTH	0.5%	1.5%