Germany, the delegates did not take particular note of the fact that Stoltenberg was fully supported by CDU Federal Chairman Helmut Kohl, who immediately endorsed the proposal for a federal campaign.

The Congress demonstrated that regional party leaders are not mobilizing in coordinated fashion for a public fight to assert economic growth policies against zero-growth attacks. The delegates thoughtlessly applauded both Stoltenberg's endeavors and the human rights propaganda, failing to make the connection that Carter's provocations against the Soviet Union are designed to render peaceful global expansion of economic resources impossible.

Nevertheless, it would be wrong to conclude from the proceedings that support for the Carter policy in the CDU party machine has a firm foundation. It is most revealing that the presentations on foreign policy were made by three academic speakers, who were brought in by Biedenkopf and Carstens to create an environment is which political discussion could not occur, creating an appearance of unified support behind Carter's policies. In sum, the congress demonstrated that the factional battles which led, for example, to Kohl's support for Stoltenberg's proposal, are still occurring, largely in private.

Callaghan Walks Tightrope On Social Contract Negotiations

BRITAIN

Having successfully weathered the recent Parliamentary challenges to his government around Devolution (home rule for Scotland and Wales) and the rationalization of the shipbuilding and aerospace industries, British Prime Minister James Callaghan now faces what could prove to be the most dangerous threat to his government's continuation: the negotiations for a Phase III of the "social contract" between the government and trade unions. Callaghan himself has stressed on numerous occasions that success of the economic strategy is *the* critical issue for judging the success or failure of his govenment, and the government's relation with the trade unions is one of the most critical aspects of this policy.

For the last two years, the Labour government has succeeded in balancing low wage raises across-the-board with the promise of increased industrial investment, and eventual recovery of the economy. Ironically, just as most major economic forecasters, both public and private, are admitting that the government will very likely be able to virtually halve inflation and spark an export-oriented economic recovery by the end of this year, the strict controls of the past two years have caused such unrest within the trade union rank-and-file that the possibility of a third round of wage controls is in serious jeopardy.

At the same time, large sections of industry are complaining about the price controls that have accompanied wage restraint, claiming that it is impossible for industry to recoup costs and make investments in line with the government's strategy. A delegation from the TUC (Trades Union Congress) has already warned the government, however, that continued price controls are one of the rock-bottom demands for continuation of the social contract, since any explosion in prices, especially food, would make it impossible for them to get their members to agree to continued wage depression.

Despite this apparent basic contradiction, negotiation does appear feasible. The stringent controls applied on government spending earlier in the year led to an overestimation of the Public Sector Borrowing Requirement, and Chancellor of the Exchequer Denis Healey has promised that up to £1 billion can be released into the economy in the March budget. Under pressure from both the TUC and the employers' association, the Confederation of British Industry (CBI), Healey has promised some form of tax cuts, although their exact form is not known. In addition, Callaghan made clear that the government is ready to support the reintroduction of differentials between skilled and unskilled workers as part of a third round of wage controls, to complement flat rate increases, as called for by both the CBI and TUC.

However, the negotiations are open to destabilization. The current strike of skilled machinists at the British Leyland Auto Company neatly encapsulates the range of problems the government is facing.

In 1974, the newly created National Enterprise Board took over 95 percent control of British-Leyland, and its chairman, Lord Ryder, drew up a 10 year investment strategy for the company aimed at retooling backward technology (investment per worker as a full one-sixth of that in Ford, U.S.A. and expanding production through increased exports of both auto and heavier vehicles.

As part of the plan, Ryder insisted that £1.5 billion of the £2.5 billion to be invested into the company during that period must come from internal capital generation of the company — a stiff demand for a company which had been registering continuous losses. Since the NEB takeover, the monstrously large auto subsidary has continued to show a loss despite the fact that for several weeks this year production in the auto sector maintained levels of 20,000 vehicles a week, the number needed for profitable operation, before disrupted by strikes in

British Leyland and component-supplying firms. The expansion of the truck and bus, and export-oriented heavy vehicle manufacturing units have offset this loss, so that Leyland is expected to show a profit of around £200 million this year.

Despite this marked turn-around in the operation of the company since government takeover, the current strike, now nearing its fourth week, has opened a Pandora's Box for the economically pressed government. While acknowledging the validity of the strikers' claim for restoration of pay differentials between them and assembly line workers (who, because of the social contract in some plants, now earn wages exceeding these of the skilled machinists) the government has remained hard on strikers, even threatening to cut off further investment grants if the strike continues. Speaking bluntly, Callaghan warned the strikers during a speech in Parliament two weeks ago that unemployment was "the biggest differential of all."

Like the TUC leadership, the government has been loathe to make the strike official, since it would open up further demands from other disgruntled workers, and make implementation of Phase III impossible. On the other hand, too hard a line against the strikers could have the effect of the 1974 Miners strike on the Heath Conservative government: to completely destroy its credibility as a viable governing force within the trade union movement.

Opponents of the Callaghan strategy have not missed their opportunity to play up the government's weakness over the Leyland strike as proof of incompetence of the government's entire industrial strategy. Tory Party leader Margaret Thatcher has called for the break-up of British Leyland into separate (de-nationalized) companies, which would negate the entire industrial strategy. Further, the Tories, as well as right-wing press sources, are using the prolongation of the strike to blast the social contract, calling it useless if the unions are unable to police themselves.

Spain Couples Democratization With Economic Growth

SPAIN

During the past month, the Spanish government led by Premier Adolfo Suarez has made significant steps toward linking its "democratization" program to a domestic and foreign policy based on economic progress.

On Feb. 9, the Spanish government reestablished full diplomatic relations with the Soviet Union, culminating a brief diplomatic offensive which has led to the restoration of relations with virtually all of the socialist sector. A Spanish statement released at the time expressed hope that the renewal of relations with the USSR "will facilitate greater development of cooperation in the political, commercial, economic and cultural fields." Ecstatic reactions to the event from Spanish industrialists linked to the export sector confirmed a report in the Soviet paper Isvestia of Jan. 11 that "the more farsighted" Spanish businessmen have great doubts about a "one-sided orientation," i.e. solely toward the U.S. or the EEC, and support a "foreign economic policy based on developing trade on an equal basis with all nations, including the socialist countries."

In a similar move to diversify relations, Spain's Industry Minister Perez de Bricio completed a tour of Venezuela and the Andean Pact countries, where he signed a number of deals for joint development projects in shipbuilding, mining, transportation, nuclear energy and other fields. Due to the growing export orientation of Spanish industry, one of the first economic measures taken by the Suarez government when it took power in July of last year was to create a "Fund for Development Aid" with a $200 million annual budget to promote the export of Spanish industrial goods to underdeveloped countries. During a five-day visit in February to Iraq, Syria and Egypt, Spanish Foreign Minister Oreja paved the way for a trip to the Arab countries this month by King Juan Carlos and a high level government delegation. Large-scale Arab oil for Spanish technology deals are expected to be signed at that time.

Finance Minister Carriles announced the general outlines of an economic plan on Feb. 22, calling for increased public spending, aiming for a 3.5 percent GNP increase this year compared to 1.5 percent in 1976, liberalizing interest rates, maintaining price controls on essential consumer goods and moving toward legalizing the trade union movement. Distressed over Spain's intentions, the New York Times complained that the plan "announced no concrete measures apart from allocating $773 million more to invest in industry and increase production." The Wall Street Journal expressed disappointment over the manner in which a devaluation was not made and complained "the plan didn't contribute to holding down wage increases."

The Suarez government continues to move ahead with a program of nuclear energy development ranking third among European countries. The Industry Minister has affirmed that "to turn our back on it would be to renounce progress for our country and for our standard of living."Spanish officials were reported by the Madrid paper *El Pais* to be irritated over the Carter cabinet's refusal to allow Spain's nuclear waste material to be reprocessed in the U.S. The Soviet paper *Pravda* has since hinted that Spain should take advantage of a huge nuclear reprocessing plant just opening in Hungary.