



Directorate of Intelligence

MASTER FILE COPY

~~Secret~~



25X1

**DO NOT GIVE OUT
OR MARK ON**



European Review



25X1

16 January 1985

~~Secret~~

003

EUR ER 85-002
16 January 1985

Copy

451

Page Denied



25X1

European Review

25X1

16 January 1985

		<i>Page</i>	
Briefs	France-Morocco: Changes in Civilian Assistance	1	25X1
	Austria: Sights on Silicon Valley	1	25X1
	Turkey: Cabinet Reshuffle	2	25X1
	Turkey-Canada: Possible Nuclear Reactor Purchase	2	25X1
Articles	Belgium: Elections, Missiles, and US Visits	3	25X1
			25X1
	Backsliding on INF by leaders of his own Flemish Social Christian Party has embarrassed Prime Minister Wilfried Martens. He probably hopes his visit to the United States will help overcome his party's growing fears about the electoral impact of initial missile deployments. Martens's major problems on INF, however, are due to domestic factors not readily amenable to influence by Belgium's allies, and he will have to take considerable political risks to overcome them. If these considerations induce the Cabinet to delay deployments from March until after new elections, the risks facing INF deployments will multiply.		25X1
	France: Can the National Front Make a Difference?	7	25X1
			25X1
	A string of local election victories, capped by a stunning success in the Europarlament balloting last summer, have propelled Jean-Marie Le Pen and his rightwing National Front (FN) party into the center of the French political arena. Already a force to be reckoned with, and, if successful in forthcoming regional and national legislative elections, Le Pen would almost certainly be in a position to influence the right's legislative program for 1986, when conservatives are likely to regain control of the National Assembly. This may give the extreme right a powerful (perhaps a ministerial) voice in conservative ranks, as the right makes its run at the presidency in 1988.		25X1

Secret

[Redacted]

25X1

Western Europe: Big Four Forecast for 1985

[Redacted]

11

25X1
25X1

GNP growth in West Germany, France, the United Kingdom, and Italy is expected by most forecasters to average 2.4 percent in 1985, up only slightly from last year's estimated pace of 2.1 percent. The slight acceleration in growth will almost certainly be too small to keep jobless rates from rising, but inflation appears likely to bottom out. A significant slowdown in US economic activity or a dramatic fall in the dollar would worsen the growth

[Redacted]

25X1

Economic News in Brief

15

Some articles are preliminary views of a subject or speculative, but the contents normally will be coordinated as appropriate with other offices within CIA. Occasionally an article will represent the views of a single analyst; these items will be designated as uncoordinated views.

[Redacted]

25X1

Secret

Secret

25X1

Briefs**France-Morocco****Changes in Civilian Assistance**

25X1

Paris is continuing to reduce its presence in Morocco, probably in an effort to create a more visible balance with similar commitments in other Maghrebian states. During a mid-December visit to Rabat, French Cooperation Minister Nucci and Moroccan officials decided to implement a cooperation accord negotiated last summer, according to the US Embassy. French officials have stressed that the value of civilian assistance will remain unchanged, but that the new agreement will reduce the number of French volunteers in Morocco from 4,000 to 2,000.

25X1

The reduction—the latest in a series that began with the Socialist victory in 1981—reflects an overall decrease in France's civilian cooperation budget, which deals mainly with personnel. In this case, Paris may also be sending a political message by making a show of balancing aid to Morocco with that given to Algeria, Tunisia, and Mauritania. Since 1981, France has cut economic aid to Morocco sharply; military assistance and sales to Rabat also have declined from \$155 million in 1981 to about \$83 million in 1983. Although similar civilian and military commitments to Algiers, Tunis, and Nouakchott have increased slightly in the same period, they remain at lower levels.

25X1

Austria**Sights on Silicon Valley**

25X1

The Austrian Government is helping set up technology parks and venture capital funds to aid entrepreneurs in starting small, high-technology businesses. Vienna's approach is to create complexes with easy access to universities and other research centers where new businesses can share clerical help and lab space. The technology parks will have staffs on hand to provide business advice and help entrepreneurs make contacts. The first new venture capital funds will start this month with mostly private funding. The first technology park will be in business in Vienna in about a year with future centers slated for Salzburg, Linz, and Graz. The parks will be government funded at first but eventually are to be self-sufficient.

25X1

For government and business to cooperate in seeking out new firms rather than supporting dying industries is an important step toward maintaining Austrian competitiveness. Vienna, impressed by the success of areas like Silicon Valley, is concerned that its industry is lagging in a number of high-technology fields and in innovation generally. As in West Germany, key features of Austria's economy work against innovation: a large government role; a preponderance of heavy, traditional industry; risk-averse businessmen and bankers; and lack of interchange between research universities and business.

25X1

Secret

Turkey

Cabinet Reshuffle [redacted]

25X1

A minor reshuffle in the Cabinet of Prime Minister Turgut Ozal may have implications for the stability of his government and the cohesiveness of his Motherland Party (ANAP). On 5 January, Ismail Ozdaglar, State Minister for Energy and longtime friend and supporter of Ozal, resigned under accusation of misuse of his office. The controversial Minister of Energy, Cemal Buyukbas, was demoted to replace Ozdaglar, and Minister of State Sudi Turel succeeded Buyukbas. [redacted]

25X1

The Ozdaglar shakeup follows a Cabinet reshuffle in October that involved a smuggling and bribery scandal, which resulted in the resignation of the Minister of the Interior and the dismissal of the Minister of Finance. In both "minicrises," the accusers and the alleged wrongdoers were on the opposite sides of a divide within ANAP between the former members or sympathizers of two banned rightwing parties now struggling for influence: the Islamic fundamentalist National Salvation Party and the ultrarightist Nationalist Action Party. The two groups have been quick to use the scandals to their political advantage, with resultant damage to party unity. Although the Ozdaglar incident, like the October Cabinet changes, is unlikely to pose a direct threat to the stability of the government, both events probably have weakened Ozal; formerly concealed party infighting has surfaced, reinforcing perceptions in the public and parliament that the Prime Minister's hold over ANAP is slipping and that his cadre is corrupt. [redacted]

25X1

Turkey-Canada

Possible Nuclear Reactor Purchase [redacted]

25X1

Turkey soon may announce a decision to build its first nuclear power reactor on a joint-venture basis with the Canadian firm AECL, according to the US Embassy in Ankara. The proposed plant is a 665-megawatt natural uranium/heavy water reactor to be built on the Mediterranean coast at Akkuyu at a cost of about \$1.5 billion. The Canadians apparently have agreed to build the plant on a direct investment basis. AECL will recover its capital through electricity sales over 15 years, when the facility will be turned over to Turkey. The reported decision would end speculation over which firm would be awarded the contract since the outgoing military government in 1983 issued letters of intent for three nuclear power reactors to General Electric, the West German Kraftwerk Union, and AECL.

[redacted]

25X1

Proponents—who include the military—claim the deal will save Ankara needed foreign exchange and help overcome an electricity shortfall forecast for the 1990s. The World Bank and some Turkish officials oppose the nuclear power program and support thermal and hydroelectric power as a less costly, more efficient alternative. [redacted]

[redacted]

25X1

Secret

Articles

Belgium: Elections, Missiles, and
US Visits [redacted]

25X1

Backsliding on INF by leaders of his own Flemish Social Christian Party has embarrassed Prime Minister Wilfried Martens. He probably hopes his visit to the United States will help overcome his party's growing fears about the electoral impact of initial missile deployments. Martens's major problems on INF, however, are due to domestic factors not readily amenable to influence by Belgium's allies, and he will have to take considerable political risks to overcome them. If these considerations induce the Cabinet to delay deployments from March until after new elections, the risks facing INF will multiply.

[redacted]

The Looming Crisis—and Elections

Leaders of Martens's Flemish Social Christian Party, Belgium's largest single party and the linchpin of most postwar coalition governments, have been worried about the potential electoral impact of a "promissile" stand since the NATO dual-track INF decision in December 1979. They have often told US officials that the influence of both Catholic "peace groups" and the long antimilitary tradition in Flanders makes support for INF risky. Polls consistently show a majority of Belgians oppose INF, especially since the opposition Flemish Socialists and the Volksunie (a hardline Flemish nationalist party) have used the deployment issue to cut into Flemish Social Christian strength among younger voters. Social Christian nervousness came to a head in November when party leaders, apparently with little warning to pro-INF ministers, recommended that initial deployment in March be postponed pending the meeting between Secretary Shultz and Soviet Foreign Minister Gromyko and new US-Soviet arms control talks that could result from the meeting. Martens did not help his own cause when he said in a television interview last June that Social Christian losses in the

Europarlament election were in part caused by support for deployment. [redacted]

25X1

The Flemish Social Christian policy statement, while not binding on the government, undercut the carefully constructed deployment strategy that Martens and Foreign Minister Tindemans have been pursuing. Essentially, the Belgians have gone ahead with technical preparations at the Florennes base site while withholding a "final" decision to deploy—both actions designed to minimize negative public reaction. Martens had, furthermore, hoped to separate elections from missile deployment by proceeding with initial basing in March and holding elections late in 1985—by law they must be held by December—thus providing time for the missile issue to recede from voters' attention. [redacted]

25X1

25X1

Such a strategy, while theoretically sound, makes INF hostage to contentious regional or economic issues that can quickly split coalition cabinets. Although no immediate issue threatens the government, we believe Flemish Social Christian leaders have become convinced that Martens cannot hold the Social Christian-Liberal combination together long enough to separate initial deployment from elections.¹ In private, Social Christian party

¹ One of the issues that may cause the toppling of the government is the so-called Happart affair. The Belgian Council of State is soon to rule on whether or not Jose Happart, the elected mayor of a francophone municipality in the Flemish province of Limburg, may stay in office. Regional authorities have tried to deny him the position on grounds that he does not speak Dutch—applying a law transparently designed to prevent Walloons (French speakers) from obtaining elected office. No matter what the ruling, the Social Christians may be convinced that the issue is too contentious to be glossed over, as Martens hopes to do. [redacted]

25X1

Secret

chairman Swaelen confirmed to US officials that arms control had less to do with his party's stand than fear of the electoral impact should March deployment come anywhere near elections. As long as Social Christian leaders are convinced that elections are imminent, they are unlikely to accept March INF deployments—NATO plans notwithstanding.

Winning Elections and Deploying Missiles: Whistling Past the Graveyard?

Angry remonstrances by the Liberal members of the governing coalition that the Flemish Social Christians had reneged on a NATO commitment as well as with pressure from Belgium's allies induced Martens to produce a carefully worded (and typically vague) government statement on INF that reaffirmed Belgium's commitment to the dual-track decision. According to the statement, Belgium will review arms control prospects sometime in the first quarter of 1985 and make decisions on INF accordingly; the Prime Minister's visit to Washington probably will have a major impact on the review.

While Martens was buying time, Social Christian politicians were trying to reassure Belgium's allies that everything would work out. US officials were told that INF could move forward after elections, in which presumably the Social Christians and Liberals would renew their current parliamentary majority. Contradicting his own implicit assurances, however, party chairman Swaelen admitted that the parties in power were likely to lose votes over domestic issues, regardless of INF's role in the campaign.

Swaelen's proposed strategy contains what we see as the fundamental danger in Social Christian thinking on INF. He assumes that a center-right majority government will be reelected and will push through eventual INF deployment. In fact, polls show that the Social Christians would lose ground both in Flanders and Wallonia, endangering prospects for a renewed Social Christian-Liberal majority.

We are also skeptical of arguments that a positive deployment decision requires a new mandate from the voters. Unlike the situation in the Netherlands, where a bloc of dissident Christian Democrats makes

parliamentary approval of INF chancy whatever the government's position, we believe the Belgian parliament would approve deployment if given a strong lead by the government; it is political will at the top that is lacking in Brussels.

What the Polls Portend

Worrisome for INF is the fact that the beneficiaries of Flemish Social Christian losses are likely to be the Flemish Socialists, strident opponents of deployment. Thus a postelection coalition that included Flemish Socialists would probably be the death knell for INF in Belgium.

If a new government included only Walloon Socialists—Belgium's major opposition party—it might move ahead with INF. Walloon Socialist leaders, including party chairman Guy Spitaels, have told US officials that they do not believe most francophone voters care about defense issues. Unlike their Flemish sister party, the Walloons would not exclude themselves from a government coalition solely because it supported INF. We believe Walloon Socialist leaders have always assumed, however, that a deployment decision would be made by the Social Christians and Liberals and that they would simply accept a pledge already made to NATO. The prospect of actively accepting responsibility for a positive INF decision is another matter; following the Flemish Social Christian statement on INF, Spitaels warned US officials that he might be forced to take a more anti-INF posture, especially if elections are in the offing.

Election Scenarios

We believe INF will be at risk if deployment has not begun before elections, whether the voting takes place in the spring or late fall. A self-fulfilling prophecy by the Flemish Social Christians that early elections are inevitable is likely to paralyze Belgian decisionmaking at all levels, as party leaders become less interested in governing and more interested in looking for electorally appealing issues.²

² Some cynical Social Christians apparently contemplate "playing the papal card" in elections. Party officials have told Embassy officers that they might try to hold off elections until after the Pope visits Belgium in May, in the hope that an upsurge of religious fervor will help the Catholic political parties.

25X1

25X1

25X1

25X1

25X1
25X1

25X1

25X1

25X1

Secret

The Flemish Social Christian leaders may have reason to believe that their prospects are better in early elections, but we believe that, based on available indicators, they risk losses whenever the election is called. Furthermore, we believe that any hope they might have that equivocation on INF will remove the issue from the Flemish Socialist arsenal is unlikely to be realized. As long as the Social Christians remain willing to accept INF eventually—the position of Martens, Tindemans, and the majority of Social Christians—we expect the Socialists to use the issue against them. In addition, Social Christian leaders, especially those from the trade union-oriented left wing, might be tempted to use anti-INF rhetoric that would make it hard to proceed with a deployment decision after elections. On the other hand, if the Flemish Social Christians seem to backtrack on a NATO pledge, they risk losing votes to the Liberals.

[redacted]

25X1

The recent waffling on INF, in our view, reflects less a rational calculation of electoral trends than long-brewing nervousness about INF and more recent panic that a government crisis brought about by domestic issues will coincide with the beginnings of deployment. If Martens and Tindemans are to turn around their frightened party colleagues, they will have to convince Flemish Social Christians that the risks of equivocation are worse than those of remaining firm on the missile issue. Maintaining the support of Martens's Liberal coalition partners for deployment will be essential to offset anti-INF pressure from leftwing parties. While the Flemish Liberals have to some extent been influenced by concern for Flemish antinuclear sentiment, we believe an apparent abdication by the Social Christians of a NATO obligation would induce the Liberals to threaten use of the issue in preelection posturing, and, if necessary, in the campaign itself. Liberal support for deployment will be essential at all stages of the INF debate, whether the Social Christians and Liberals have a parliamentary majority or not. Otherwise, INF is likely to be put off indefinitely or bargained away in Belgian domestic deals. [redacted]

25X1

[redacted]

25X1

France: Can the National Front Make a Difference?

25X1

A string of local election victories, capped by a stunning success in the Europarliament balloting last summer, have propelled Jean-Marie Le Pen and his rightwing National Front (FN) party into the center of the French political arena. The FN's success in the June contests—almost 11 percent of the vote and 10 seats in the Strasbourg Parliament—is testimony to the malaise that has overtaken French political life; Le Pen's message—a combination of anti-immigrant xenophobia, law-and-order chest beating, and old-fashioned red baiting—strikes a responsive chord in many Frenchmen who are fed up with rising unemployment, diminished purchasing power, and the country's perceived economic decline. Recent election victories have already made the National Front a force to be reckoned with, and, if successful in forthcoming regional and national legislative elections, Le Pen would almost certainly be in a position to influence the right's legislative program for 1986, when conservatives ¹ are likely to regain control of the National Assembly. This may give the extreme right a powerful (perhaps a ministerial) voice in conservative ranks, as the right makes its run at the presidency in 1988.

The Le Pen Phenomenon

Although Le Pen's political prominence is quite recent, he has, in fact, been a fixture on the rightist fringe for nearly 30 years. He got his political start in the *poujadist* ² protest against almost everything modern in the 1950s. By the time he entered the National Assembly in 1956, Le Pen was already a veteran of the rough-and-tumble rightist youth groups

¹ Parties of the Giscardian center-right coalition called the Union for French Democracy (UDF) and the Neo-Gaullist Rally for the Republic (RPR).

² Rightwing rabble-rouser Pierre Poujade stirred a nationwide protest against government attempts to defeat tax evasion. His followers, mostly self-employed shopkeepers and farmers, also despised big industry and big unions, both of which they held responsible for rising workers' salaries. Poujade's 3 million voters sent several representatives to the National Assembly in 1956, among them Jean-Marie Le Pen.



A veteran of numerous street brawls with the police, Le Pen lost an eye in one such fracas during university days

25X1

of the universities. During the 1950s, he developed a political world view that combined reverence for France's vanishing colonial grandeur, hatred of the left (especially homegrown Communists), and vocal admiration for German National Socialism, which, according to press reports, he continues to characterize as a "purely popular and democratic mass movement." ³

25X1

Le Pen founded the National Front in 1972. For most of the next decade, it functioned as a haven for conservatives hostile to what many saw as a tendency

25X1

³ Le Pen, who is an orphaned son of a naval officer, served in the Foreign Legion and later became a millionaire. Two events rescued Le Pen from obscurity: a windfall inheritance from wealthy businessman Hubert Lambert and notoriety from a 1971 court battle over his distribution of a record album commemorating "The Third Reich: Voices and Songs of the German Revolution."

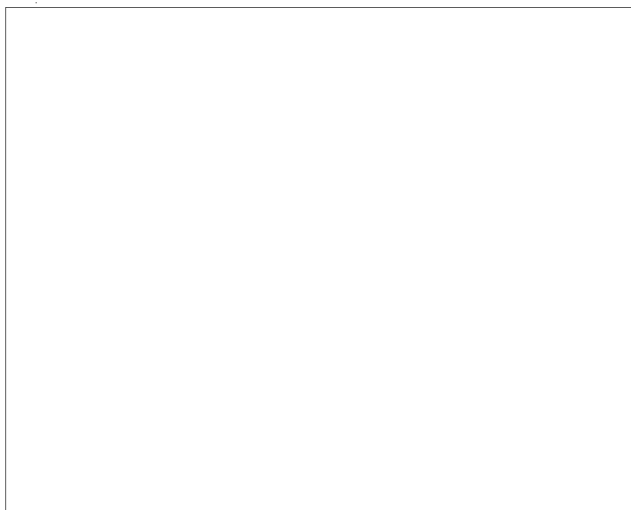
25X1

25X1

25X1

Secret

25X6



of then President Giscard, a moderate, to placate and compromise with the left both at home and abroad. According to Embassy and press accounts, however, Le Pen's star began its spectacular rise only with the advent of Socialist government in 1981. The movement's appeal has increased as popular unhappiness with of Mitterrand has deepened.⁴ The National Front has demonstrated surprising ability to capitalize on blue-collar discontent with rising unemployment and crime. The most astonishing evidence of this came in the 1983 municipal elections when Le Pen and his party won control of the district council in the longtime Communist bastion of Paris's 20th *arrondissement*. [redacted]

The FN stands for God, country, and tradition, and it attempts to conjure up remembrances of a happier, more orderly past—before, as Le Pen puts it, France is “ruined by the left and its lackeys on the center-right.” Le Pen's vision of this past is a decidedly white one—before the hordes of black and brown immigrants descended on France from the disintegrating empire—with just a faint touch of the old *poujadist* ideal of a nation of small shopkeepers. Occasionally, he also stirs in a thinly veiled anti-Semitism. Although Le Pen most often lambastes the left in his speeches and interviews, he frequently reserves his most vitriolic criticisms for the Gaullist

⁴ A recent book, *L'effet Le Pen* by Edwy Plenel and Alian Rollat, argues that the FN is almost entirely an expression of this national malaise. [redacted]

RPR and the Giscardian UDF, accusing them of ideological mushiness and accommodation with the left. Instead, Le Pen argues, the right ought to stand for something. Prominent among the FN's favorite themes are:

- “France and the French first,” which means reversing the flow of immigrants into France as quickly as possible.
- Restoration of law and order (sometimes tied to Le Pen's anti-immigrant message, implying a relationship between rising immigration and increasing violent crime) by tougher police methods and, above all, reintroduction of the death penalty.
- Abolishing abortion, which would put an end to “genocide of French babies.” Le Pen often attacks former Health Minister Simone Veil for having engineered passage of France's liberal abortion law.
- Stiffened opposition to Moscow and especially to its “stooges” in France. Le Pen has been quoted as saying he prefers an “RPR idiot” to “an intelligent Communist,” and he defends his movement against the charge of fascism by arguing that the only SS France has to fear are Moscow's SS-20s. [redacted]

The FN has refined these themes through a decade of campaigning. According to Embassy and press reports, the feisty, often inspiring Le Pen has turned them into a well-honed script for his increasing public and television appearances. His histrionics have gained him a reputation for showmanship and media presence; when he recently appeared on the popular “Hour of Truth” interview program, for example, he attracted a record audience [redacted]

Le Pen at the Polls

Since 1983 the National Front has had a succession of surprising and, to some, alarming victories at the polls. In the first nationwide municipal contests after the Socialists took office, when the opposition as a whole capitalized on antiausterity disaffection with Mitterrand, the FN scored some impressive upsets,

25X1

25X1

25X1

25X1

Secret



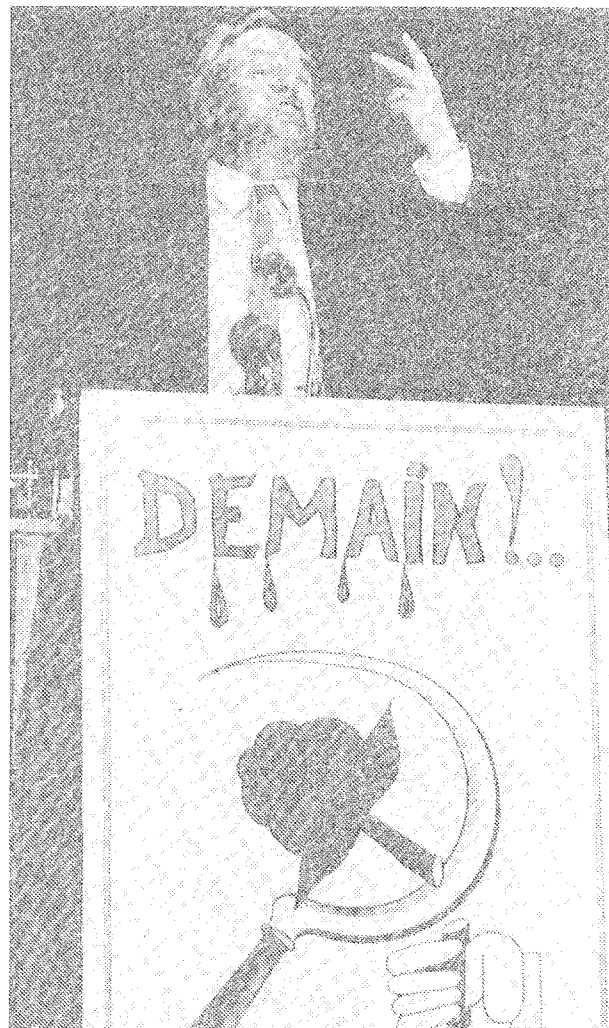
"Rest assured, they're a minority." [redacted]

especially in working-class districts where immigrant concentrations and unemployment were highest. Le Pen's candidates even won in some Communist neighborhoods of the "Red Belt" around Paris. The FN subsequently demonstrated that it could attract more than a fringe element with local victories in geographically separate and diverse constituencies, where it garnered from 9 to 17 percent of the vote. Between the first and second rounds of the Dreux contest, the left and even some center-right politicians mounted a vigorous but unsuccessful anti-FN campaign. More important, leaders of the RPR, who at first spurned suggestions of an alliance with Le Pen, agreed to merge with the National Front in the second round to ensure that they held on to their massive first-round advantage. [redacted]

Le Pen and colleagues registered their greatest triumph, however, in the balloting last summer for the Europarliament when National Front candidates won 11 percent nationwide. US diplomats reported that local observers were "shocked" by Le Pen's victory. Scoring over 20 percent in many cities and one region, the FN broke the 10-percent level in over a score of departments, many of them leftist bastions of the north and southeast. These victories underscored the Front's national strength, when compared with the more moderate right's poorer-than-expected showing, and they also demonstrated that the UDF and RPR need Le Pen's FN to cross the 50-percent barrier. [redacted]

Who Votes for Le Pen and Why?

Numerous polls and various postelection analyses have shown that Le Pen's appeal is broad, but greatest



As in many of his speeches, the slogan of Le Pen's lectern promises "TOMORROW!" The symbolism of the Communist sickle and the socialist rose, meanwhile, expresses an FN hope—that the Socialists will be discredited by their alliance with treacherous Communists. [redacted]

among white-collar workers, small businessmen, and professionals (20 to 22 percent). Students, retirees, and blue-collar workers are least likely to vote FN—of the three, the blue-collar workers score 10.5 percent, probably reflecting fears of losing their jobs to immigrants. Not surprisingly, the Front gets most of its new voters from the traditional right. In exit

Secret

polls conducted after the June balloting, 69 percent of Le Pen's voters said they had voted for Giscard in the 1981 presidential runoff round; 27 percent had voted for Mitterrand. These same surveys show clearly that Le Pen succeeds best among voters concerned about unemployment and fear of immigrants. Thirty-eight percent of FN supporters respond to Le Pen's rhetoric on the immigrant "problem"; fewer are stirred by his stand on crime and private schools.⁵ [redacted]

Le Pen and the Right's Agenda

Despite indications from polling that much of Le Pen's support is "soft," the FN will probably continue to register some 10 percent of the vote in any national contest and substantially higher in some local elections, at least for the next couple of years.

According to a wide variety of press and Embassy reports, the national malaise that supplies Le Pen with growing audiences continues to deepen. Opposition Gaullists, meanwhile, seem ready to form successful local alliances with the Front—as in recent provincial voting in Corsica. Even centrist and presidential hopeful Raymond Barre, while ruling out "cohabitation" with Mitterrand after 1986, has met with Le Pen.⁶ [redacted]

Although Le Pen has shown a surprising ability to loot voters from the left's constituencies, he almost certainly represents a greater threat to the traditional right, and especially to Gaullist leader Jacques Chirac. Le Pen has vowed publicly to make the right speak to his issues; his racist references to "surplus Africans" and cryptofascist demand for "Lebensraum" in the face of immigration have drawn sharp protests from many on the center-right, including Auschwitz survivor Simone Veil and former President Giscard d'Estaing. Chirac, on the other hand, has tempered his public criticism of Le Pen with local alliances and a recently adopted harsher line on immigration and crime. RPR staffers, meanwhile, have confided to US diplomats that they hope to undercut Le Pen's appeal to conservative Gaullists and even to drain off some FN supporters with these tactics. [redacted]

⁵ Probably the best exit analysis appeared in *Le Point*, 18 June 1984. [redacted]

⁶ Whatever the outcome of the legislative election next year, Mitterrand's term will not expire until 1988. [redacted]

Sounding *plus Le Pen que Le Pen* may shore up hardline support in his own RPR, but Chirac's strategy clearly risks alienating moderates in both the UDF and RPR and could create a serious rupture in conservative ranks. Although some on the right almost certainly hope that Chirac will discredit himself by flirting with extremists, such an accommodation could play into Socialist hands by driving some moderates toward an alliance with the left, which Mitterrand is reportedly eager to engineer. [redacted]

The long-rumored introduction of a proportional voting system for the 1986 legislative election that will benefit small parties, which Mitterrand has promised to unveil this spring, will almost certainly strengthen Le Pen's clout on the right. In the near term, Chirac will probably tread softly in adopting FN positions and will avoid local alliances except where absolutely necessary. Eventually, however, he will come under mounting pressure to attempt an accommodation with Le Pen, which might include the promise of a junior ministry, in order to ensure his hold on the National Assembly in 1986 and to nose out rivals on the right as he goes after the presidency in 1988. [redacted]

[redacted]

25X1

25X1

25X1

25X1

25X1

25X1

25X1

25X1

Secret

Western Europe: Big Four Forecast for 1985 []

25X1

GNP growth in West Germany, France, the United Kingdom, and Italy is expected by most forecasters to average 2.4 percent in 1985, up only slightly from last year's estimated pace of 2.1 percent. The slight acceleration in growth will almost certainly be too small to keep jobless rates from rising, but inflation appears likely to bottom out. A significant slowdown in US economic activity or a dramatic fall in the dollar would worsen the growth forecast. A drop in the dollar, however, probably would be accompanied by lower interest rates, easing the impact of reduced competitiveness. []

Growth Prospects

[] the West European "recovery" is shaping up as the weakest in the postwar period. Growth in consumption, which makes up two-thirds of GNP, will lag because of the small expected increase in the number of jobs and in real aftertax income. Although lower wage hikes should improve West European competitiveness and business profits, the expected slowdown in US and Canadian growth will force West European countries to rely on business investment and trade among themselves and with other countries for economic expansion. []

Unlike past recoveries, Big Four GNP growth probably will receive only a small boost from private consumption. Annual increases in real disposable income in 1984 and 1985 are expected to average only 1.2 percent—2 percentage points lower than the annual average increase in the 1972-80 period, []

To cut budget deficits without crippling investment needed for restructuring, West European governments generally have chosen to shift more of the tax burden from the business sector to the household sector while holding the line on transfer payments. The exception has been the United Kingdom, where 1982 income tax cuts spurred an earlier start to its recovery. Moreover,

Table 1 *Percent*
**Big Four West European Countries:
GNP Growth ^a**

	1980	1981	1982	1983	1984 ^b	1985 ^b
Big Four	1.0	-0.2	0.6	1.1	2.1	2.4
West Germany	1.8	-0.3	-1.1	1.3	2.6	2.7
France	1.1	0.2	2.0	0.7	1.2	2.1
United Kingdom	-2.6	-0.7	2.1	3.4	2.3	2.3
Italy	3.9	0.2	-0.4	-1.2	2.4	2.6

^a OECD Secretariat data.

^b Consensus forecasts []

[] The consensus forecast is calculated as the average of projections by 40 US and foreign private companies and economic institutes.

25X1

25X1

25X1

25X1

25X1

anti-inflationary monetary policies have helped keep interest rates high—West European real rates are about 3 percentage points higher than the average of past recoveries—thereby dampening growth in consumer spending, particularly for housing. On the other hand, high unemployment in the Big Four probably will continue to moderate wage increases. []

25X1

25X1

Investment already is making an important contribution to Big Four growth—a trend that should continue throughout 1985. Cost cutting and rapidly growing export demand have helped revive West European profit margins. Lower inflation rates have brightened the outlook for reduced nominal interest rates, which will cut the cost of financing plant and equipment and make financial assets relatively less attractive as an alternative for capital. Capacity

25X1

Secret

Table 2
Big Four West European Countries:
GNP Forecasts by the OECD Secretariat

	1983	1984	1985
Big Four GNP growth	1.1	2.1	2.6
Private consumption	1.5	1.2	1.4
Government consumption	1.6	1.1	0.6
Gross fixed investment	0.6	3.6	4.0
Public	0.1	1.2	1.3
Private residential	3.7	1.8	1.2
Private nonresidential	-0.1	5.3	5.6
Stockbuilding	-0.1	0.5	0.4
Exports of goods and services	1.5	5.9	5.7
Imports of goods and services	1.5	6.4	4.7

utilization rates have risen substantially since the recovery began, in part because outmoded plants have been closed; if the effects of the West German metalworkers' strike are taken into account, capacity utilization in the European Community was 81 percent in the third quarter of 1984, only 3 percentage points below the 1979 peak. EC surveys show that West European manufacturing executives intended to invest at least 7 percent more in real terms in 1984 than in 1983, which would be the strongest expansion in investment since 1970. According to EC data, industrial investment should increase this year by about 10 percent in real terms in France and the United Kingdom. West German and Italian intentions suggest much less robust industrial investment, with real increases last year of only 2 percent and 1 percent, respectively. [redacted]

Much of the intended increase in investment will continue to be channeled into restructuring traditional industries, according to the EC surveys. French executives last year planned to invest a whopping 75 percent more in real terms in the metallurgical industries, while West German and British metal companies intended to spend at least 15 percent more. Investment in the British textiles, footwear, paper, and plastics industries was slated to rise 20 percent in real terms, while the Italian food processing industry planned to invest 15 percent more in 1984 than in 1983. [redacted]

Table 3
Big Four West European Countries:
Consumer Prices ^a

	1980	1981	1982	1983	1984 ^b	1985 ^b
Big Four	13.1	11.4	9.8	7.2	6.1	5.9
West Germany	5.5	5.9	5.3	3.0	2.7	2.9
France	13.6	13.4	11.8	9.6	7.6	6.8
United Kingdom	18.0	11.9	8.6	4.6	5.3	5.8
Italy	21.2	17.8	16.6	14.6	11.3	10.1

^a OECD Secretariat data.

^b Consensus forecasts

The Big Four countries are expected to continue benefiting from the recovery in world trade. In the first half of 1984, world trade volume expanded 20 percent at an annual rate; US import volume grew a phenomenal 40 percent during the period, accounting for about one-third of the increase. Soft commodity prices and the competitive edge given West European producers by the strong dollar have helped improve business profits and set off the investment surge. The West Europeans expect to continue winning market shares worldwide because of continued strength in the US dollar. Thus, forecasters believe that the foreign trade sector will give the Big Four economies as much, if not more, of a boost in 1985 despite the projected slowdown in US import demand. [redacted]

Inflation

Inflation appears likely to bottom out in 1985, [redacted]. Commodity prices, including that of oil, show few signs of firming up. Indeed, spot oil market prices have been falling in recent weeks, and the financial press has reported speculation on more cuts in official oil prices. Moreover, with moderation in wage hikes [redacted] forecasts Big Four unit labor costs to grow much slower than the annual average for the past 10 years. Last, continued tight monetary and fiscal policies should contain inflationary pressures. [redacted]

Secret

Table 4 *Percent*
Big Four West European Countries:
Unemployment Rates ^a

	1981	1982	1983	1984 ^b	1985 ^b
Big Four	7.5	8.7	9.4	9.8	10.3
West Germany	4.6	6.7	8.2	8.3	8.3
France	7.3	8.0	8.2	9.3	10.6
United Kingdom	9.5	11.0	11.5	11.6	11.8
Italy	8.7	9.1	9.7	10.1	10.5

^a OECD Secretariat data.

^b Forecast.

[Redacted]

Unemployment

The slight increase in Big Four growth projected for next year almost certainly will be insufficient to keep unemployment—Western Europe's most severe economic problem—from rising. Efforts to restructure traditional industries are expected to continue; more layoffs thus can be expected as businesses cut costs by shedding excess capacity and seeking more labor-saving means of production. According to the OECD Secretariat's latest draft forecast, jobless rates in three countries of the Big Four should top 10 percent in 1985; only West Germany is expected to have a chance of holding the line on the unemployment rate. The OECD forecast implies an increase in the number of jobless in the Big Four of 550,000; the largest rise—about 325,000—should occur in France, where nationalized companies are paring their work rolls in line with government directives to operate at a profit.

[Redacted]

Uncertainties in the Forecasts

Forecasters point to several factors that would cause them to reassess their 1985 projections. For example, a fall in oil prices of \$2 to \$5 per barrel would shift growth among countries and industries but would keep the average Big Four growth rate virtually unchanged. As a net oil exporter, the United Kingdom would experience slower growth, while the other three economies would enjoy a somewhat faster expansion. On the other hand, if OPEC countries significantly

cut back their imports—which are weighted toward capital goods—much of Western Europe's gain from lower oil import bills would be offset. [Redacted]

25X1

The US economy poses greater uncertainty for the West European economies. Most projections of US growth in 1985 [Redacted] average of 3.3 percent. Although recent US economic performance has been below expectations, causing some forecasters to hedge, most analysts still seem to think that US import demand will not fall enough to reduce Big Four GNP growth significantly. [Redacted]

25X1

25X1

Future movements in the dollar also could influence West European growth prospects. Most forecasters are assuming a slight fall in the value of the US dollar, but they have been expecting it for more than two years. If the dollar falls, Big Four international competitiveness would deteriorate, thus reducing economic growth. West European governments, however, could take advantage of a weaker dollar to cut interest rates, which would offset some of the effects of lower sales growth at home and abroad.

25X1

[Redacted]

25X1

25X1

Economic News in Brief

Western Europe

West German Economics Minister in Tokyo:

Bangemann's main concern during his visit earlier this month was West Germany's rapidly growing **trade deficit with Japan** . . . he is hopeful that an improvement in US-Japanese trade relations will lower the danger of general US import restrictions . . . Bonn feels vulnerable because its exports to the United States last year were up 46 percent.

25X1

Portugal-IMF: The IMF has granted a waiver on technical grounds for Portugal's overrun of July 1984 limits under its standby program . . . Lisbon exceeded its short-term **foreign debt** ceiling because disbursements to public-sector enterprises were larger than expected . . . The waiver permitted Lisbon to draw previously suspended funds.

25X1

Currency Liberalization in Turkey: Ankara announced that it will now permit the lira to be used in payment for certain exports, as well as allowing trading in gold by the Central Bank . . . **new regulations** reflect Prime Minister Ozal's free market policy goals, which include making the lira fully convertible.

25X1

Eastern Europe

End to Rationing Set in Yugoslavia: Belgrade announced on 26 December that it would soon abolish gasoline rationing and mandatory travel deposits for Yugoslav citizens traveling abroad . . . two years ago authorities introduced these measures **to save scarce foreign currency** needed to service Yugoslavia's \$20 billion debt . . . The move will ease austerity but could aggravate inflation already running at 60 percent—and threaten stabilization outlook.

25X1

Secret



1
1
1
1

1
1
1
1

Secret