The Mood of Europe: Helplessness Before the Spreading Malaise

by Richard C. Longworth

Brussels

Milton Friedman, the Chicago monetarist, popped up on a Brussels panel recently to preach his familiar text that both inflation and the petrodollar crisis can be licked if the West only has the will. Fernand Herman, a Belgian professor on the panel, objected that there is no public backing in Europe for tough measures and that European governments are too weak to act on their own.

"Then you think your civilization is doomed?" Friedman said. It was more a statement than a question.

"I'm very worried," Herman said unhappily.

In this mood of baffled resignation, hatches are being battened down all over Europe. It is the second winter of the energy crisis, and the effects—social, economic, and political—are not reassuring. Petrodollars flow out as fast as the pessimists had predicted. Frightened, insecure governments have no consistent national policies. The Common Market, starved by its members of supranational authority, is too weak to help. If a popular mood can be discerned, it is one of helplessness—a sense of the inevitability of breakdown, a personal impotence before impersonal historical forces. One perceptive commentator wrote that Europe today has the feel of a pre-war period.

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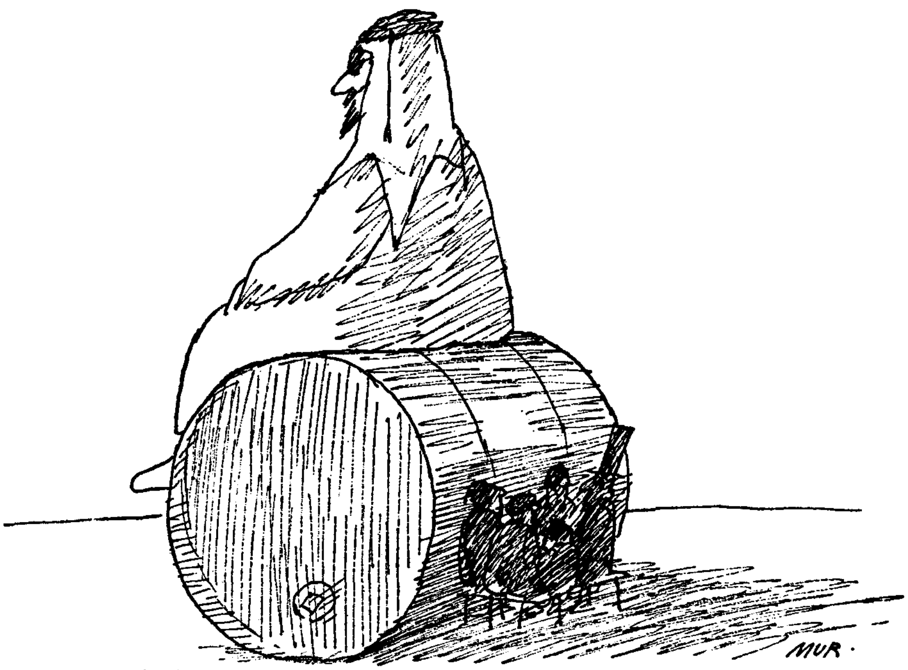
The tone is not exactly new. Any European more than 35 years old can recall catastrophe—war and depression, ruinous inflation and civil strife, fascism and the march of communism to the Elbe. Americans, more favored, treat adversity as a personal affront. Europeans, who have a historical perception of tragedy, climb into their psychological bomb shelters and ride out the storm. An Italian businessman has told me that his countrymen, although delighted with the Fiats and television sets which the "Italian miracle" has brought, never really accepted prosperity as permanent. Those southerners who work in northern factories are mentally ready to sell their appliances and go home.

This reluctance to spit into the wind of fate may be sensible, but it gives European governments no strong public backing for courageous policies. Early frantic attempts to strike bilateral deals with the Arabs have amounted to little. European solidarity has proved elusive. So far France and Britain have blocked even a rudimentary E.E.C. energy policy. In this vacuum the only leadership has come from Washington—and that leadership is being accepted with surprising readiness, considering the U.S.-European disputes of a year ago. It seems likely, in fact, that we are entering a new version of the post-war years, when American power—this time financial instead of military—will have an unnatural responsibility for Europe's future. The prospect is dismaying for everyone—humiliating for the Europeans, expensive and tiresome for the Americans. Unless handled carefully, the situation could cause great long-term damage. But the alternative could be the collapse of Europe, the alliance, and the world economic system. The United States has too much investment and trade abroad for it to escape this kind of carnage.



Reprinted from *Die Zeit*

"Goliath in Camp David."

THE IMPACT of the oil crisis upon Europe has been terrific. Common Market countries import some 80 percent of their oil, mostly from the Middle East. As oil prices shoot up, so do balance-of-payments deficits. The 1974 deficit of three E.E.C. countries alone—Britain, France, and Italy—surpassed the $25 billion that Henry Kissinger has suggested as the annual goal for a new international recycling facility. The Common Market has allowed Italy a three-year moratorium on repayment of a $1.8 billion debt and has set up its own loan arrangements to help hardship cases, especially Italy: At $3 billion, it is a drop in the barrel. Italy, Britain, France, the Netherlands, Ireland, and Denmark have floated Euromarket loans of $12 billion in recycled oil money. But the banks that financed these loans are stretched tight, and the countries themselves are piling debt upon debt. The Morgan Guaranty Bank, urging government help, warns that some countries are too debt-laden to "remain creditworthy in the eyes of any group of private lenders for long." Common Market bureaucrats made a "best-case" projection, assuming that European deficits would dwindle as the E.E.C. nations bite the bullet of austerity, conservation, reforms, and expanded exports to the Arabs: Even by this wildly optimistic reckoning, the study still forecast an outflow of $90 billion by 1978. This sort of prognosis also ignores the danger that savage oil-conservation measures, coupled with austerity, are a recipe for depression. In addition, campaigns to maximize exports and trim imports, if practiced by several nations simultaneously, may cause a trade war.

Europe simply is not equipped to cope with a $90 billion drain. Although European banks have received their fair share of recycled petrodollars so far, even Common Market economists predict that Arab money will flow increasingly to the United States, because the American capital market is the only one big enough to handle funds of this size. Europeans seem to recognize that a nationalistic competition for this Arab oil money would be as self-defeating as was last winter's graceless pursuit of Arab oil: France, which led the great oil scramble, is the first nation to limit oil imports this winter—a 10 percent cut below 1973–74 imports.

The petrodollar crisis, exacerbating the severity of inflation, has produced problems so huge and unprecedented that European governments have vacillated so far between drifts and bursts of quickly abandoned remedies, such as speed limits. One reason is that of the nine E.E.C. nations, only Britain has a one-party majority government: Even the British government, with a three-seat majority in Parliament, is far from secure. Meanwhile, social problems grow. The rate of inflation is 25 percent in Italy and Britain and above 10 percent in every other Common Market nation except Germany. Nevertheless, the Nine have shifted priority from fighting inflation to fighting a problem of growing unemployment that threatens widespread civil unrest. This emphasis on unemployment was formalized at the latest European summit in December: The summiteers proposed few solutions to the problem, however, beyond deputing French President Valéry Giscard d'Estaing to tell President Ford that he should stimulate the U.S. economy—a sign of the primacy which Europeans give to American policy these days. The E.E.C. itself predicts that 4 million workers will be unemployed this winter. Joblessness in West Germany, the country *least* affected by the oil crisis, has risen by an incredible 152 percent since 1973. Thousands of other workers, especially in Italy, are on short time. Communism has revived in Italy, France, Portugal, and Spain—to the evident distress of Washington. An Italian, complaining about this American alarm, said, "Why worry just about the Communists? A right-wing coup is just as likely and worries us just as much."

THE MALAISE seems certain to spread. For instance, the thousands of boutiques and other tiny shops that brighten London, Munich, Copenhagen, and other European cities exist solely on mad money. So far, they are thriving as Europeans, frightened by inflation, spend money as though it is going out of style, which it very well may be. The days of such emporiums, one feels, are limited. Urban structures and services, built during a quarter-century of boom, face breakdown. Europeans recall only too well that the last economic collapse produced Hitler. Aware of historical realities, one Common Market official, gazing from his window at the slush of Brussels as if he were a Napoleonic general surveying the road from Moscow, said bleakly, "A mild winter sure would help."

Henry Kissinger's interest in oil, as in all economic problems, is fitful at best, but when it surfaces, it makes a mighty wave on which Europeans are only too happy to ride. It surfaced first last February, when the Secretary of State staged the Washington Energy Conference. The Common Market nations arrived with a carefully framed proposal, which crumbled instantly. Eight of the nine E.E.C. countries joined Kissinger's proposal that Europe, Japan, and North America cope jointly with the oil crisis. France refused, admitting that the idea was objectionable because of its American parentage. Europeans, forced to choose between Washington and Paris, chose Washington—Watergate and all.

Over the summer Kissinger's idea blossomed into the new International Energy Agency (I.E.A.), which has received less public attention than it deserves. Its 16 member nations are committed to an astonishingly detailed pro-

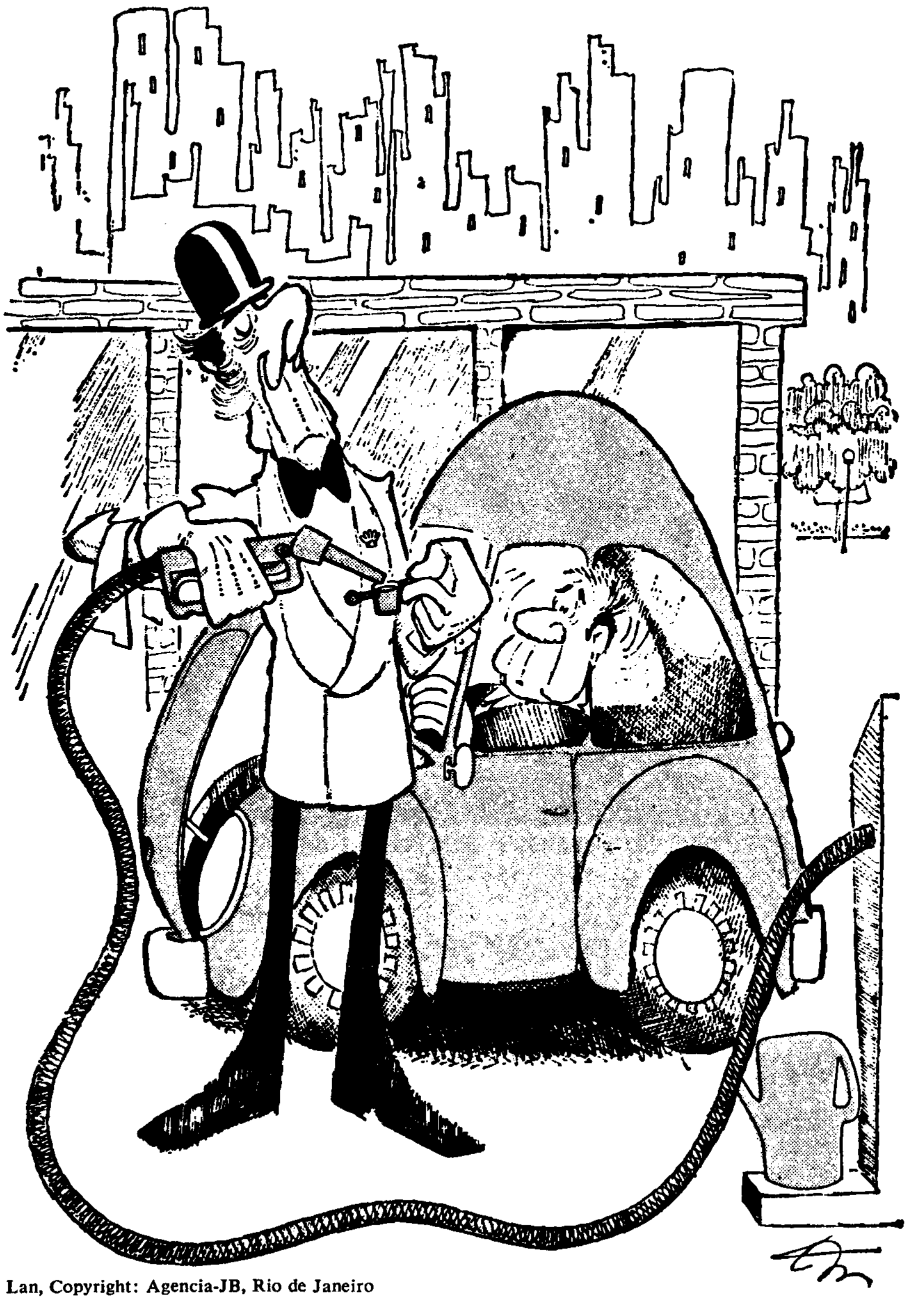
WRITING ON THE WALL

Copyright: Dosh, *Maariv Daily*, Tel Aviv gram of oil-sharing and energy conservation, which will take effect the next time the Arabs turn off the tap. The I.E.A. charter contains other provisions for cooperation in research and financing. The agency could conceivably become a recycling mechanism. It is, in short, the framework for a consumers' cartel, a pedestal from which the West can stare down the Arabs. Only time, and the next Arab embargo, will tell whether it will work.

WITH THE I.E.A. in place, Kissinger entered the recycling arena by proposing an American-Japanese-European loan and guarantee facility to funnel at least $25 billion annually to countries that need financial assistance most. It is not clear whether the nations will find the money in their own accounts or use recycled Arab money. Either way, the strength of the U.S. capital market means that much of the funds will come from the United States. Kissinger has already suggested that we put up one-third of the cash. Congress willing, our share may be even more. Whatever details emerge, such a plan would inevitably give the United States the central role in keeping Europe afloat and the power, as the *Economist* of London commented, "really to call the tune on what recycling is to be done and how." The kicker in the Kissinger plan is his insistence that aid go only to countries that are "moving effectively to lessen dependence on imported oil." This proviso would enable Washington to dictate economic reforms to recipient governments.

Europeans, notably the British and Germans, have suggested other plans with the crucial difference that the Arabs be involved from the start. Kissinger discourages any "dialogue" with the Arabs until the Western cartel is functioning. The Europeans say that if Washington is to be the West's banker, it must use Arab money: No stable system can be built, therefore, without Arab cooperation.

The different plans are being minced and melded now in a dozen forums. Some variation of the Kissinger plan will probably emerge, because it looks like the best and best-funded port in this storm. Giscard himself, at his Martinique summit with President Ford, went even further than other Europeans in endorsing the Kissinger facility, in return for American cooperation in the convening, by and by, of a conference of oil-using states with the Arabs. (The new French government, which at first practiced a Jobert-Gaullist policy swathed in more soothing Giscardian accents, is now edging toward cooperation. But France has lost the habit of harmony, and her return to the Western choir will require patience on both sides. Although the French have accepted the Kissinger principle of a united front of consumers, they have yet to join the I.E.A., despite the location of its headquarters in Paris.)



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THUS THE United States is back in the business of propping up Europe, although by more sophisticated mechanisms than the straight-aid programs of the Marshall Plan. The implications can only be surmised. One could be the demise of the Common Market. The E.E.C., after all, is built on an economic base: Having flunked its first big economic test, it may never recover. European unity, founded to a degree on European pride and a European separateness vis-à-vis America, would also suffer. It takes no imagination to foresee a growth of extremism—left or right—in the Latin countries and the formation of a deutsche-mark bloc around Germany, with Britain retreating into a new insularity fueled by North Sea oil. If this sounds ominously like the continent's old divisions, it only underscores the care with which the United States must wage its commendable campaign to keep Europe from drowning in oil. □

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2 Easy Rider . . . Carnal Knowledge . . . Five Easy Pieces . . . Chinatown . . . can you name the star who played in all of them?

3 Which country has the world's largest oil reserves?

4 Can you name John le Carré's latest spy thriller?

5 How much is Nelson Rockefeller's estimated wealth?

Answers: 1. Yoga. 2. Jack Nicholson. 3. Saudi Arabia. 4. Tinker, Tailor, Soldier, Spy. 5. $250 million, probably not including general family trusts.

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The Predicament of Developing Countries

by G. V. Subba Rao

Affluent countries, which consume 17 times more energy per capita than do developing countries, tend to complain that their highly industrialized economies are the victims of the oil-fuel crunch. But the crunch has in fact dealt a body blow to under-industrialized Third World nations, which are not major oil producers and did not benefit from the recent commodity boom. Oil accounts for nearly two-thirds of the commercial energy consumption of the 75 to 80 energy-short developing countries, and 70 percent of the oil they use is imported.

The sharp price increase of necessary imports—fuel, fertilizers, capital equipment, and essential food grains—has hit developing countries like a thunderbolt. The cost of fuel has jumped three- to four-fold in less than a year; the cost of fertilizers has recently risen by 300 to 500 percent; and, above all, the cost of food grains—wheat, for example—has more than tripled in the world market. Some countries in Africa and Asia have been hit by drought and natural disasters; furthermore, they have been victims of worldwide inflation and carry an external debt-servicing burden of $1.5 billion a year.

Meanwhile, the fuel imports of these countries last year were estimated to have increased by more than $10 billion, which is three and a half times the cost of these imports in 1973. The import bill for essential fuel, fertilizer, and food grains had been expected to go as high as $24 billion by the end of 1974.

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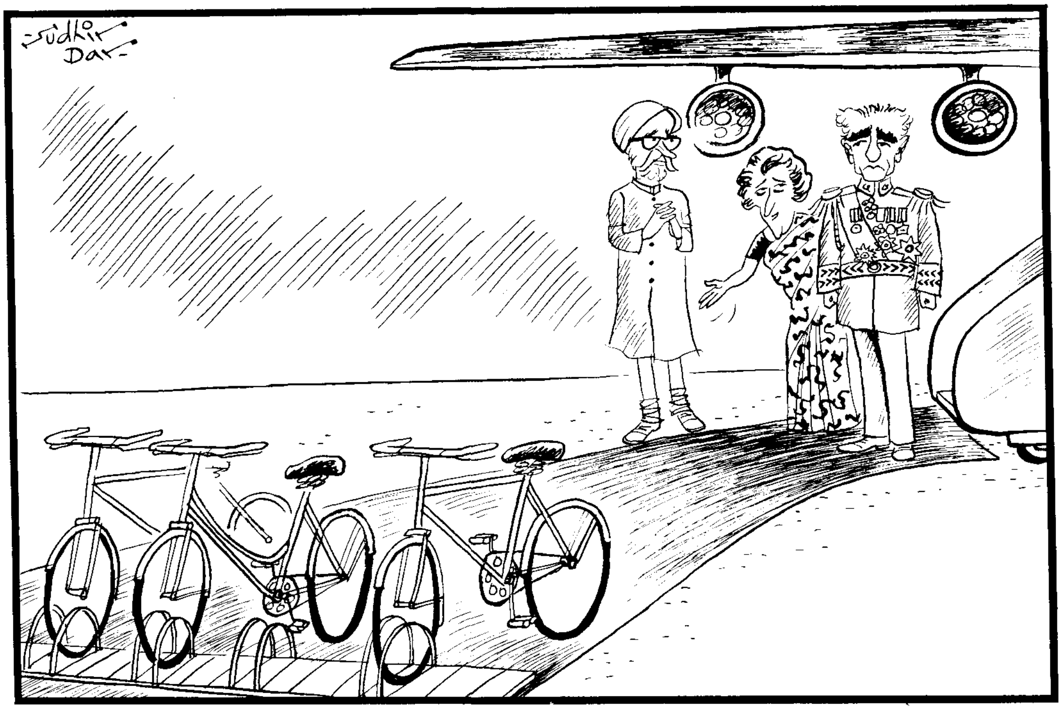
AND THIS IS NOT the end of the Third World's woes:

The downward trend of commodity prices may cause still further declines in their trade. This means that the import capacities of the developing countries may deteriorate even more sharply than had been estimated. Under this scenario, some of the low-income countries with a rock-bottom per capita income of less than $200 will actually experience a decline in their income levels—unless, that is, the foreign-exchange resources gap is quickly filled by the international community and massive capital inflows are assured. The thing to keep in mind is that most of the developing countries do not have access to capital markets on conventional terms; yet grants and very-long-term low-interest loans are essential for their survival and their minimum degree of development.

THE RECENT JUMP in oil prices may also increase the long-term price of nitrogenous fertilizers—which are enormously important to modern agriculture—by as much as 40 to 50 percent. Since most nitrogenous fertilizers are imported from developed countries, the shortage in fertilizer and pesticide production in these countries, combined with high fertilizer prices, has constituted a severe setback to the "green revolution." It has been estimated, for example, that a 1-million-ton shortage in Indian fertilizer consumption may cause a loss of 10 million tons, or nearly 10 percent of the food-grain output in India.

What are the United Nations and the Third World community doing about this looming threat? Last May the General Assembly recommended the establishment of producers' alliances and associations aimed at improving the prices of basic commodities and the bargaining power of the developing countries in the international markets. Another approach would be radically to restructure relations between the multinational oil corporations and their host countries. For every one-dollar profit cut per barrel of oil by these corporations, the oil-importing developing countries lose nearly $2 billion a year in foreign exchange. Still another possibility is for both producers and consumers to arrive at international commodity agreements.



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Prime Minister Indira Gandhi to the Shah of Iran: "After you, your majesty."

The oil-poor developing countries can themselves undertake a variety of measures: (1) making more