

APPROVED FOR RELEASE: 2007/02/09: CIA-RDP82-00850R000100050006-9

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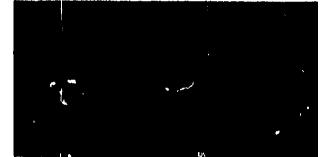
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JPRS L/8435

3 May 1979

TRANSLATIONS ON WESTERN EUROPE  
(FOUO 26/79)



WEST

EUROPE



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COUNTRY SECTION

DENMARK

WAGE PACT MAY FORCE DEVALUATION

Stockholm VECKANS AFFÄRER in Swedish 29 Mar 79 pp 37-38

[Text] Copenhagen (VECKANS AFFÄRER)--The government warned of a sizable devaluation of the Danish krone later in the year, when the Folketing on Wednesday of this week voted through a new 10-year agreement providing for annual wage increases of 10 to 11 percent. According to the government's economists this gives a real wage increase of 2 percent a year to LO [Danish Federation of Trade Unions] members, but independent Danish economists are sure that the wage increase at the end of the summer will be eaten up by a considerable tightening up of financial policy and a devaluation of the Danish krone, which follows the D-mark [of the FRG].

The automatic feature of the Danish wage system means that even a mere extension of the agreement will provide wage increases of 7 to 8 percent a year. The semiannual wage adjustment in accordance with the price index is expected to bring about annual wage increases of 4.5 percent, and to this must be added a wage escalation of about 3 percent. Two days longer paid vacation in 1980 and another three in 1981 cost the employers 2.5 percent, while the extra pay for overtime, etc., means an extra outlay of 1.8 percent.

Without an economic tightening up, the balance of payments deficit this year will go up at least 8 billion Danish kroner. The employers think that the wage agreement will increase unemployment, which now amounts to 190,000, by another 14,000 over 3 years. The LO, on the other hand, is counting on employment's increasing by 25,000 as a result of the increased vacation.

The government coalition between the Social Democrats and the Liberal Party has the clear objective of reducing the deficit in the balance of payments and reducing foreign debt by 58 billion Danish kroner. Since the MOMS [value added tax] is already a good 20 percent and the excise taxes on automobiles, liquor, and cigarettes are among the highest in the world, in the opinion of the experts the government has no other way out but to devalue the krone, whose exchange rate is considered to be about 15 percent too high.

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COUNTRY SECTION

FRANCE

MITTERRAND FUTURE VIEWED IN LIGHT OF LATEST ELECTIONS

Paris PARIS MATCH in French 6 Apr 79 pp 52-53

Article by Arthur Conte

Text What can we learn of what the future may hold in store for us from the latest election returns?

The first lesson is that the majority received a sharp warning from the nation, a warning that it would be unwise to ignore or forget. It was a defeat for the majority. Of course, it was not as bad as it might have been. The social climate is so difficult, and information was handled so badly that the Elysee could have done much worse. Still, it is a fairly harsh blow.

The second lesson is that the president still seriously lacks a large, highly organized, and deeply based party. He has been working under this handicap since early in his 7-year term. But the efforts which have been made to correct this situation have obviously been inadequate. What he has is more like a set of social clubs than a combat formation. The only advantages he can make use of are those drawn from his own wisdom or his courage. To help him, he has in essence only a sort of strengthened MRP Popular Republican Movement. This is very far from the artillery, the tanks, and the aviation support that will have to be found if he seriously wants to face the harsh years of the 1980s. So for him this must be priority number one: to find both in the party leadership and in the party base the captains, lieutenants, and above all, the sergeants, who are all so terribly missing.

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The third lesson is that the president must be protected more securely than he is now. Either he stands too much out in the open, or he is left too exposed. This is both dangerous and unhealthy. While this election was in reality more of a local than a national contest that could in no way overturn the country, we saw too many direct hits against the French president. More attention will have to be paid to protecting him from such risks, if they really want to preserve the spirit and equilibrium of a constitution which has the incomparable merit of saving us from an Italian-style anarchy.

As the fourth lesson, some people would like to add that the president himself is too imprudent, as for example when he sent his son and son-in-law into the political arena. But such a complaint does not hold water. It was actually very pleasing that Henri Giscard d'Estaing, with all his young man's sincerity, agreed to draw to himself the shots aimed at his father. After all, he gave up a lot to do this; in any political undertaking, most of what you get is, as Harry Truman used to say, "a lot of ripe tomatoes and rotten eggs." As this young man obviously has a passion for politics, he deserves a great deal of credit for agreeing to be mixed up in this sort of clash.

The fifth lesson is that, as we have often predicted in previous articles, the Communist Party has fully recovered its control of its resources and its strengths. The games of some of its super-intellectuals on the party fringes are meaningless. The expectation of the socialists that they would make the Communist Party's share of the votes decline to 15 percent was only a fantasy. So obviously, Georges Marchais has in no way given up his fundamental strategy: to strike his harshest blows against the Socialist Party; to have as his number one objective to break the Socialist Party; to accept a union of the left only as a purely vote-getting alliance or as a last resort; to only make use of the Popular Front in order to prepare for a National Front once the Socialist Party is destroyed; and to grant no respite in this undertaking. Let's make no mistake about it: in the months to come, Georges Marchais will go after Francois Mitterrand more harshly than ever. One would have to be incredibly naive to believe in the seriousness of what is called the Union of the Lefts. Despite some appearances to the contrary, this is now only a dead myth.



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The sixth lesson is that the socialists, by obstinately refusing any change in strategy, are fatally blocking any chances of bringing about a change in the system. Obviously, once more, they may well be tempted to show off their laurels. For, by lining up the best candidates and by knowing how to attract to these candidates the most varied and contradictory forms of discontent, they got the most clearcut victory. They may legitimately be pleased by this, even if they must start getting accustomed to winning all the secondary battles and losing all the major races. In any event, they are going to have a mass of general advisers who will provide them with extremely valuable support in all the coming battles. And it is just as true that any observer must concede that the socialist message still keeps its power. And yet, for all this it is no less true that the most serious part of the problem lies here: the party has won a battle, but without a strategy. It has seen its legions carry off a victory, but without a coherent party line. And this was the source of the impression everybody received of the extraordinary confusion reigning on election night, Sunday evening. Politically, France sees only dimly where it is going because the Socialist Party does not know where it is going. So this is the question of questions: where is Francois Mitterrand in all this?

Between 1958 and 1978, his strategy was fairly clear.

In reality, it was based essentially on two convictions and on two assumptions. The first, conceived at the time of General de Gaulle's return to power on 13 May 1958, was that the Fifth Republic would only last for a few years, and that General de Gaulle would collapse, crushed by problems, somewhat like Marshal Petain. "You have just voted for Vichy," Mitterrand sadly told Guy Mollet who had just announced his support for the general's return. Not without courage, he waged his "war of honor" against the new republic and its leader. He never gave up.

The second conviction was a sort of rather Gallic gamble. At the age of 43, in the full bloom of his vigor, his ambition, and his talent, he found himself the only man in the center left capable of holding high the flag of the democrats against Gaullism. Pierre Mendes-France himself seemed to be out of the picture; he only recovered some years later, and anyway, since the war he had felt a devotion for General de Gaulle that was as discreet as it was deep. Mitterrand found that he alone could be Mr Anti-de-Gaulle. He felt he had both

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the strength and the resources for this, and his whole campaign did keep the mark of a certain personal adventurism. Let's not make any mistake: Mitterrand's greatest pleasure will have been to have challenged de Gaulle directly, one against one, in the 1965 presidential elections.

As to the assumptions, they were just as clear.

The first came from the "historic" lessons that he thought he could draw from the post-Stalin period. Considering Khrushchev, he said to himself that a new Russia was being born. Khrushchev, in testimony of his "universal good will," had just turned over Port Arthur to the Chinese, had asked Tito's pardon, had agreed to evacuate Austria (with the sole condition that Vienna would remain neutral and would join neither bloc), and had begun a major two-pronged campaign, against the personality cult "in the party," and also in favor of the highly touted project of "softening up marxism."

Even if the memory of Budapest still rankled, and in the shadows shed by the sinister Berlin Wall, there could still be a great temptation to believe in the policy of destalinization and then to imagine that this would carry the Soviet party very far along the route towards "socialism with a human face." Mitterrand believed this, or at least he said he believed it. In any event, his whole gamble, even in the area of domestic politics, was unthinkable without such a belief.

The second assumption was derived from the first. Since the Soviet party would evolve in a good direction, the same would happen to the French Communist Party. So a democrat, even one who said he was not a marxist, could join it without fear or regret, in order to defeat the Gaullist usurpers. The French Communist Party was quickly found to be a party like any other party, one even capable of governing loyally with other parties. An alliance with it no longer presented any sort of danger. On the contrary, working with it, becoming friendly with it, could only lead the Communist Party to greater friendship, confidence, and loyalty. Mitterrand remembered a saying of the American writer, Emerson, that Franklin Roosevelt liked to quote: "If you want to have a good friend, be a good friend yourself." By maintaining an exemplary friendship with the communists, the socialists would soon call forth an identical loyalty from them.

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All the Mitterrandist strategy for 20 years came from these four gambles: the alliance "to the death" with the communists, Mitterrand's spectacular commitment to the socialist ideal, the frenzied campaign against all the forces and all the forms of Gaullism, the agreement with the communists on a joint, highly collectivized government program, the refusal to enter into or even consider any other alliance outside of the "Union of the Left," and the total basing of the entire French left on this sole and unyielding calculation. We know very well what happened to the four gambles and to the entire strategy.

First of all, the Fifth Republic showed it was stronger and lasted longer than expected.

Next, Mitterrand never succeeded in portraying himself with the stature of a giant. Neither a "hero" in the de Gaulle style, nor a "prophet" in the style of Leon Blum, observers -- even those who were dismayed by it -- quickly found that he did not measure up to the level of "History," nor could he by himself carry off a dazzling personal adventure.

Furthermore, Brezhnev showed himself to be no less of a stalinist than Stalin himself.

And finally, it was soon learned that the Communist Party was only playing its own hand, with its everlasting scorn for "social democratic puerilities."

The great dream, already severely damaged by September 1977, split apart one fine evening in March 1978 when Georges Marchais, with an unprecedented violence, destroyed the Union of the Left and with it, all of Mitterrand's plans.

Of course, it seems clear that Francois Mitterrand still believes in his star. The conviction of being chosen by destiny may remain strong within him. Even though he is now being slowed down by age and he can no longer be as impetuous as he was 20 years ago, he seems to be hale and hearty. And he was in great form on Sunday evening. We can recognize the force of his ambition from the energy he is using in preparing for his May congress and for the Metz congress, and in defeating Michel Rocard. In the depths of his being, he needs a lot of energy and conviction to undertake his present trip through his sections and federations, an exhausting round throughout the country. Furthermore, we may well believe that the conviction of still being able to assume a national

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destiny is still deeply rooted in him. To be convinced of this, we need only recall the force of his television appearance on Sunday evening. Mitterrand, who traditionally spends election evenings at his home at Chateau-Chinon, this time left up to no other socialist -- outside of his friends Claude Estier and Gaston Defferre -- the job of interpreting the election results on television. Undoubtedly he remembered too clearly the time he gave Michel Rocard the job of delivering a brilliant speech during the last round of the legislative elections. On Sunday he totally "wiped out" Rocard, and people such as Mauroy or Chevenement. He wanted to appear in person on the three TV channels, TF 1, A 2, and Fr 3. Then on Monday morning he gave his opinions in person on the radio networks. This is the action of a man who still believes in himself.

His conviction of the precariousness of the Fifth Republic has now yielded to another conviction, one just as strong: the fragility of the president. Just as Mitterrand in 1958 was convinced that General de Gaulle would not last long in power, so may he think the same of Valery Giscard d'Estaing in 1979. Let's even be sure that he feels that not only will Giscard not have any chance of running in 1981, but even that Giscard will collapse before 1981. So now he is counting on Chirac, saying to himself that Jacques Chirac, if the Gaullists come near 20 percent in the European elections, will manage to have Giscard censured, then to have the National Assembly dissolved, and even to schedule presidential elections earlier than planned. He may even be flirting with the idea that Giscard might resign. In any event -- and we are somewhat underestimating the role of Raymond Barre -- Mitterrand is convinced that there will be a major political crisis in the year to come. This is obviously a conviction that illuminates as many hopes and plans as did his conviction in 1958.

But the situation of the Communist Party is quite different. On one hand, no matter what changes take place in Russia, the leaders who succeed Brezhnev will impose a first phase that will necessarily be an ultra-Stalinist period, which will last for some years. Logically, we have to think that if Russia one day sheds its Stalinist uniform, it will not do so before 1985. That will come too late (if it ever comes) to help Mitterrand's plan to succeed.

On the other hand, the position of the French Communist Party vis a vis the socialists can no longer leave any room for doubt. Georges Marchais has in fact declared an unrelenting war on Francois Mitterrand, and Francois Mitterrand is the

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first to realize that a communist party's campaigns are never short. There is even a strong case to be made that Mitterrand personally will never again receive the support of communist voters in a presidential election. Dialectically, historically, he is the last socialist for whom the communists will vote. And that may well bar Mitterrand's way. He can persist in sticking to the Communist Party, he may bear with infinite patience blow after blow, and he may swear by all his gods his "unitarian" sincerity, yet he can not ignore himself the inexorable trap in which he is caught. Marchais's eye has a terrible malice when it rests on Mitterrand: the eye of a hunter or a poacher who holds his prey.

So Mitterrand is left with no strategy at all -- or to be more exact, he is left a prisoner of a bad strategy, and apparently incapable of changing it, at least until the next congress. But there is also a totally obscured national policy, and above all, it is impossible for the president to make use of an "alternation" which would in many respects be quite refreshing and salutary.

And this is the seventh and final major lesson of this strange campaign which essentially brought a broken majority into battle and for which all the givens were falsified from the beginning. Here we have a general political situation with no other immediate solution but to rely on the experience now in progress, with all the variables it may include. In such a case, we have to say that for the present majority, no other political wisdom is possible but to tighten ranks around the prime minister, who is more often mistreated by his allies or his pseudo-friends than by his most real class enemies. And the cantonal elections, after all, will have brought about no change in the course of our rivers.

Unless Mitterrand is concealing some surprise up his sleeve, for after the Metz Congress.

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COUNTRY SECTION

FRANCE

NATIONAL ECONOMIC POLICY: REFLECTIONS ON INTERNATIONAL DEPENDENCY

Paris FUTURIBLES in French Jan 79 pp 66-72

[Article by Jean Matouk, professor of economics at the University of Montpellier: "The Paths of Explosive Growth"]

[Text] I recognize that today the choice is between an attitude open to the world, with the risks it entails but also the opportunities it offers, and a protectionism which, if limited to the national level, can only lead to dissatisfaction of the consumers who are deprived of certain imported goods and forced drastically to revise their way of living, if only to reduce energy consumption. However, such a revision, although temporarily painful, could in the long run lead to a way of living that is in better harmony with the ecosystem, more natural, and finally better able to guarantee the survival of the species.

But if we eliminate this truly "revolutionary" hypothesis and assume that the maintenance of our present standard and way of living requires the maintenance of a large flow of imports, and therefore a compensating flow of exports, I contest the "explosive" view developed long ago by our liberal governments: this is the logic of the "13th" month of exports in 1973. According to this idea, the exponential growth of imports is an intangible quantity; consequently, the only salvation is to be found in an indefinite growth in exports at the same rate. Now, this is a dangerous, costly, and false view. It is dangerous, from the purely logical point of view, because the "time of a finite world" will arrive: the markets of the new countries and the Eastern countries cannot be extended indefinitely, considering the competition among all the industrialized countries that are exploring the commercial prospects, and their own development.

This explosive solution is also expensive, because the real "excess cost" of the sale of a franc for distant export, with long stays in Oriental ante-chambers (including tips), is much higher than the temporary marginal cost of a balancing subsidy granted to a lame duck during the time necessary for its reconversion. Finally, the explosive solution is false because France can, at the price of serious planning that is simply but truly stimulating, quickly recover part of its internal market and develop substitutes for the expensive imports on its own soil. Without wanting to reduce the French to a Chinese frugality, it is a question of "counting more on our own strengths," as I have suggested elsewhere.

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With these reservations, I willingly admit that the industrial imperative remains the order of the day, both to conquer foreign markets and to reconquer ours. And that the protectionist and narrowly nationalistic traditions of certain economic agents and political parties must be opposed. But I must recall that if the French industrial fabric is now no longer capable of resisting foreign penetration, if it is much looser and more full of holes than the German fabric, the responsibility for this falls to 20 years of short-sighted policies, time and again, with at least four stabilization plans and a serious slump, which have favored the dissolution of this industrial fabric and prevented its recreation. In this respect, the joint responsibility of an absurd system of credit margin -- completely contrary to liberalism -- and the outdated example of the French banking system is enormous, especially in the very low industrial birth rate in France. I am not hiding the fact that on this point, apart from fair words and publicity operations, things have changed a great deal in the last few months.

The diagnosis of the present situation requires three remarks: a) capitalism is a well-defined economic system, in its various forms -- competitive, oligopolistic, etc. For us, it is undermined by a certain number of basic contradictions, like the other class systems that preceded it. This does not mean -- as a certain "leftist messianism" might lead one to believe -- that it is inevitably doomed in the short term. It can find within itself the necessary resources to adapt. It has already done so. It can change into another class system, just as oppressive for those who are not in power.

The Keynesian revolution is capitalism's adaptation to a structural change in its industrial base. This has gone from large pieces of basic equipment to consumer industries. In order for the change to succeed, a profound change in the living conditions of the salaried workers had to take place. This was "Fordism." The general theory is the logical expression of the new, inevitable operating rules of the system: one of the essential changes which is included, and rarely commented on, is the fixing of the nominal salary, which corresponds well to modern conditions. I do not want to deprecate Keynes who, at the same time, explained the cyclical slumps, even with Marxist arguments. I only want to situate his contribution in the development of capitalism. We are now living through a new change to which capitalism has been led by the convergence of: the automation which is itself due to the urgent necessity of permanently substituting capital for labor; the discoveries connected with this automation, and various public initiatives (NASA, military research, aeronautics, etc.); a certain saturation of demand in the developed countries, and the unsuitability of the goods they produce for the demand of the new countries.

One must therefore go from household appliances, automobiles, oil, and traditional chemistry to automated equipment, telecommunications, plasma metallurgy, nuclear energy, biochemistry, genetic engineering, etc., but also to the large-scale production of modernized pieces of traditional equipment for the new countries. In this way one can explain (I cannot go into detail here) the structural, lasting unemployment and inflation in the industrialized countries which the Keynesian policy, Fordism, is apparently unable to solve.

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b) This slump seems to affect the industrialized capitalist countries differently. It seems to affect Great Britain and Italy more, Germany and Japan less. Today it is affecting the United States, which up to now has been able to mitigate its effects by the imperialism of the dollar and plain imperialism -- two types of imperialism that the multinational corporations, mostly of American origin, are fighting vigorously.

These differences among advanced countries depend on two causes: their starting situation after the war (workable mines or lack of them, availability of coal or energy dependence, abundance of skilled labor or lack of it) and the choices made in reconstructing their industry -- initial choices of the period 1945-1955, and then additional or replacement choices in 1960-1970.

Let us say that Germany and Japan, which were destroyed, did a good job of reconstructing and choosing, which explains their success in exporting. But this success, by guaranteeing a growing appreciation in the value of their currency, enabled them either to invest even more or strongly to brake their inflation. This is the opposite of the vicious circle. Since the middle of the 1960s, it has been essentially based on currency. But up to the last Chirac government, the virtues of devaluation were still believed in France.

c) France was unable or unwilling to make these choices, or made them badly. However, the colonial wars and the political disorders produced some very promising initiatives on the part of certain leaders of the Fourth Republic, who thought in a different way from many of those in the Fifth Republic (I am thinking, among others, of Pierre Mendes-France, Felix Gaillard, Edgar Faure in his "first phase"). They were unable really to introduce modernity in a reconstruction which, considering the existing equipment -- which was much more extensive than in the devastated country of Germany -- was performed almost homothetically. They reconstructed in the literal sense of the word, when they should also have modernized both the means of production and the social relations. In this area, the only innovations outside of the nationalizations were the paid vacations and the business committees, which have constantly been muzzled since their inception.

But the worst is that later, under De Gaulle, when anything was possible, the second round of choices, that of the 1960s, was left to the complete freedom -- as I dare to say in contradiction to the present propaganda -- of "Nineteenth Century" business leaders, whose only aim was to take back the modest social gains of the Fourth Republic. Here I am speaking of the "major" bosses or the large companies. Exceptions? There were some, of course. But not enough to form a critical mass. The most obvious is the behavior of the iron-masters, who were aided by the government in 1966 with an annuity. Even the economic behavior of many heads of nationalized companies was scandalous. Why are electricity, domestic flights, and telephone calls in France today among the most expensive in the world for the consumer?

And the PME [Small and Medium-Size Businesses]? They are the lance-head of German industry in exports. Our PME have often wanted to modernize. There was a whole generation of young heads of businesses who made the right choices on their own level. But the economic and monetary policy in 1963-65, 1970, and 1973-75 made them, almost systematically, the first sacrifices on the altar of a recovery that is not over yet. 11

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Coupled with an unfavorable endowment in natural resources -- although our forests and our agricultural potential are underdeveloped -- this absence of industrial choices led to the present situation.

To count on the heads of the big businesses to carry out the changes that are necessary today, while swelling their profits by means of decontrolling prices, smacks of naivety or disingenuousness. Indeed, unless there were a pressing incentive from the government, would you invest 10 or 100 million francs in French industry tomorrow, if you got them out of the blue? The PME will do it -- their horizon is narrower. But there are not enough of them any more, and the employees who want to open their own business cannot do so. Only imperative industrial planning at the level of the investments of the largest businesses -- several of which, moreover, should be nationalized -- can make it possible to catch up a little, and correct the choices. Only strong measures to aid in the creation of businesses -- and to protect them during their first years -- can make our industrial fabric more dense. This will take time. For 5 or 6 years, Germany will have to agree to support the European currency alone, without developing its political hegemony. The diplomats' job will be as hard as that of the men responsible for industrial policy.

More especially as a slow growth, which is necessary to avoid massive imports, has to be unequally shared in order to be socially tolerable. Much more for the most disfavored, and less -- even much less -- for those whose incomes are higher than average. This is a difficult policy for a rightist government to pursue.

But the neo-liberals speak of self-management, of reduction in the range of incomes, of the creation of responsibility, etc. In fact, they are in favor of anarchical self-management -- that is, a situation in which an owner, and the banks, face an unorganized personnel. I regret to say that this is also a Nineteenth Century concept. It must finally be admitted that there is a functional antagonism between private capitalist bosses (tomorrow a class of techno-bureaucrats, like in the USSR) and their employees, to say nothing of the side classes. Society is full of contradictions and conflicts. The intelligent capitalist solution consists of admitting the existence of this conflict and institutionalizing its development. Our managers began to understand that in 1968. The result is that in addition to a collaborationist unionism -- that is, one that accepts the capitalist framework (FO [Workers Force]) -- and another unionism that rejects it but is willing to take a position on the union plan (CFDT [French Democratic Confederation of Labor]), there has grown up a unionism that is very closely associated with the principal opposition party, for in view of the managerial bottleneck, the only outlet seems to be taking over the government. Whence the importance of a CGT [General Confederation of Labor] that is an opposition government in the nationalized businesses, and often takes positions in the private sector that are contrary to the real future interests of the French economy. But it and its active members have all kinds of excuses, considering the obvious collusion between management and government for the last 20 years. And on this last point, there has been no new trend since April 1978.

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In fact, self-management is the basic institution of socialism, and is fully realized only with the suppression of private ownership of the means of production, and of salaries (even without private ownership). In capitalism, it may be turned aside from its goal, if it is not integrated into a truly organized planning and if it is not backed up by powerful unionism. We are far from that. Farther than Germany. We are all the farther in that I have heard talk of nothing for months except eliminating the social coverage gained by the workers in their struggle. How can one hope for their cooperation on such a basis? What is the nation without them? To be sure, the abuses must be eliminated, but they will disappear by themselves with unemployment and the change in working conditions, and the management of the health sector for profit. There we encounter industrial planning and the nationalization of the major groups. This cannot wait. The constant hymns to liberalism have awakened in a certain sector of management the "Nineteenth Century" devil which was sleeping. First there will be layoffs and a reduction in social coverage, and then one will wait in vain for the "social party." I believe that present policy is a dead end. One cannot hope to stimulate the defensive, regenerative reactions of a moribund industrial fabric. Only a series of deliberate grafts can save it, and then rejuvenate it. It will quickly be realized -- as soon as we enter the European monetary system -- that the new policy is economically and socially untenable. Therefore we will change it. Hence my optimism for the long run.

## Albert's Theorem

The report on the adaptation of the Seventh Plan, presented in September 1978 by Michel Albert, general commissar for planning, specifies that if the arrangement of the Seventh Plan is maintained, its adaptation aims essentially at three main goals. 1) The lasting recovery of our foreign trade balance. Everything depends on this in the medium term: the rate of growth and the level of employment, the solidity of the currency, the independence of the country, and the buying power of its citizens. 2) The adaptation of our industry to more and more difficult international competition. Industry alone provides four fifths of France's exports. The economic confrontations which have continued to be intensified since the oil crisis bear essentially on industry. 3) The improvement of working conditions. This is a question of responding to the demands of the working people and facing the necessary industrial conversions and the consequences of a slowdown in growth.

These three goals are closely related. Indeed, the authors of the report add: "What is the principal cause of the sudden, simultaneous rise in unemployment in all the developed countries, following the oil crisis? Apparently, the sudden, simultaneous drop in the rate of growth, which was already in embryo in the acceleration of inflation since the end of the 1960s.

"What limits the rate of growth in France today? Above all, the 'foreign constraint,' the necessity for a nation like ours, which is concerned with its independence, to balance its purchases with its sales and to guarantee the value of its currency.

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"And what should we do so that France can manage, relatively speaking, to sell more and buy less? There is only one solution -- outside of the general impoverishment of the French: the strengthening of businesses and of their competitive capability."

Thus what has been named "Albert's Theorem" and is the source of the new economic policy can be expressed as follows: "Employment is linked to growth. Growth is linked to the foreign trade balance. The foreign trade balance is linked to the adaptation of our industry."

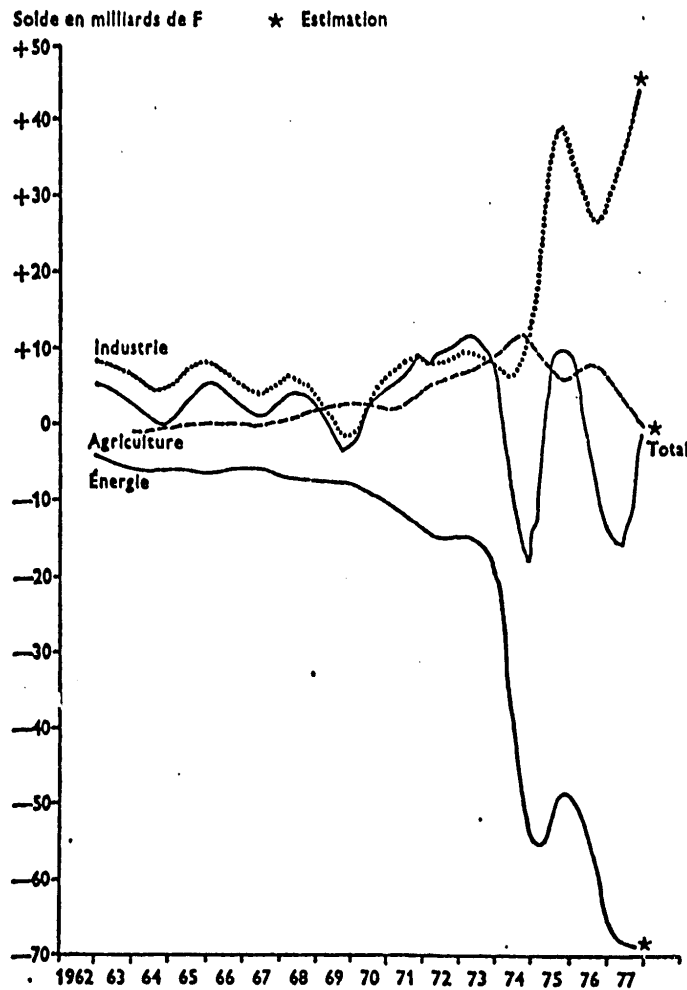


Figure 1: Foreign trade balance by sector. Ordinate: balance in billions of francs; star: estimates; source: Seventh Plan Indices, No 4.

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COUNTRY SECTION

FRANCE

CIVIL AERONAUTICS CONSTRUCTION INDUSTRY VIEWED

Paris AIR & COSMOS in French 17 Mar 79 pp 9, 11

[Report on press conference of Minister of Transport Joel Le Theule]

[Text] Minister of Transport Joel Le Theule devoted a major part of his press conference last week to the French civil aeronautics construction industry.

French civil aviation manufacturing now accounts for approximately one-third of all French aeronautical construction. Whereas in 1975 it had shown a deficit, it is now contributing to the surplus in the balance of trade in the aeronautics industry as a whole. This contribution amounts to approximately 1 billion francs if you take into account the purchase of foreign aircraft by French companies, and approximately 2 billion francs for civil aviation manufacturing properly speaking.

300 Airbuses Marketed

The minister pointed out that the spectrum of civil aircraft built in France is quite broad, ranging from light airplanes, executive airplanes and helicopters all the way to transport aircraft. The minister dwelt especially on the subject of the Airbus. He noted that in the case of the B2 and B4 planes 21 companies had placed orders for a total of 131 planes and taken options on 63 more. The final figures for 1978 show the A300 to be the best-selling large transport plane in the world after the Boeing 747. Last year its sales equaled the sum total of the sales of the DC-10 and L-1011. Moreover, there are definite prospects for new sales: to Laker (10 aircraft) and the Japanese TOA [expansion unknown] company (6 aircraft), and various companies of the Middle East and Africa are currently negotiating for the purchase of a total of 37 aircraft. The signing of these contracts would quickly bring to 231 the total of Airbus A300's either definitively sold or on option.

Since last July a new element has been introduced into this spectrum: the A310 has been put on the market, and the notices of intention to purchase this model involve a total of approximately 80 aircraft for seven different countries. Swissair has just announced its decision in principle to buy 10 of these planes.

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The minister concluded by saying that at the present time more than 300 Airbus have either been ordered, optioned, or made the object of specific notices of intention to purchase on the part of the air transport companies. Le Theule estimated the French industry's share of the total value of this aircraft construction to be 40 percent and stated that this share breaks down to 37 percent for airframes, 27 percent for engines and more than 50 percent for equipment. Comparing these figures with those for the Caravelle program, the minister indicated that the confirmed orders for the Airbus alone already constitute, for the French aviation manufacturing industry, a backlog of orders greater than the total production represented by the entire Caravelle program. The fact is that when concluded, the Airbus program will represent 4 to 5 times the production of the Caravelle program.

#### The Industry Will Meet the Demand

There is concern today with respect to the capacity of the French and European aviation industry to meet the demand. Le Theule declared, however, that this concern is no longer founded on the skepticism of last summer. On the basis of the increase in sales as of the end of 1978, Airbus Industry had already taken--at that time--its decision to increase the rate of production from two planes per month to six by 1983. The successes achieved since the first of the year have caused the schedule to be revised upward. It is not impossible that the rate of six per month will be achieved by 1982 and that the rate of eight to 10 per month will conceivably be necessary beginning in 1983 in order to meet the stated requirements of the air transport companies.

AEROSPATIALE [National Industrial Aerospace Company] should provide for this sharp increase in production by continuing the efforts to increase productivity that it has already initiated. To this end:

1. As a first step, it is preparing all its various divisions and its affiliates to operate at full capacity.
2. It is divesting itself of non-aviation related activities in order to devote its full potential to the tasks that pertain to its vocation.
3. It is making an appeal to all firms in the aviation industry, and in particular to the subcontractors, to participate (some of the subcontractors are being called upon to expand by hiring additional personnel).
4. On the basis of its existing factories, it is subcontracting extensively among regional industrial enterprises, especially those in the Toulouse and Basse-Loire regions.
5. With the aid of the government, it is studying the possibility of entrusting certain types of work to non-aviation related companies that are currently having difficulty in obtaining orders.

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After it has distributed its production in the most rational way throughout the structure of French industry with the aim of effecting the maximum economies, AEROSPATIALE will be able to increase its own work force, if that proves necessary. It should, however, immediately take partial and limited steps to employ highly specialized personnel.

For 1979, the supplementary activities in connection with the Airbus program will amount to between 800,000 and 900,000 additional man-hours, half of which have already been allocated by AEROSPATIALE. When questioned concerning the awarding of subcontracts to Dassault-Breguet, the minister indicated that the government should implement a policy of two-way subcontracting, whereby AEROSPATIALE would cooperate in the Falcon program while Dassault-Breguet cooperates in the Airbus program.

The total of 10,000 persons currently employed in France on the Airbus program will increase to a work force of 16,000 or 17,000 as of 1983. This increase, however, will be obtained basically through transfers rather than through the creation of new jobs.

#### Engines and Equipment

The minister also spoke of the aircraft engine and equipment industry.

On the subject of engines, he said that the participation of SNECMA [National Aircraft Engine Manufacturing Company] in the production of the CF 6 50 can be regarded as successful, inasmuch as it has provided a substantial amount of work for the national company. On the other hand, no market for the CFM 56 turbojet engine has as yet been found. It is not yet known which of the various civilian and military applications of this engine--some of which are currently the subject of negotiation--will be put into practice, or when. "Nevertheless," he declared, "the in-depth analysis made at the time the program was initiated is still valid for the coming decade. Moreover, Airbus Industry plans to launch--within the next few months--a campaign to establish contacts with air transport companies with a view primarily to optimizing the European project for production of a 'medium courier' plane equipped with this engine. This plane will be marketed with a view to putting it into service in 1985.

Turning to the subject of equipment, the minister emphasized that this sector is being structured so as to enable it to attack in sequence the major export markets, and added that it is making an important contribution--under the aegis of Airbus Industry--to the development of the Airbus product.

The French equipment manufacturers must, however, reckon increasingly with their British and German competitors.

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An Industry of the Future

The minister concluded his discourse with the following observations:

"At a time when many economic sectors are experiencing difficulties in every country on earth, it is reassuring to know that the French aeronautical construction industry is the pillar of the European aeronautical construction industry, and that it is doing well.

"As for the long-term prospects, this activity--because of the advanced technology of the equipment it employs--is one of those industries in the developed countries which for some time to come will not have to fear competition from countries where low wages prevail.

"It is an industry that consumes little energy and is economical in its use of raw materials in proportion to the value of the finished product, and it is therefore a good industry for our country to choose for itself in the international redivision of labor.

"From the standpoint of trade, an independent aviation industry enables us to compete today against the virtual monopoly of the United States, and to foresee cooperation--at the end of the current period--with the American aviation industry on an even (and therefore realistic) basis.

"From a more general standpoint, it should be pointed out that the aviation industry represents one of the best examples of tangible European cooperation in the sphere of industrial activities--cooperation that is prepared at the level of the industrialists and eventuates in decisions taken at the level of the concerned governments, which have so far always been successful in finding solutions that offer reciprocal advantages.

"In any event," he concluded, "we must prepare for the future by developing new products that are adapted to tomorrow's needs, and we must experimentally determine the potential market for these products, for success will depend above all on the commercial aspects of this activity. In today's world one must be both inventor and merchant, but first and foremost a merchant."

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COUNTRY SECTION

FRANCE

BRIEFS

TERRORIST KIDNAPING TARGET--Claude Etchegaray, president and director general of Usinor [Steel Mills of Northern and Eastern France], has requested police protection for himself and his family; he fears a kidnaping attempt by the "autonomes" [terrorist group]. [Text] [Paris PARIS MATCH in French 20 Apr 79 p 43]

SOVIET WARNING PREDICTED--Soviet leaders will let Giscard know on his arrival in Moscow at the end of April that they want neither of two things to happen: the rise to power of Marchais and Mitterrand, which would lead to a cold war; or the military integration of Europe, which would lead to war--period. [Text] [Paris PARIS MATCH in French 20 Apr 79 p 43]

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COUNTRY SECTION

SPAIN

EDITORIAL SCORES SINGLE-MINDEDNESS OF POLITICIANS

Madrid CAMBIO 16 in Spanish 25 Mar 79 p 3

[Editorial: "The Ayatollahs of Spain"]

[Text] We are all democrats in this country--with the exception of Don Blas Pinar--but when the moment of truth arises, almost every political leader believes that those who did not vote for his party are imbeciles and that if only the smart ones had voted, he would have won. The socialist, Alfonso Guerra, has been the one who has most explicitly expressed this national antidemocratic sentiment publicly in blaming the Spaniards for the defeat of his party in the recent elections; but, of course, he is not alone in this authoritarian religion which we surely inherited from General Franco. But General Franco in turn inherited it from a rich lode that runs through the national soul.

Since the parties of the left have lost the elections, they have already announced that they will oppose the democratically elected government with their forces in the street and the unions in the factories. A good start. If we win the elections, there are no strikes here, but if we lose them we are going to reach the majority of fools who did not vote for us with strikes and in the street that we are the smart ones and that they cannot govern without us. That is, that we are going to beat the verdict of the polls harder than a rug. And long live democracy.

We must trust that this bravado on the part of Don Santiago Carrillo--which immediately received the support of the socialist union--is no more than that, bravado, and will not lead to fighting in the streets and in the factories against the government to paralyze it altogether and thus usurp the national will expressed on 1 March.

But the paroxysm of the antidemocratic religion finds its best ayatollahs in the leaders of the ultra-Basque Herri Batasuna coalition. Disposed, it seems, not to let themselves be "absorbed by the Western capitalist system," they are determined, as can be deduced from their statements, to convert the Basque country into a permanent battlefield. Convinced that their 150,000 votes are the only ones that count and that the votes

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of the other parties who received the majority among the Basques are not worth anything at all, they plan a political action that may lead from provocation to provocation, to a situation of civil war in the northern part of the country.

If Alexis de Tocqueville were to rise from the grave, he would probably smother himself with a good Basque beret rather than continue to witness the sad spectacle of freedom and democracy being converted into dross by a minority of the enlightened.

The monochromatic government of Mr Suarez is thus threatened by very powerful forces that are going to seek by all means to prevent him from governing in peace. In the field of labor, blood will probably not flow but it may discourage private investment that would thus reduce the unemployment that affects hundreds of thousands of Spanish families. Where blood may indeed flow is in the Basque Country. And here the Suarez government cannot continue to apply the policy of looking on and not doing anything. It will either display a lot of imagination and courage or the ayatollahs of the north on their own will initiate the fourth or fifth Carlist war in less than two centuries.

The government's objective in the Basque question must be to isolate the ultra-Basque enlightened ones and reduce the number of desperate people who have given them their vote out of pure irritation over what they consider the very slow process of autonomy for Euskadi. And in order to achieve that, there is no other way than to conclude a pact with the moderate Basques for broad autonomy; without niggardliness and without fear. "Without giving in to blackmail, but also without giving in to the logic of a centralist state, which has always worked poorly in Spain and which it is already time to transform from top to bottom. The French model of centralist state never did do well in these parts, and there should be no fear at all of transforming it. That is the great national task today, the only one that can establish the bases so that peace with firmness can flourish here, and for several generations.

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COUNTRY SECTION:

SPAIN

ORT, PTE TO FORM UNITED PARTY

Madrid CAMBIO 16 in Spanish 25 Mar 79 pp 27, 29

[Text] Wise from experience and realistic, on the morning of 2 March they called one another on the telephone and asked seriously if the hour had not struck. There were no more votes other than those that glowed in the computer and in their hopes. The possibility that the half dozen deputies of the radical left had touched with their hands was vanishing with the light of day. The Spanish Labor Party (PTE) and the Workers Revolutionary Organization (ORT) was inaugurating another 4 years out of the parliament despite getting 350,000 votes.

Parliamentary Aspiration

Which is not bad for the radical left, for a damned left, prescribed and reviled by the established left, for a left that 2 years ago was still illegal, for a PTE that called Eladio Garcia Castro "Ramon Lobato," and a Jose Sanroma who was going from "Intxausti" comrade for life and the ORT.

"The course that awaits us is not at all easy, even as a unified party," admits Sanroma, who almost repeats word for word what Garcia Castro also told CAMBIO 16 about the future of these two parties, both with parliamentary aspirations.

"But there are other arenas of struggle," he adds, "such as the municipal or union areas and other formulas to make our presence in society, such as our organizational capacity as a party and people to face the offensive of the right, where we are going to reveal ourselves as an important political force. Although, of course, our presence in the parliament would have meant precious help for us."

Garcia Castro is also optimistic: "The parties of the right do not have a solution for the crisis of the West, nor do those of the established left offer real alternatives because they are weighed down with many lines of pressures, interests and conservatism. So that in view of what is happening in Europe right now, especially in the Mediterranean area,

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the prospects are enormous." To the point that, according to Sanroma, the future unified party expects to inspire the youth who today let themselves be won over by "pasotism."

What can be called the Spanish Workers Party will be formed early in May after a process of debate within both parties at the different organizational levels until they hold simultaneous special congresses on 28 and 29 April, and finally the unification congress. As a first phase, the leadership of the new party will be collegial in order to eliminate personalities and the susceptibility of the possible predominance of one or the other and to achieve the cohesion and homogenization of the two organizations as soon as possible.

Both Garcia Castro and Sanroma admit that the leaders of both parties are pushing the union but they assert that there is no bossism in this. All questions are going to be debated and it is not a case of trying to insure the future of the leaders. "We had already tried the merger on other occasions. In 1976, we advanced far in that direction although later it did not jell," recalls Garcia Castro. "I believe that we were bound to unify and that there was only a problem of the date. So that, frankly, it was preferable to do it before the municipal elections rather than later, with a view to deriving greater yield from the operation."

Unite in Time

Because the two also agree, in the words of Garcia Castro, "that there are enough points of unity to work within the same party." To demonstrate it, Sanroma stresses the speed with which the joint statement released on Sunday, the 11th, was formulated, "because if the phrasing of the document is weak, on the other hand it has great ideological and political value, even though it may contain specific formulations of each one of the parties, because they are perfectly assumed by the other." They do not discount the fact that some ideological and organizational questions still remain to be resolved, such as the territorial structure of the future party (in the PTE, it is federal), but as Sanroma says, "if we wished to settle all the differences between the two parties, we could not form the party in 1 and a half months. The formation of a unified party will make it possible to create the framework within which to debate and resolve those differences."

Carrillo Is Vexed

This is something, certainly, that has not set well with the secretary general of the Spanish Communist Party (PCE), Santiago Carrillo, who has already hurled his artillery against the still inexistent party, as also has his official organ, MUNDO OBRERO.

Garcia Castro understands it "because Carrillo is the one who likes our union the least." The secretary general of the PTE criticizes the actions of the Eurocommunist because they are contrary to the interests

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of the working class and regrets that he did not win any seat in the parliament to insure the defense of the people's interests there. "But I believe we will also influence the forces of the left from without."

Sanroma believes that the union of the left is important today with the presence of Carrillo and his followers in the PCE. "Fortunately communism is not just some people. Carrillo's words in favor of unity are not confirmed by the facts. He would like us not to exist. But he is way off if he believes he is going to make us disappear from the map."

Bread and Salt

The criticism of Sanroma refers to the silence of the Spanish Communist Party--although the Spanish Socialist Workers Party (PSOE) has also remained silent--which has not expressed itself regarding the proposal to sign a pledge to support the candidates of the left in the best position to obtain mayoral seats. "We know that the pledge would work in its favor inasmuch as the PSOE and the PCE, in line with the results of the general elections, will gain better positions than we, but we want it to be signed. It is the same as always: first they deny us bread and salt and then they ask for our support, because even though we are smaller, we do not cease to be an important force."

And Garcia Castro expects that support of the PSOE and PCE where the candidacies of the ORT and PTE are better placed, "because there will be places where that will be true," and he warns the rest of the left that "the workers will not tolerate anything else."

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COUNTRY SECTION

SPAIN

EDITORIAL ADVISES AGAINST NEGOTIATING WITH ETA

Madrid CAMBIO 16 in Spanish 18 Mar 79 p 3

[Editorial by Juan Tomas de Salas: "Autonomy for the Basques"]

[Text] Once the electoral euphoria passed, the demons of Spain again made their turbulent appearance, murdering a general in Madrid, kidnapping and extorting from a Basque businessman, or robbing in hundreds of kilos. The truce which the barbarians of the armed struggle granted to our recently born democracy last a very short time. Once again it was evident that the consolidation of a regime of freedoms in this land requires as a prior condition the solution of the very grave Basque problem. And every day time is growing shorter.

The basic facts of the problem are simple. A significant portion of the Basque population--a portion that has increased considerably since the 1977 elections--supports a revolutionary and independent solution for the Basque country. Bands of armed guerrillas, which are protected by that part of public opinion, terrorize the rest of the inhabitants of the Basque country and endeavor by every means to aggravate the political and social crisis to the point where it will explode. The strategy for independence and revolution at gunpoint no possibility for success, but it does contain sufficient impact to smash our regime of freedoms to bits.

To ask for the impossible is one way to achieve the holocaust and death itself, but unfortunately it can many more deaths and many more holocausts at the same time. The secession of the Basque country is impossible because in this society there are groups perfectly capable of stopping it well before it happens. But in stopping it the forces set loose would bring about the disappearance of our freedoms for the umpteenth time.

The first fact, therefore, is that Basque independence is impossible. The second fact is that the strategy of Spanish democracy in this year and a half has not only not solved the Basque problem but has allowed it to become considerably aggravated. Tensions in Basque society are deeper than it appeared, and there is no doubt that if the same policy is continued, the only result will be more of the same; more violence, more death, and greater danger for our freedoms.

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The government's police on the Basque matter must therefore be changed quickly. On the subject of violence and barbarousness there can be no concessions; the policy of fighting crime must continue exactly the same or even more forcefully. It is not necessary to change police strategy, but a distinctly stronger effort to find political solutions must be made. The government, the socialists, the communists and the Basques who love liberty without constraints must tackle the problem of the Autonomy Statute with courage and without pettiness. If the Basques do not become autonomous very soon, we will be gambling with freedom in this country.

There is absolutely nothing to come to an agreement with the ETA [Basque Fatherland and Liberty Group] on except perhaps the schedule in the jails where the men of the bombs and the gun should be locked up. But it is necessary to reach reasonable solutions with those autonomists who are capable of choosing freedom, before the holocaust falls upon everyone. President Suarez, who has produced miracles in other areas of domestic life, has failed to date in the Basque question. And there is not too much time left for him or anyone else to continue to fail. Agreement on broad autonomy for the Basques must be reached somehow so that they may solve the grave problems their own society has created by themselves. If an agreement is delayed, no form of autonomy will be enough. If an agreement is reached soon, the Basques will be able to govern themselves at last without threatening all the dreams of freedom and democracy in the rest of the country. It is the government's turn to speak, and it has very little time. So do the Basque moderates, and they also have scant time.

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COUNTRY SECTION

SPAIN

MILITARY REFORM TO INCREASE ARMY'S YOUTHFUL LOOK

Madrid CAMBIO 16 in Spanish 11 Mar 79 p 27

[Article: "Fewer and Younger"]

[Text] The sergeant had explained it to him hundreds of times: "If the three stars are on his sleeve, he is a captain; if they are on the cuff, he is a colonel." But the recruit could not grasp it. So the veteran sergeant seized upon a trick that never failed: "Look, kid, the colonel is the 3-star man who is the older."

Ten years from now the sergeants will have to find other devices for instructing the more dense recruits because there will be colonels of some 40 years of age and brigadier generals some 50 years old.

Everything depends on whether the bill reforming the system of promotions and ranks of the Army succeeds as it is one of the most important points of the military reform begun two years ago by the Ministry of Defense, under Lt Gen Gutierrez Mellado.

The most spectacular consequence of the bill will be the elimination of 6,300 slots for commanders and officers of the Army, which will then have 15,000 of such slots plus 3,000 reserves. The pyramid of positions in the Spanish Army, long too wide at the top, will be narrower; there will be fewer officers, even fewer commanders, and a greatly reduced number of generals. However, time, promotions in the Operational Command Group will be easier, and the time required for serving in each position less.

The Worst Thing Would Be Retirement

Military circles--and those not exactly progressive--expressed satisfaction to CAMBIO 16 over the bill, which still requires the approval of the Superior Council of the Army, the government, and finally parliament.

"It is well planned," they said, "because it will not cut anyone's career short." One colonel confided to this magazine that "at this point, after having given the best part of my life to the Army, they couldn't do worse than to retire me, even at full salary."

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Azana sent many military men home with full salary, and his shadow still spreads over any attempt to change the personnel structure of the armed forces. But reliable sources assured CAMBIO 16 that there will be no retirement law, which many feared. "All the rights that have been won will be respected, and each one will retire in due time and with the pension due him.

Thus, if the reform suffers from anything, it is from timidity and sluggishness, according to the experts.

"Seen from a certain perspective, the promotion reform does not seem to be very ambitious. It will take ten years before its effects will really be felt in the Army. The reform itself will not start until 1983; meanwhile, it appears that the Academy graduating classes will be lumped together so that by that date, with rare exceptions, the members of each class will occupy the same positions. In other words, when the reform begins, everyone will have the same opportunity. And after that, 20 years of adjustment--much too long. If we enter NATO, this reform will have to be accelerated."

In the majority of commands, the pace of the reform appears to be adequate, especially at the higher ranks. "Remember that countries like France or Italy took about ten years after World War II to rejuvenate their officer corps. Here, the inflation of officers goes back to the end of the Civil War. It is a difficult task, and it has to be done with tact."

Steps Still To Be Taken

"In addition, you must realize that this could mean the removal of Gutierrez Mellado as minister because there will be no room for him in the next Cabinet, no matter who forms it," CAMBIO 16 was assured both by military circles --who are convinced that the new minister of defense will be a civilian--and by political parties.

The task of Gutierrez Mellado will thus terminate with the reduction of officers and the rejuvenation of the Army, "which only a comrade could do," in the words of one affable general.

There are still many things to finish yet, such as the Defense Organization Law, the Military Service Law, and the reform of military justice in the legal field, and, in operations and administration, the new territorial structure for both units and captains general.

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COUNTRY SECTION

SPAIN

BRIEFS

MARTIN VILLA ATTEMPT TO MEET WITH ETA--Rodolfo Martin Villa, minister of interior, was in Geneva, Switzerland, last summer incognito to meet with politico-military representatives of the ETA [Basque Fatherland and Liberty Group]. The interview was not held because Martin Villa did not receive sufficient guarantees that the meeting would take place in secret. [Text] [Madrid CAMBIO 16 in Spanish 18 Mar 79 p 5] 9015

GREATER UCD DISCIPLINE--The UCD [Democratic Center Union] deputies will not have the same freedom of movement as they did in the previous legislature. In addition to signing a letter of resignation in advance, in order to avoid Lasuen-type temptations to go over to the mixed group, UCD deputies will find that absences from chamber sessions and committee meetings will cost them heavy fines. Moreover, the deputy's entire salary must be turned over to the party once sessions begin. [Text] [Madrid CAMBIO 16 in Spanish 18 Mar 79 p 5] 9015

URANIUM EXPLORATION--During the next few weeks uranium prospecting will begin in 5,000 square km of the Vich area and another 3,000 km around Villanueva de la Serena. The Spanish Government, Natural Resources Promotion (Bank of Bilbao) and the American Chevron firm are in charge of this project. [Text] [Madrid CAMBIO 16 in Spanish 11 Mar 79 p 7] 9015

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COUNTRY SECTION

SWEDEN

'IMPORTED' INFLATION THREATENS WAGE PACT

Stockholm VECKANS AFFÄRER in Swedish 29 Mar 79 p 5

[Excerpt] The Swedish inflation rate, i.e. the rate that has developed during the first 2 months of the year, must be halved if the wage agreement is to hold. It is primarily an imported inflation that we are getting here. And the government cannot do anything about that.

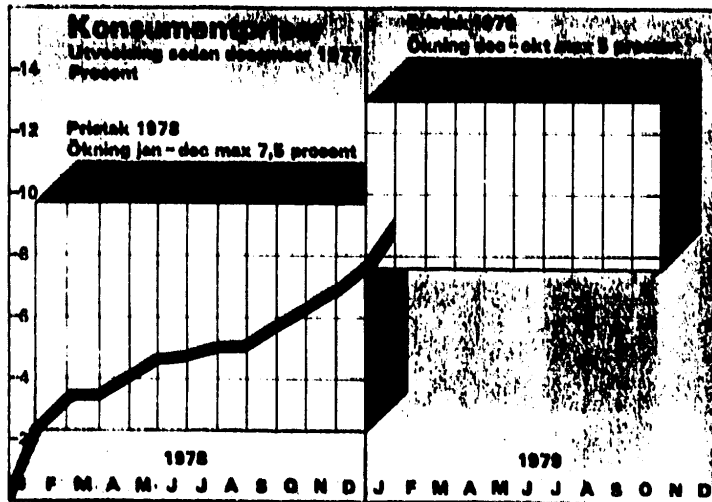
In January the SCB's [Central Statistical Office] consumer price index rose by 0.7 percent. That figure could be explained away by the fact that prices always rise more than usual during the first month of the year. But in February the increase was 0.8 percent. If inflation continues at that rate, we shall break through the year's price ceiling no later than July. And then the guarantee rule in the wage agreement will be invoked.

Now perhaps it can be said that the price increase in February, too, is normally higher than the average for the year. But it would have seemed safer with a lower figure. During the first 2 months of the year prices have already climbed 1.5 percent. That means that the increase must not be higher than 3.5 percent during the 8 months up to and including October. In other words, the inflation rate must be halved.

Even if we can hold back homemade inflation, the trend abroad is disturbing. The increased prices on oil and other raw materials will work their way into the consumer sector. The table [not reproduced here] shows the development of consumer prices both over the last 12-month period and over the last 3-month period, expressed as an annual rate. The last month is December for Italy, January for the United States, France, Canada, Austria, Denmark, the Netherlands, and Norway, and February for the other countries (percent).

Sweden's position has rapidly improved. In February of last year we topped the list with a price increase of 14.1 percent over 12 months. This year we are below the middle with an increase of only 5.6 percent. But if the last 3 months' inflation rate continues for the whole year the position will worsen and the price rise will be 8.7 percent--and the wage agreement will be broken.

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Consumer Prices. Variation since December 1977. Vertical scale: Percent. Left: 1978 price ceiling: Maximum increase from January to December 7.5 percent. Right: 1979 price ceiling: Maximum increase from December to October 5 percent

There is a risk that the year's price ceiling will be broken through no later than the summer. But if that is due to deterioration of the terms of trade, the wage-earners cannot get compensation by revising the agreement upward.

However, it is not only Sweden that has experienced a rising rate of inflation this winter. It is hardly a surprise that England's figures are on the way up again. But in Switzerland consumer prices rose 1.1 percent in February, the highest figure since 1974. And in the FRG the rise was 1.1 percent in January and 0.6 percent in February, corresponding to more than 10 percent as an annual rate.

These figures do not mean that inflation has now broken loose in Switzerland and the FRG as well. Those countries will continue to have the slowest inflation rate in the industrial world.

But the figures are one example among many that show that the international inflation rate is again on the way up. World market prices, not only for crude oil and petroleum products but also for a great many other commodities, are climbing this year considerably faster than they have in recent years.

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This leads to higher import prices and higher consumer prices in Sweden. But if we cannot at the same time raise Swedish export prices to the same extent--as in all probability we cannot--we cannot compensate for the price rises through higher wages. The increased import prices will lead to a transfer of income from Sweden to the world around us.

The government cannot do much to counteract this worsening of terms of trade--when import prices rise more rapidly than export prices--except to change the rate of exchange.

The guarantee rule in the wage agreement should have contained an act of God clause that would make an exception of the effect of great changes in world market prices. It can hardly be meaningful to seek compensation in the wage agreement for an inflation that is caused by the OPEC states' price increases.

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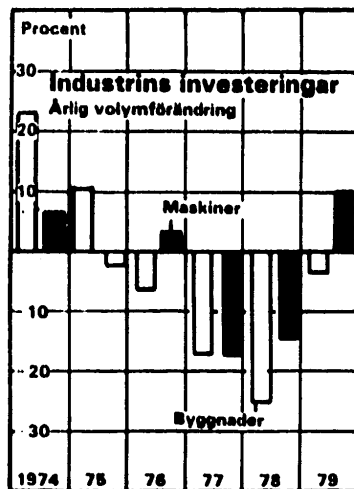
COUNTRY SECTION

SWEDEN

STATISTICS OFFICE SEES INVESTMENTS INCREASE

Stockholm VECKANS AFFÄRER in Swedish 29 Mar 79 p 6

[Text] Industry's willingness to invest is increasing as the market improves. In the preliminary national budget in January the KI [Market Institute] allowed for an increase in investments for industry by volume in 1979 of only 3 percent. It was broken down into a decline of 11 percent in buildings and an increase of 8 percent in machinery.



Industrial Investments. Annual change in volume, in percent.  
Above: Machinery  
Below: Buildings

But according to SCB's [Central Statistical Office] interpretation of the investment survey in February, investments in machinery are increasing by a good 10 percent and investments in buildings are decreasing by only a few percentage points. Overall there is an increase of about 6 percent.

The figures are really not much to boast of. Investments in buildings are decreasing for the fourth year in a row. And in 2 years investments in machinery have decreased by 30 percent, so that it will be a while before we get back to the 1976 level.

Under more normal conditions a 10 percent increase in investments in machinery would be considered quite a lot so early in the market upswing. The utilization of industrial capacity is still very low --almost normal for the bottom of a low market.

But the capacity measure may not mean very much after the investment slump of recent years.

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There are certainly many investment plans that have been postponed and are being brought out again now that the market picture is getting brighter.

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COUNTRY SECTION

SWEDEN

BRIEFS

CONTINUED TRADE SURPLUS--According to the Market Institute, the value of Swedish exports this year will be a good 110 billion kronor. But according to the export firms themselves it will be 112 billion kronor. That is the result of SCB's [Central Statistical Office] export survey in February. At that time the firms revised their plans upward once more--this time by 3 percent over the survey in November. But it is certainly optimistic to compare the export and import surveys and get a trade surplus for the first half of the year of 5.7 billion kronor. The surplus for January and February only came to 0.3 billion kronor. [Text] [Stockholm VECKANS AFFÄRER in Swedish 29 Mar p 6] 8815

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END

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