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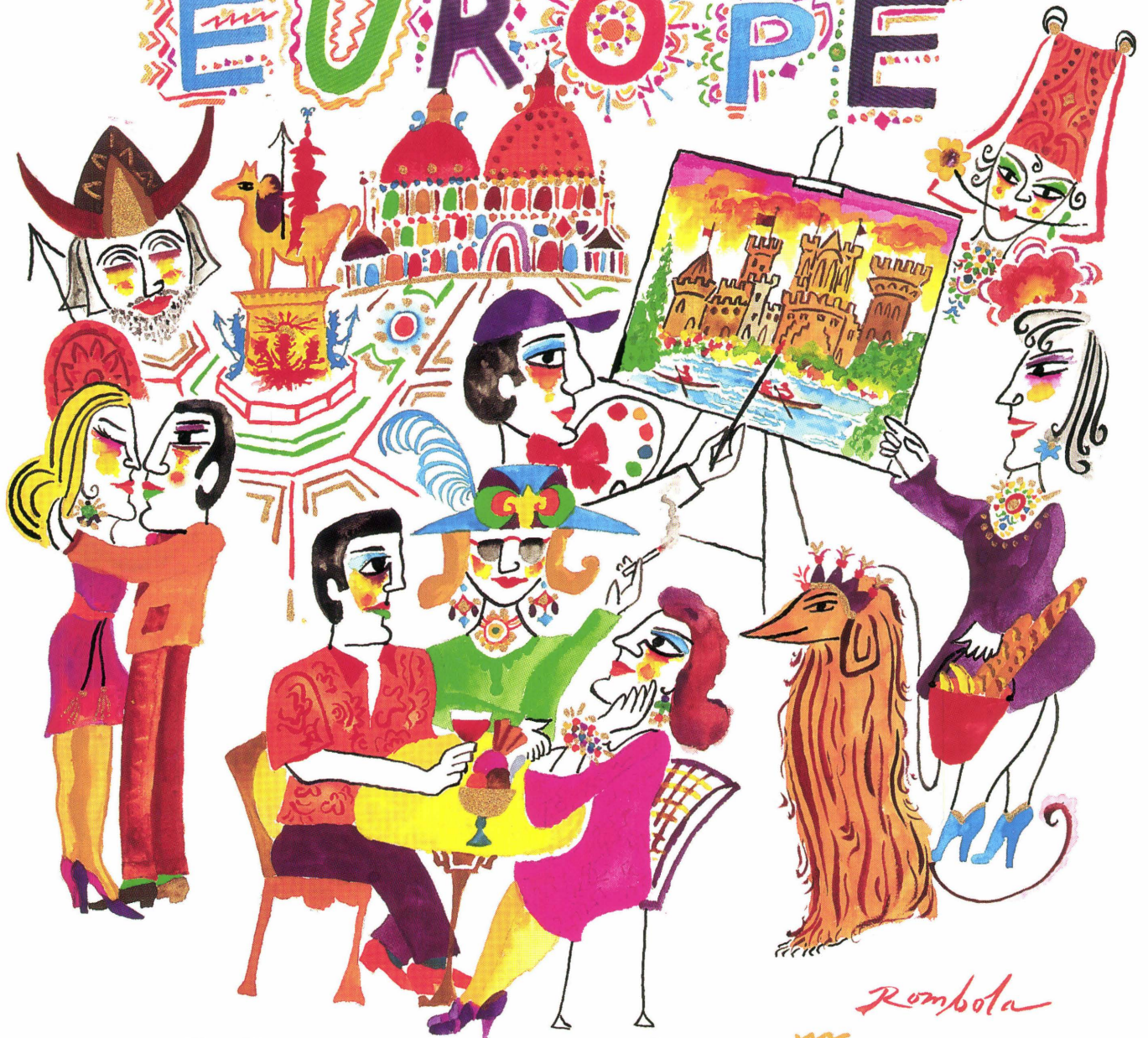


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# EUROPE



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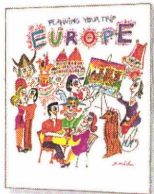
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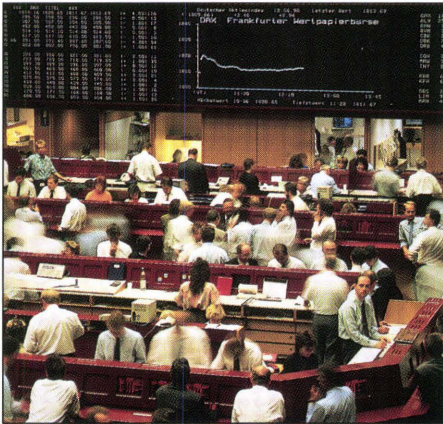


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# EUROPE

MAGAZINE OF THE EUROPEAN UNION



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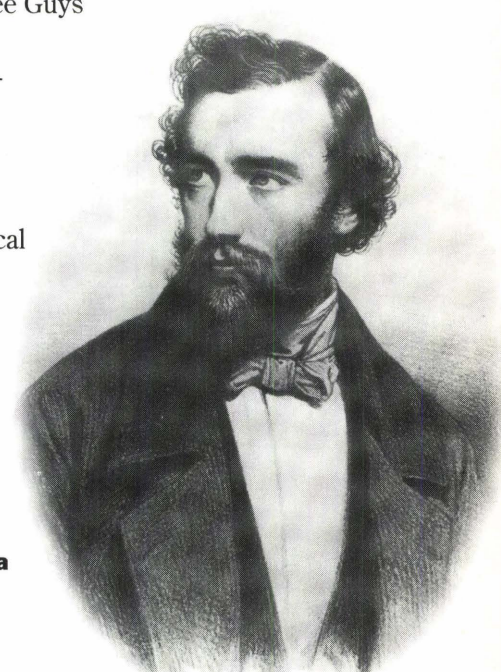
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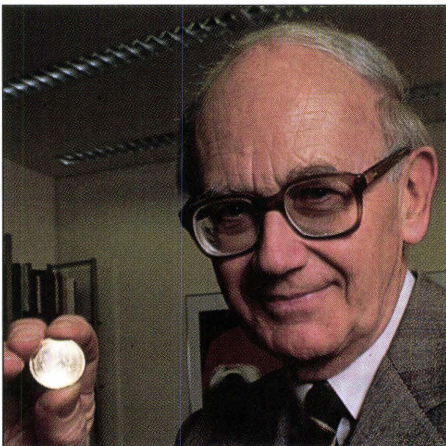
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# Letter from the Editor

When many people focus on development banks they naturally tend to mention the World Bank or the International Monetary Fund. However, Europe is the home of two major development banks, the European Investment Bank (EIB) and the newer European Bank for Reconstruction and Development (EBRD).

As Sir Brian Unwin, the President of the EIB, points out in an exclusive interview with *EUROPE*, "As a borrower and lender we are the largest of the international financing institutions, larger than the World Bank, for instance." The EIB President goes on to say that he sees "our fundamental role now as cementing the single market."

The new President of the EBRD Jacques de Larosière, in another exclusive *EUROPE* interview, states that the EBRD is a "rather unique institution because we can lend to public institutions and to private institutions, but we can also take equity shares in public entities and in private entities." The EBRD President discusses the various projects in Central and Eastern Europe that the bank is involved in today and looks ahead at the EBRD's role in the future.

The European Monetary Institute (EMI) is the "new kid on the financial block." Bruce Barnard looks at the growing pains of the EMI and its goals in helping to establish a common currency managed by a European central bank by 1997 at the earliest.

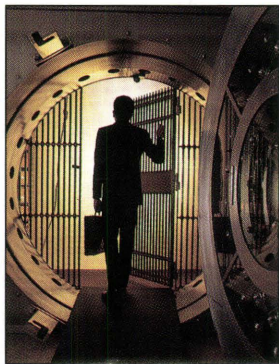
John Wyles, formerly with the *Financial Times*, analyzes the EIB and the EBRD and also profiles commercial banks across Europe including American investment banks who are helping in the many privatization projects taking place across Europe.

Jim Spellman presents a survey of Europe's most successful mutual funds and explains why these funds are popular for many American investors.

European leaders will be attending the Jobs Summit this month in Detroit hosted by President Clinton. Amy Kaslow looks at the Delors white paper on unemployment and discusses the EU's approach to creating new jobs in Europe, which is still suffering from severe unemployment and a lengthy recession. Gina Gianzero presents the Clinton administration's views on why they are holding the Jobs Summit and what they hope to accomplish in presenting new alternatives to job creation in Europe and the United States.

Belgium, the focus of our member country report, is in the midst of a political scandal, and our Belgian correspondent, Dick Leonard, sketches an outline of what is being called the "Three Guys Affair."

Belgian born Adolphe Sax invented the saxophone 100 years ago, and *EUROPE* celebrates its birthday by looking at "A Century of Sax." Bruges, with its medieval architecture, is a favorite tourist destination in Belgium, and Janet Bennett offers Bruges' vital statistics for potential travelers to Belgium.



**Looking at Europe's commercial banks and how they are adjusting to sharp competition and the single market. Plus profiles of Europe's development banks, EIB and EBRD, and the new kid on the financial block, the EMI.**

**Robert J. Guttman**  
Editor-in-Chief

# EUROPE

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*Reuters* has contributed to news reports in this issue of *EUROPE*.



would like to thank all of our readers who took the time to answer our readers' survey which we published in last April's *EUROPE* magazine.

More than 1,500 readers responded to the survey, and 72 percent said they would like to see more coverage of Russia and the other former Soviet republics. Hopefully, last month's issue showed that we are responding to our readers' interests.

The next highest response, 68 percent, said they wanted more stories on non-EU countries in Europe. We will continue to profile other non-EU countries and will shortly be adding new cities to our Capitals section, including Prague, Budapest, Vienna, Helsinki, Oslo, Warsaw, and Stockholm.

The next highest response, 65 percent, stated they would like to see more articles on European cities, and more than 50 percent said that they'd like to see more on travel. We started our new "Cityscape" series last issue with our profile of Lyon and continue in this issue with Bruges. Each of these city profiles will present useful travel information such as restau-

rant and hotel recommendations, advice on museums and sightseeing, helpful travel telephone numbers and addresses, as well as plane, train, and rental car information.

Close to 60 percent of the respondents stated they want more information on the European Union, and more than 50 percent would like more articles on EU-US relations. Our coverage on these two topics will continue to expand.

More men read *EUROPE* than women; the magazine is read overwhelmingly at home; many of our readers are involved in business and most of you have traveled to Europe at least once in the past year. Over half of our readers have a graduate degree. The average family income is above \$82,000.

And 94 percent of our readers are satisfied or very satisfied with our coverage.

Thank you again for your responses. Please continue to write us with your suggestions. *EUROPE* is listening.

—Robert J. Guttman

## EUROPE's Reader Survey Results

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# EYE ON THE EU

**T**he European Commission has slipped down the news ratings with much of the world's media turning its back on Brussels after six years of non-stop blanket coverage. The EU executive's low profile does not mean it has been marginalized or driven off the agenda in European capitals. Quite the reverse: the Commission has become so entwined in the affairs of the 12 nation European Union that it is taken for granted, its day to day actions rarely attracting attention. The Commission can still make the front pages and lead the television news, as it did in mid-February when it slapped a \$117 million fine on 16 steel-makers for running a price fixing cartel. But the news flow now is largely restricted to decisions that impact on individual companies, regions, and industrial sectors.

Ironically, the Commission is bigger news outside the EU than within the borders of the 12 member states of the European Union. The marathon negotiations to set entry terms for Austria, Finland, Sweden, and Norway to join the EU next January dominated the media in the applicant countries. Japan and China also closely track developments in Brussels to judge the potential impact on trade and investment. The very fact that four of the wealthiest countries in the world, boasting extremely sophisticated cradle-to-grave welfare systems and high education and environmental standards, are clamoring to join the Twelve, testifies to the EU's elevated status as the "in" place. And the Com-

mission, much maligned in the Anglo-Saxon media as a bureaucratic monster, has played a key role in raising the EU profile.

Brussels is still an extremely convenient whipping boy for vote-seeking politicians and even, at times, EU leaders, although none can match the emotional Commission-bashing tirades of former British Prime Minister Margaret Thatcher. The Commission has become a victim of its own success, its key role in the EU's push toward a single market and its drive for economic and monetary union no longer considered sufficiently novel to warrant banner news headlines.

Under its forceful President Jacques Delors, the Commission has become a permanent fixture on the world stage, underlined by his presence at the summits of the Group of Seven and at the twice yearly meetings with the President of the United States and his cabinet. This is in sharp contrast to the mid-1980s when the Commission was rarely heard of and Brussels was a diplomatic backwater, better known as the home of NATO rather than the executive agency of the European Community. Today, the city is on an equal footing with Washington, Moscow, and Tokyo, the place where ministers from the 12 member states thrash out policy on matters ranging from trade to Bosnia. The fact that Mr. Delors is mulling whether to enter the French presidential race underlines the elevated status of the Commission. In the past, the Commission was regarded by some as a resting

place for second-rate politicians who couldn't make it back home. No longer.

Things may be relatively quiet in Brussels now, but there is no way it will retreat to the obscurity of earlier days. A slowdown was inevitable after a traumatic five years that saw massive political changes sweep across the continent of Europe. Many things that are taken for granted today would have been dismissed as pure fantasy just a few years ago.

Take the Brussels-Moscow relationship. In the late 1980s Moscow refused to grant diplomatic status to the Commission and reviled the (then) European Community as the economic arm of NATO. All attempts at détente were snared by Moscow's anger over the "Berlin Clause" under which the western half of the divided city was treated as part of the EC. Moscow warned its East European satellites not to get too close to the EC, but to concentrate their efforts on boosting the Soviet-dominated Comecon, the communist rival to the Community. Today, Brussels is swarming with Russian officials negotiating trade deals or global cuts in aluminum, organizing Commission-financed banking and marketing seminars, and swapping information on nuclear safety. The Commission has also struck free trade deals with Poland, Hungary, the Czech Republic, Slovakia, Bulgaria, and Romania and officially recognized their right to join the EU when their economies can withstand the competition. The EU, represented by the Commission, has also played the

key role in coordinating aid to the former communist nations through the so-called G24.

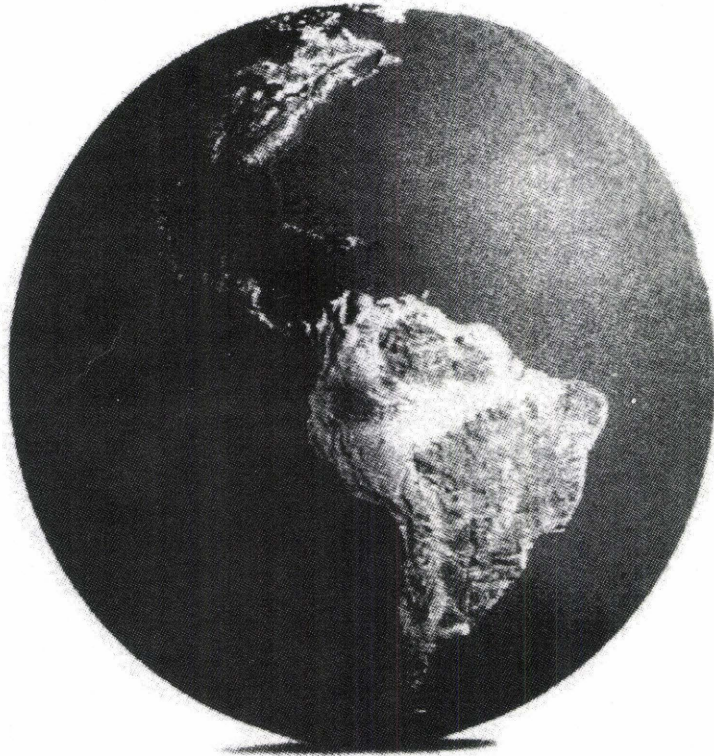
While it was forced to react to these momentous external changes, the Commission also had to juggle the conflicting interests of the EU member states, particularly during seven years of tortuous negotiations that led to the successful conclusion of the Uruguay Round world trade deal last December. The Commission has also skillfully piloted groundbreaking agreements to liberalize trucking, air transport, telecommunications, and postal services and to dismantle Europe's giant utility monopolies. But the Commission's biggest success is the single market, an ambitious bid to challenge the industrial might of Japan and the United States that is sure to pay dividends in the long term. The single market appears somewhat flawed at present and has been written off by many cynical observers. But its launch on January 1, 1993, coincided with the start of Europe's deepest recession since the early 1970s, blunting the impact of the free flow of goods, services, and capital across the EU.

The scaling down of ambitions is good for the Commission, enabling it to concentrate on the most pressing tasks: to keep the single market ticking until Europe moves out of recession, to keep deregulation on target, to break up cartels and dismantle monopolies, and to cut off the subsidy drip feed to sunset industries.

—Bruce Barnard



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# BANKING

## Adjusting to Sharp Competition and the Single Market

# IN EUROPE

**Economic recession is inevitably leaving its mark on many of Europe's leading banks at a time when the sector as a whole is beginning to adjust to steadily sharpening competition in the new single market. A business downturn brings with it a rising incidence of bad debts and, as is especially the case in France and Germany, declining values in the substantial equity holdings of the banks in major industrial companies.**

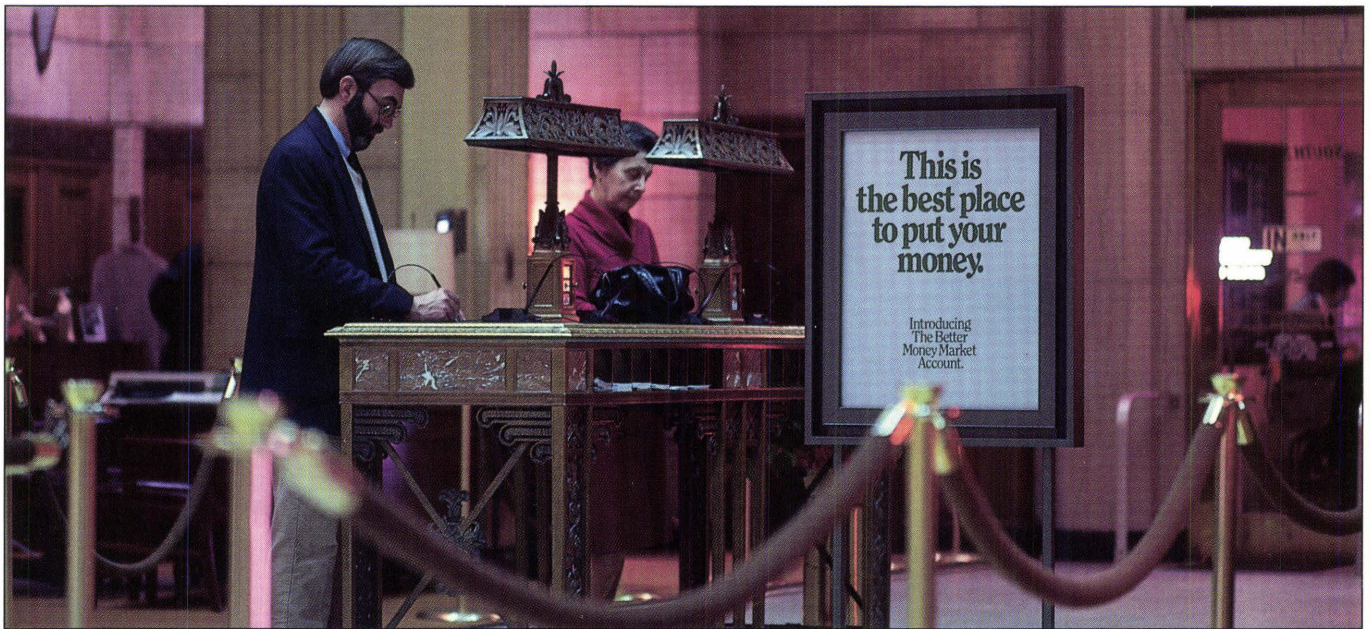
Nevertheless, stock markets were already looking beyond the recession last year and beginning to mark up bank stocks. The general rising trend was noted in the rankings by capitalization of stock market quoted companies published in the *Financial Times*' "FT500" in mid-January.

Though the Hong Kong and Shanghai Banking Corporation Holdings (HSBC) and Deutsche Bank led the way, Swiss banks were most prominent among those climbing the rankings. With market capitalization of \$20.3 billion, Union Bank of Switzerland (UBS) moved ten places higher to fifteenth position, Credit Suisse leapt from 68 to 36 and Swiss Bank Corporation from 62 to 38.

UK banks also did well, HSBC ranked first with capitalization of \$27.4 billion, while National Westminster (from 41 to 30) and Barclays (from 44 to 31) both made good gains in rank. In contrast, the three leading German banks slipped back, Deutsche Bank dropping from 10 to 12, Dresdner Bank from 49 to 50 and Bayerische Vereinsbank from 90 to 94.

By John Wyles





**While UK banks benefit from an improving domestic economy, French and German banks grapple with the effects of recession.**

Market capitalization provides only one measure of a bank's size; however, Tier 1 capital (defined as paid-up share capital/common stock and disclosed reserves/retained earnings) is generally of more interest to sector regulators. On this basis, France leads the way. In *The Banker's Europe Top 500*, published last autumn, Cr dit Agricole headed the list with \$15.6 billion. It was followed by Switzerland's UBS (\$12.8 billion), the UK's HSBC (\$11.8 billion), and Germany's Deutsche Bank (\$11.3 billion).

Italian banks do not feature in either ranking. Only three made the FT 500, with investment bank Mediobanca at 168 and retail banks Banca Commerciale Italiana (BCI) at 219 and Credito Italiano at 256. The first Italian entry in the Euro Top 500 is Banca di Roma, whose \$6.85 billion Tier 1 capital earns sixteenth place.

Both French and Italian banks are being given much media attention because of their respective governments' privatization programs. France kicked off last October with the sale of Banque Nationale de Paris, and Italy followed in December with Credito Italiano. Sales to the private sector still to come in Italy include Banca Commerciale Italiana and Istituto Mobiliare Italiano.

With the national economy now enjoying a modest recovery, UK banks seem to be moving into better times. Having provisioned for non-performing country debt in the second half of the 1980s, UK banks are recovering from the damage that the early 1990s domestic recession wreaked in the areas of consumer credit, property loans, and corporate finance. The search for higher profitability continues through re-trenchment, as banks concentrate on core businesses, activities offering higher returns, and greater efficiency through network rationalization. Both Barclays and National Westminster started this year by announcing further large staff cuts. (Yet at year-end some merchant bankers and City staff enjoyed record bonuses.)

While UK banks benefit from an improving domestic economy, French and German banks continue to grapple with the effects of recession. Last year was not good for French banks, and the London rating agency, IBCA, expects

that 1994 will also be difficult.

Provisions against losses on loans to small and medium sized businesses have had to be increased sharply in France where real estate lending is also a major problem. IBCA notes that there is no evidence that the property market overall is recovering.

The rating agency points as well to equity investments in recession-hit industrial companies in which the "Big Three" French banks were increasing their portfolios significantly in the period just before the recession.

Suffering at home, French banks were a center of resistance to a rescue package for Germany's stricken Metallgesellschaft metals, mining, and industrial group in mid-January. The French banks considered that Germany's Deutsche Bank and Dresdner Bank, which are major shareholders as well as creditors, should play a larger part in the restructuring.

The Metallgesellschaft affair has cast something of a cloud over Germany's universal bank model. It also illustrates how German banks are being affected by a recession that is the worst in the country's post-war experience. Nevertheless, IBCA describes German banks as being in good shape and continuing to enjoy top ratings.

Like their UK counterparts, US banks enjoyed good results last year, with profits and performance bonuses sharply higher. US investment banks continue to have a very strong performance in London where they have become major players in European equity and bond markets. They also have a rising profile in the privatization process now underway in Italy, France, and Germany.

In Italy, whose privatization program will be one of the largest in the years to come, Goldman Sachs, Lehman Brothers, and Morgan Stanley have been involved in the round of bank sell-offs by IRI, the public sector holding group. Wasserstein Perella was advisor to IRI on the disposal of the SME food and retaining group, and JP Morgan is valuing IRI's telecommunications subsidiaries. E

*John Wyles, a former Financial Times correspondent, is based in Brussels.*



# European Monetary Institute

The European Monetary Institute (EMI) is the new kid on the financial block, joining old-timers like the International Monetary Fund (IMF) in Washington and the Bank for International Settlements (BIS) in Basel and a more recent arrival, the London-based European Bank for Reconstruction and Development (EBRD).

The EMI was officially launched on January 1 as part of the European Union's "second phase" toward economic and monetary union.

Envisioned as an embryonic European central bank, the EMI had a difficult birth, its location—Frankfurt—being decided only at the end of last Oc-

The EMI's job description, outlined in the Maastricht Treaty, is to prepare for a common currency managed by a European central bank by 1997 at the earliest, or 1999 at the latest. Some countries want it to play a more active role to force the pace of monetary union while others want to restrict it to an advisory function.

Mr. Lamfalussy has refused to get sucked into the controversy surrounding the role of the EMI, conceding only that it is "freely interpretable" in some ways. It will have a "difficult mandate," he says.

The EMI's "identity crisis" stems from the currency turmoil that forced the Italian lira and the pound sterling out of the European Exchange Rate Mechanism (ERM) in September 1992. The crisis climaxed last August with the effective suspension of the ERM when its currency fluctuation bands were widened to 15 percent from 2.25 percent.

The suspension of the ERM—long regarded as a bridge to a single currency—sowed doubts about economic convergence and the ability of the EU member states to coordinate their monetary policies. And the EMI, as a key player in the drive to monetary union, suffered from the backlash.

But the EMI has valuable work to do. It has to work on a number of technical details, notably the harmonization of monetary statistics and money market instruments that are an essential precondition for monetary union.

The EMI will also be a forum for bankers to swap ideas on monetary policy.

It can also act as an "honest broker" in policy differences helping to avoid the misunderstandings and mismanagement which led to the market tensions that resulted in the meltdown of the ERM.

While the EMI gets on with its work, the EU member states are squaring up for a fight over the institute's role. France, Belgium, Italy, and Spain want it to help manage currency reserves and police an EU-wide money supply aggregate that would replace national monetary measures.

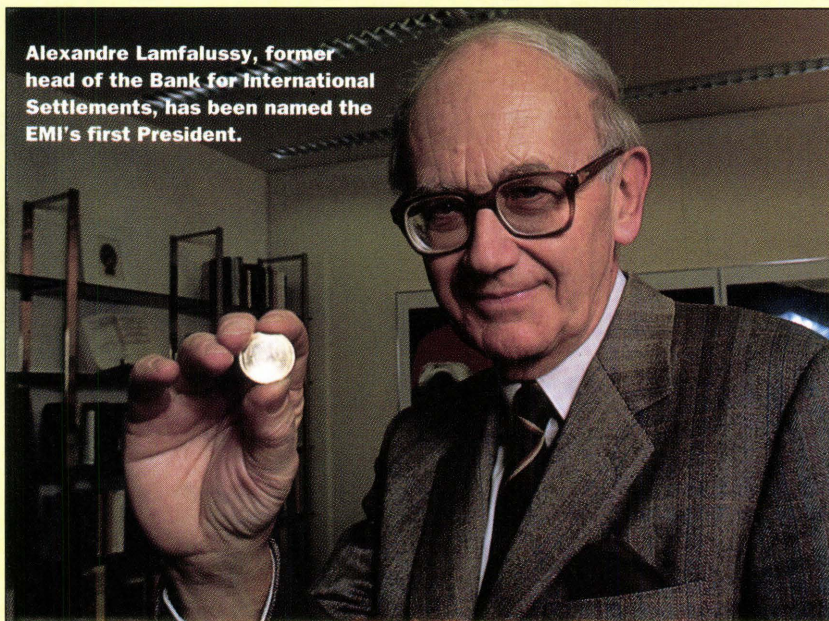
European Commission President Jacques Delors has put his weight behind calls for a tougher EMI. "If we want to get on course, we must beef up phase two [of EMU]," he said.

But the German Bundesbank fiercely opposes moves to give greater powers to the EMI, which it sees as a threat to its autonomy and a dilution of control over monetary policy.

While the finance ministers and bankers debate, the infant EMI will continue to remind them of their commitment to a single currency. **E**

*Bruce Barnard is the Brussels correspondent for the Journal of Commerce.*

Alexandre Lamfalussy, former head of the Bank for International Settlements, has been named the EMI's first President.



## "New Kid on the Financial Block"

By Bruce Barnard

tober, five years after the EMI was first conceived.

And the EMI has a much more modest mission statement than EU governments originally intended when they were laying plans for a single currency back in the boom days of 1988-89.

The EMI is still looking for a permanent home—the inaugural meeting of its ruling council (consisting of the governors of the EU's 12 central banks) was held in Frankfurt's medieval Romer town hall—and has yet to recruit a staff that eventually will number around 250 people.

But the EMI's first President, Alexandre Lamfalussy, a 64 year old Hungarian-born Belgian banker, isn't fazed by the difficult launch.

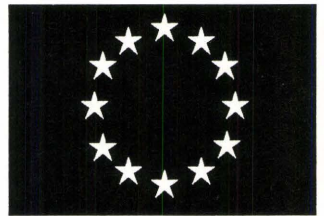
The EMI will be based temporarily at the Basel, Switzerland, headquarters of the BIS where Mr. Lamfalussy was General Manager before his EMI appointment. The EMI has begun house hunting and hopes to have a permanent Frankfurt base by September and a 150-strong payroll by the end of the year.

But what is the role of the fledgling institution?





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# Europe's Development Banks

## Banks Building Europe

**The invention of the international development bank is one of the world's most important post-1945 achievements in bringing some hope and promise of economic growth to relatively disadvantaged areas of the world. The formula is a simple one based on the creation of a non-profit making institution with a strong capital base whose borrowing powers in world markets are guaranteed by the fact that the bank's shareholders are sovereign governments. Funds raised by such banks secure the best available terms and are lent on at equally favorable rates to borrowers who would otherwise have to pay much more for investment capital, if they could obtain it at all.**

While the World Bank in Washington may be the best known example, Europe now has two such development banks dedicated to providing "cheap" funds for investment to stimulate growth and employment, the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD). The two must not be confused for they were born at different times in different political circumstances to serve quite different sets of clients.

The EIB is the elder and more established of the two. It is a child of the 1957 Treaty of Rome, which created

the European Economic Community and which (in article 130) gave to the EIB the task of contributing to the "balanced and steady development of the Community" through granting loans and giving guarantees. In practice, the EIB has become the largest provider of Community (now European Union) loan finance for projects which advance certain EU goals. In 1993, the bank's lending totaled 19.6 billion ecus (\$21.7 billion), taking its total loans outstanding to 98 billion ecus (\$109 billion).

The enormous range of the bank's financing activities can be understood from just a sample of the projects

which were partially funded last year—at an average 30 percent of total cost. These included a harmonized air traffic control system for Europe; telecommunications in Denmark; a new vehicle assembly plant in Thuringia, Germany; motorways in Greece; a new passenger terminal for Palma de Mallorca airport; a sewage treatment plant in Belfort, France; urban renewal for the center of Dublin; and a bridge linking mainland Scotland with the Isle of Skye.

The EIB's lending criteria, laid down by treaty, require it to favor projects which help the development of the EU's less prosperous regions; support the modernization and improved competitiveness of EU industry; and are of common interest to several member states or to the EU as a whole.

Over the years, governments have asked the EIB to embrace other objectives. In December 1992, the Twelve decided to create the European Investment Fund through which the EIB and the European Commission are to make additional funds available for trans-European networks (transport, energy, telematics) and for investment by small and medium sized enterprises (SMEs).

Around 25 percent of the EIB's total lending goes to SMEs in the form of global loans to intermediary banks and lending institutions which, acting on the bank's behalf, appraise project applications and make loans where appropriate. Last year, 74 percent of the EIB's funding was for projects in the less fa-



vored regions. In Portugal, Spain, Greece, and Ireland, the four countries with the lowest per capita incomes in the Union, EIB loans are a very significant part of total investment, amounting to 22 percent of gross fixed capital formation in Portugal, 15 percent in Greece, and 14 percent in Spain and Ireland.

The collapse of communism in the former Soviet Union and its satellite countries in Eastern Europe has also prompted the European Union to make EIB loans available to members of the former East Bloc. Last year, 882 million ecus (\$976 million) of the 1.9 billion ecus (\$2.1 billion) that were lent outside the European Union went to Central and Eastern Europe.

Clearly, however, the main task of

contributing to the East's economic development belongs to the EBRD. Created in May 1990 and now with 54 member countries, the EBRD's early years have been clouded by criticism and controversy. Under its first President, Jacques Attali, the bank quickly ran into what might be called "physiological" problems derived from the fact that its main client countries were in varied stages of transition from command and control to market economies.

Lack of a proper legislative framework and sluggish administrative procedures complicated the EBRD's primary task of aiding the creation and growth of a private sector in the 25 countries to which it lends. In its first two years of operation, it was criticized

for slow disbursement of funds and for inconsistency in lending decisions. Inevitably, the bulk of its lending went to the Czech Republic, Hungary, and Poland which were much more advanced than the other former communist countries in stabilizing their currencies and in introducing privatization, banking, and bankruptcy laws.

But even in these countries, it proved easier for the bank to join other international institutions in co-financing deals than to find and lend to fledgling entrepreneurs with no track record. Criticism of the bank's somewhat lavish expenditure of \$66 million on fitting out its London headquarters eventually led to Mr. Attali's resignation last July.

His successor, Mr. Jacques de Larosière, former Managing Director of the International Monetary Fund and Governor of the Bank of France, moved swiftly after his arrival last October to streamline EBRD's reorganization.

Acknowledging that the EBRD was seen as "bureaucratic, leading to conflicting approaches, procedural delays, and lacking focus in terms of operations and country needs," the new President merged the hitherto separate merchant banking and development banking operations into two geographically oriented departments covering northern and southern based countries. He hoped that this would strengthen the bank's focus on individual countries, while still deploying specialized teams on specific sectors, such as privatization, transport, power, and energy.

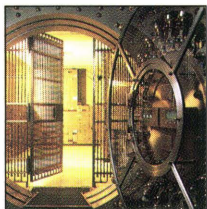
Even before the reorganization, however, the EBRD's pace of activity has quickened significantly. In its first full year, 1992, it approved 54 projects for a total of 1.2 billion ecus (\$1.3 billion). By the end of December 1993, this had risen to 156 projects worth 3.76 billion ecus (\$4.2 billion) of bank financing contributing to a total cost of 11 billion ecus (\$12.2 billion). E

—John Wyles



The Channel Tunnel, which connects the UK with the mainland, is an example of the types of projects that the EIB helps finance.





Sir Brian Unwin, President of the European Investment Bank, was interviewed in Luxembourg by *EUROPE* Publisher Peter Doyle earlier this year. Mr. Unwin discusses the role of the EIB, developing trans-European networks, the single market, and the European Currency Unit (ecu).

# Sir Brian Unwin

PRESIDENT OF THE EUROPEAN INVESTMENT BANK



## Why does the European Investment Bank (EIB) exist and what are its objectives?

The European Investment Bank is the long-term financing institution of the European Union. It was established in 1957 under the Treaty of Rome and operates autonomously as a bank under its own statute. We support European Union objectives and most of our lending is concentrated in the member states. Last year some 10 percent went to countries outside the Union.

Our principal objective is to promote more balanced development within the European Union. Over the years, we have pursued that objective by concentrating our lending on infrastructure projects and productive investment in the economically weaker areas. Regional development has gained increasing importance as new member countries have joined the Union adding to the areas eligible under this heading. In the early years, in the Community of six member states, Italy, with the Mezzogiorno region, was a major recipient of EIB loans. As the Union has expanded, the relative importance of Italy in the overall take up of EIB loans has diminished. Indeed, last year the largest recipient of our lending was Spain.

Looking at this another way, in 1993 our loans contributed to investment amounting to over 5 percent of gross capital formation across the Union. But they represented a considerably larger share in those countries with the lowest per capita income, such as 22 percent in Portugal, 15 percent in Greece, and 14 percent in Spain and Ireland.

In the last two or three years, a new



angle has given a slightly different thrust to our earliest priorities. Our greatest concentration now is on making the European single market work through development of the trans-European networks. We have supported an increasing range of investment in all kinds of communications—in road, rail, telecommunications, and the transport of energy. Recent deliberations of the European Council and the European Commission's white paper on action to encourage economic growth, competition, and employment re-emphasize this trend. Our lending rate has expanded by over 10 percent each year, a remarkable growth rate. This was given a further shot in the arm by the Edinburgh European Council at the end of 1992 and the Copenhagen Council last June. Both invited the EIB to step up financing for trans-European networks through an additional lending facility. This basically allows us to increase our lending for these networks and lend more per project. As a result, our total volume of new financing has increased even further and contributed to the 15 percent increase in our activity in 1993.

I see our fundamental role now as cementing the single market. The barriers are down, but it's no use knocking barriers down unless people and trade have the means of crossing them. The construction of efficient transport and telecommunication links within the European Union is therefore vital, as is their extension to neighboring countries, such as the EFTA states, of whom Austria, Finland, Norway, and Sweden are negotiating entry into the Union. These countries have already joined with the Union members to set up the European Economic Area, as an extension of the single market. Links have also to be strengthened or developed with other neighboring countries in Central and Eastern Europe, who in the longer-term are also likely to join the Union.

We recently approved a large loan for the improvement of the Warsaw to Berlin railway. In Romania, Hungary, and Bulgaria, we have financed modernization of air traffic control. This is all part of a process to integrate these economies in terms of efficient communications within a wider Europe.

#### **Where does all the money come from?**

Last year, we lent 19.6 billion ecus (\$21.7 billion) inside and outside the Union. We raise our financial resources

through borrowing on capital markets worldwide. As a borrower and lender we are the largest of the international financing institutions, larger than the World Bank for instance. We are now the largest international bond issuer and, with the best AAA/Aaa credit ratings of Standard and Poor's and Moody's, hold an extremely strong position on international markets.

Our owners are the 12 member states, who each subscribe a determined amount to our capital. Under the bank's statute we are allowed outstanding loans of up to 250 percent of our subscribed capital—a ceiling of 144 billion ecus (\$159 billion). By the end of 1993, our total outstanding loans came to some 98 billion ecus (\$108 billion). So there is still plenty of headroom for further lending over the next couple of years before we need to approach our owners for an increase to the capital. In the Maastricht Treaty on European Union and at recent European Councils, the governments have stated their readiness to consider favorably, when necessary, an EIB capital increase to allow us to continue promoting the interests of the Union.

#### **What currencies do you work with?**

Our policy is to make funds available in the currency requested by project sponsors, so we borrow those currencies that are needed. Currently, we operate in about 17—that is all the currencies of the European Union, together with non-Union currencies, in particular the US dollar, the yen, and the Swiss franc.

For four years running, our currency used the most was the ecu itself, but for a variety of obvious reasons, like the currency upheaval in 1992, the ecu market has been relatively dormant, although trading in the secondary market is very active.

#### **What is the EIB's relationship with commercial banks? Does it have an advantage in having sovereign shareholders?**

I would see our role as largely complementary. We always co-finance projects with other banks or sources of funds, rarely lending more than 50 percent of a project's cost. The average is nearer 30 percent. The exception is the Edinburgh/Copenhagen lending facility under which the governors have

agreed we can lend up to 75 percent. Project proposals also very often come to us through banks. There are few banks who give long-term loans in the volumes that we provide, which is a fundamental feature of the EIB. Our lending is up to 15 to 20 years. We do not exclude banks but have our own specific role in the packages arranged for financing projects.

Without being immodest, we have a very high reputation in carrying out appraisals into the viability of investment. In some countries this can be another important reason why the banking and official sectors welcome the participation of the EIB. I recently had talks in Italy with the Prime Minister and the Minister of Finance in which they told me they wanted the EIB to continue its support for investment in the country because of the assurance it gave them on the value of the projects financed. The EIB has a reputation for funding sound projects and our involvement can give such investment a bill of health as being financially and economically viable.

#### **The EIB differs from commercial banks in that it does not have a profit motive.**

Yes, we work on a non-profit making basis. We lend at cost of borrowing, plus a set margin of 15 basis points to cover our own expenses. In other words, project promoters can expect to borrow from us at close to AAA rates. We generate a surplus from our own funds, made up of paid in capital and reserves. This annual surplus goes to building up our reserves.

#### **What are the EIB's lending criteria?**

Although we are an institution of the European Union and our whole raison d'être is to support Union policies, it is absolutely fundamental that we have complete operational independence and autonomy. Thus, having ascertained that an investment is in line with Union objectives, our financing decisions are based entirely on the outcome of our own project appraisals. We decide what projects we finance. This is our choice and the criteria we use are entirely professional ones. Projects must be economically, technically, and financially viable, and they must meet a range of other criteria, including environmental ones.



**I presume that the bulk of your lending goes to European companies or organizations—can American companies benefit as well?**

We take each project as it comes. The nationality or ownership of the project is not a criterion. Obviously, the majority of our lending tends to go to European companies, but we also lend for investment by companies where the ownership is not confined to the Union. In addition, we encourage the use of international tendering as the most effective way of choosing an efficient economic and cost effective solution for a project. Goods and services from outside the Union such as the USA, can be financed if best for an investment.

**What about Airbus? Have you supported this project?**

We have lent to some of the companies that are owners of Airbus for capital investment in factories that produce components and parts for the project. We have also recently made a loan to Airbus itself following its financial restructuring. In addition, we lend to air companies operating in the Union for the purchase of aircraft, not just from Airbus, but also from Boeing and McDonnell Douglas.

**A somewhat wider question—we spoke about the initiatives to stimulate economic growth that were taken at the Edinburgh and Copenhagen Summits. In December, the European Commission published its white paper on growth, competitiveness, and employment, and there are proposals for the creation of major European infrastructure projects as part of the solution. Is there a role for the EIB here?**

Certainly. Prior to the Brussels Summit in December, I told the finance ministers, who are also my governors, that if as a result of considering the white paper they want the EIB to step up lending for trans-European networks, we would be ready to do so. But, in my view, it is absolutely essential first to do a thorough appraisal of what these projects are. There is a limit to the number of schemes that are ready to be implemented in the foreseeable future. The heads of government remitted the issue to the finance ministers and have also set up their own working party under

the leadership of Commissioner Henning Christophersen to study the needs and priorities of the trans-European networks. We are taking part in this follow-up work.

**On the question of European economic and monetary union, do you think that the goals are realistic? What will be the relationship between the EIB and the new European Monetary Institute (EMI) which has just been established?**

To take the second part of your question first, our relationship with the EMI, the future European central bank, will in principle be no different from relations we have with individual central banks at the moment. Our roles are quite different. The EIB has no responsibilities in the field of monetary policy.

Personally, I am an advocate for taking the road to monetary union. As and when it happens—and that decision is a political one—the climate in which the bank operates will become easier. We participate in the process indirectly through our modest, but not insignificant, contribution to economic convergence, supporting investment bringing the economies of the 12 member states closer together. More directly, we are the largest international user of the ecu. We have helped develop the ecu market in a number of countries and use the currency as our unit of account. Our practical contribution to the ecu's development is thus a contribution to monetary union.

**You mention the upheaval in the currency markets in September 1992. There are some people who think that this has put paid to EMU (European Monetary Union). There are others who feel this is all the more reason to move ahead faster. Do you favor a "big bang" or a more incremental approach?**


I think reasonably rapid increments, not a "big bang," is the correct approach. It is early days, but I believe that the EMI has a very important role to play. Mr. Alexandre Lamfalussy (the newly appointed President of the EMI) will decide what the scope for action is and how proactive he wants to be. I suspect that people underestimate the importance of the role the EMI will play.

**Moving outside Europe, what sort of role does the EIB play in regions like Africa and Latin America?**

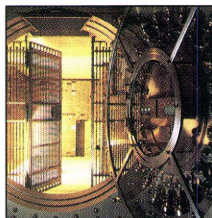
To place things in perspective, 90 percent of our lending is within the European Union. Our overwhelming core business is and will continue to be in the Union. Outside the Union we may operate in about 120 countries around the world within the framework of the Union's cooperation policy. Under this, our activities are carried out in support of various protocols, bilateral agreements, and cooperation arrangements between the Union and other countries or groups of states. In most of these countries, such as in Latin America and Asia, we are a small operator, far less significant than the World Bank. In other areas, we are an important performer, in particular in the Mediterranean states, including Northern Africa. We are also becoming increasingly active in Central and Eastern Europe. The Council of Ministers invited us to lend 3 billion ecus (\$3.3 billion) over the next three years in 10 countries in this region.

**The EIB is a shareholder in the European Bank for Reconstruction and Development (EBRD). What is the relationship between the EIB and the EBRD and how do you see this developing?**

EBRD President Jacques de Larosière and I both agree that we must look at the whole range of cooperation between us and work at ways of rationalizing resources, cooperating on the ground, and sharing information. In a recent meeting, we went over all these issues and reached complete agreement on a number of new procedures and other arrangements for making even more effective the close cooperation that already exists between our two banks.

The EBRD has been set up to address primarily private sector needs and to assist the process of privatization. I see our role in Central and Eastern Europe as concentrating on those projects that will help the region integrate with the economies of Western Europe. So we are much more involved in large, mostly public sector, infrastructure projects. The EBRD is mainly involved in smaller private sector ventures. In some cases, we do jointly finance investment. So while being complementary, our roles may also overlap. 





*EUROPE* Publisher Peter Doyle interviewed Jacques de Larosière, the President of the European Bank for Reconstruction and Development (EBRD), at the bank's headquarters in London. Mr. De Larosière speaks about the many changes that have taken place at the EBRD since he replaced Jacques Attali, such as the ongoing projects in Russia and Central and Eastern Europe, and how the EBRD differs from other development banks.

# Jacques de Larosière

PRESIDENT OF THE EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT



**Many Americans including quite a few members of Congress are skeptical of the EBRD because of the negative publicity under your predecessor, Jacques Attali. How are you countering this negative publicity and putting the EBRD in a more positive light?**

Indeed there has been quite a lot of negative publicity, and a lot of that publicity has been misdirected. One of the criticisms was that we were spending more on our internal costs than we were disbursing. Now that, of course, has no real significance. At the beginning of an institution your costs are bound to increase more than your spending because you are very young; you haven't yet engaged in many operations; and you have to build your structure. So the sort of equation between the overhead costs and what you disburse is without significance.

But there were some valid criticisms, there is no doubt about the organization, the duplication, the overlaps, some excessive bureaucratic tendencies. Since I took hold of the management, we have been reorganizing our structure on a geographic basis, creating a leaner more efficient organization, focusing on our clients, that is on the countries of operations. We have also put together a task force on our strategic priorities which has just finished its report and which we are going to discuss in our board. We are constraining our overhead costs in the framework of a strict budget for 1994. Now it is important to get on with our business.



**You have said that you have moved over to a country-based approach. Do you still have the same division between public and private sector? How does the country-based approach work?**

We no longer have that division between private and public sectors because it was to a large degree an artificial division. Those countries have very heavy public sectors, but they are moving toward privatization or private sector economies. The important thing for the EBRD is to help them on their transition to get out of this publicly centralized economic system. The best way to do it is to look at countries as entities with which we work and not to consider that there is a slot where you do private operations and a slot where you do public operations.

Now we have people who are responsible for countries. This was not the case in the previous structure, which created quite a lot of confusion vis-à-vis the clients who did not always know where to address their requests. Now it is very clear. They know who is in charge of EBRD operations in their country. Of course we have maintained industrial and functional teams for natural resources, energy, and telecommunications, matters where you need a specific expertise, and those teams are at the disposal of the regional divisions. In doing that we have freed quite a lot of human resources that were previously engaged in overlapping operations. We have also reduced the number of people who were working on macroeconomic general papers and shifted them toward operations, and by doing so we have increased the labor force without any further hiring, from 42 [people] engaged in country operations to 124, which should lead to a large increase in our productivity.

Responsibility and accountability are vested at the operational team levels and the number of management levels is kept to a minimum. It is a very flat, decentralized system and it is going to increase our flexibility and our ability to carry out our private sector mandate which is the essential mandate of the EBRD.

**The EBRD is the newest of the international banks. How does it differ from the IMF, the World Bank, and the European Investment Bank?**

The IMF is essentially concerned with maintaining appropriate macroeconomic conditions and focuses on macrostabilization issues, and thus has rather limited overlap with the EBRD. The World Bank is very much related to public sector financing. We do both public and private sector financing for our countries of operations, and we blend, if I may say so, the classical actions of the World Bank, which are public sector oriented, and also the actions of the IFC (its private sector financing arm) in terms of private investment. We take equity shares in the private investments, and we are in that respect a rather unique institution because we can lend to public institutions and to private institutions, but we can also take equity shares in public and in private entities.

So you see we have a vast panoply of actions which makes us a unique institution vis-à-vis the other ones. The European Investment Bank (EIB) provides public sector financing in Western Europe, which, of course, is not our domain of interest. It is also true that the EIB covers those countries that have asked to join the European Union. We are very happy to cooperate closely with these institutions.

**Would you cite one or two major successes that the EBRD has had in Central and Eastern Europe and the former Soviet Union?**

First of all, our latest figures show that by November 30 our board had approved 139 projects for an amount of 3.4 billion ecus (\$3.6 billion). The disbursements amount to 500 million ecus (\$553.5 million). The disbursement figure was the focus of a lot of public attention at the very beginning because it was extremely small. We are now gaining momentum. I think that these figures are the manifestation of the activity and efficiency of the institution over the past two and a half years. In addition to actual financing, institution-building is something we have been working very hard on, in particular helping to create good banks, good banking systems in recipient countries. I also think our action in assisting small and medium sized enterprises is something that is quite remarkable although it is difficult to achieve because it takes a lot of time and care. I also believe that our action in terms of helping countries

privatize public systems, such as telecommunications, has been extremely important. I have in mind, for instance, the recent Hungarian telecommunications project, and I could cite many others.

**You have said that the private sector is your main focus although you do public sector projects as well. Have you had a lot of difficulty identifying projects in the private sector given that, as you say, there has been a big emphasis in the past in these countries on the public sector?**

We have done a lot of private sector projects, but they are smaller on average than the public sector projects. We have approved 109 private sector projects, compared with 30 state sector projects. The state sector projects are valued at 1.4 billion ecus (\$1.55 billion) while the private sector is 1.9 billion (\$2.03 billion). In terms of the amounts, you have 41 percent which are state sector projects and 58 percent which are private sector projects. So we are pretty close to our 40/60 mandate. If you look at the projects that are completely disbursed, I would say three quarters of those that have been disbursed are private. So when you say it is difficult, my answer is yes it is difficult, but we do it.

**This is a criticism that I haven't heard for some time, but certainly at the beginning, at the foundation of the EBRD, there was a lot of disquiet in America that they did not have enough say in the EBRD. Do you feel that the United States has as much say as it ought to have?**

The United States is one of our largest shareholders, and it has its representation on the board of the EBRD, the board of directors, and they vote on all management and operational decisions according to the charter. I can tell you the United States has a very important say in the EBRD. Now they don't have a veto, actually no individual country has a veto, which is a strength of the bank, but I can tell you that the United States' position is made very clear and is part of the decision-making of this bank. I don't feel any tension in presiding over the board at meetings. I feel a lot of collaboration with the United States and the greatest mutual respect.



**In the white paper that the European Commission has put forward on the jobs crisis, there is a great deal of emphasis on improving infrastructure and having communications networks. Do you see a role for the EBRD there? Do you think these networks could be extended into Eastern Europe and the former Soviet Union?**

Yes, definitely. Opening up the communications systems of those countries is a way of modernizing their economies. We have been approving quite a number of projects in the field of telecommunications for example. We have approved to date 17 financial projects in telecommunications and 19 technical cooperation projects in the same field. The emphasis is shifting toward private sector loan and equity financing.

**How do you feel in general that the former Iron Curtain countries are developing toward market economies?**

I am very much a case by case, country by country type of man, and when I was confronted with the debt problem during the 1980s (as President of the International Monetary Fund), I refrained from general characterizations of the problem. I developed a case by case strategy, which is also what I have in mind for the treatment of the problems now at hand.

We well know that in the former Soviet Union there are countries that are suffering more than others from unrest and political problems and that of course makes their transition toward a market economy all the more difficult. But all these countries have a potential for development and for moving toward a private sector economy. As you know, some are very well endowed with natural resources and I am sure that there is a way of maximizing the potential of and the differences between these countries in order to help them move together toward a more modern system of economic management. So I happen to be reasonably optimistic about their chances. Of course, the sooner the civilian unrest in some of those countries can be reduced or eliminated the more the changes in their development will flourish.

We can make a very significant difference in helping those countries avoid some mistakes and build the institutions which are needed for a devel-

oped market economy. We can facilitate some private investments from abroad which would not have come had we not been there to accompany them, to provide them some reassurance, some comfort. So we have a role that is very important.

**Could I ask you to look into your crystal ball for a moment. Can you foresee a time when this aid will no longer be necessary? Will the EBRD need to remain in business for a long time?**

It is difficult to say. The problems are huge. We all know that this transition is going to take a long time. I would refrain from giving a time horizon. One thing we must not underestimate in the West is the magnitude of the need in Central and Eastern Europe and the length of the modernization processes that are at work. The European Union has indeed invested large amounts of money in the various countries, but the process of reform is very slow and there are many, many obstacles on the path toward the free market.

It is not simply a matter of amounts of money invested, it is a question of how best to create the right environment for a market economy to grow. This includes large and small scale privatization, banking reform, and liberalization of foreign trade. All these things take time, and progress is inconsistent across the region. While the EBRD cannot solve all these problems, it is an institution with a very important role to play throughout the process of change...


I think the volume of commitment which I gave you a moment ago is not the only criteria by which to judge our effectiveness. The quality of the projects and their impact on the transition are equally important. The EBRD's emphasis will probably change and adjust as time passes, but while there is a need for the kinds of financing instruments that it has at its disposal, particularly as the private sector hopefully strengthens, the EBRD will continue to play a major role in the region's development for a long, long time. And if one day one didn't need any agent to help the financing of development and the market economy, well that would be the biggest success the EBRD could imagine.

**How do you get more private companies investing in these countries?**

It is clear that foreign direct investment is certainly flourishing more in Asia and in Latin America than it is in Eastern Europe. And probably capital flight from those countries, particularly Russia, exceeds the foreign direct investment flows. This points to one major factor and that is that capital flight is driven by political uncertainty and distorting trade and capital controls. So the key to attracting private investment, both domestic and foreign, is political stability, monetary, and fiscal stability. Private investment only really goes to places where you can have some perspective of doing business, an environment that is stable, where you know the rules of the game and where you can be sure that the money earned through your investment is going to be repatriable. Assurance of security of property rights and the ability to repatriate profits and capital are very major factors behind the present reluctance in some cases for direct investment.

This stability is certainly difficult to achieve in conditions of democratic transition, but part of the challenge is to create investment-friendly regimes. Of course, we don't have in the EBRD such powers, but we can advise governments and, through the example of success in our private projects, demonstrate that there are indeed profits to be made by foreign investors.

**American firms are beginning to awaken to the possibilities of doing business in the Eastern part of Europe and in the former Soviet Union. How can they get involved, particularly get involved with the EBRD?**

We have a very open system. Each time we have a project, we advertise it so that private companies who know that we are going to finance such and such a type of project in those countries know that they can apply. We have a very open and competitive procurement system. We have more and more American companies, be they consultants, when a project is in the feasibility stages, or industrial companies or banks participating in our projects. Our US office is actively marketing the EBRD to US companies, and these people can be contacted by the private companies in the United States to present their applications for our projects. 



DAX	TITEL	***				
16	1820.65	1811.67	1813.69	I+	4.03	110
50	298.50	296.20	296.50	I-	0.50	13
50	307.50	304.50	305.00	I-	1.20	17
00	452.00	443.00	450.00	I-	5.00	8
10	514.10	514.00	514.00	I	0.00	3
00	617.00	610.00	613.50	I-	1.50	10
00	291.40	287.60	287.60	I-	4.20	34
00	802.00	796.00	801.00	I+	1.00	11
00	326.00	321.00	321.00	I-	2.50	11
00	723.00	718.00	719.80	I+	1.80	35
30	399.30	396.00	397.00	I+	0.50	12
50	463.50	460.00	460.50	I	0.00	10
50	412.50	408.00	409.50	I+	2.00	21
00	575.00	573.50	574.00	I+	2.00	4
00	440.00	439.00	440.00	I+	1.00	2
00	810.00	804.00	806.00	I+	1.50	16
50	171.50	168.00	168.50	I-	1.00	12
00	606.00	603.50	604.00	I+	1.50	26



# EURO Funds

European Mutual Funds Lure Record  
 Number of US Investors **By James D. Spellman**





rt	1813.69	***	DA
rbörse	DAX	1809.66	1818
	ALV	2545.00	2550
	BHW	361.50	364
	BVM	371.00	370
	CBK	272.70	274
	DBK	763.00	768
	DRB	410.00	412
	CON	312.00	314
	MMW	333.00	335
	THY	277.00	277
	KAR	646.00	642
	KFH	622.50	625
	DBC	203.00	201
	LIN	988.00	990
	MAN	480.50	489
	13:45		
	1811.67		



**US-based investors plowed more than \$1.3 billion last year into mutual funds that invest solely in European stocks and bonds, garnering returns of as much as 40 percent, nearly triple the average performance of America's stock markets.**

Just as they did in the US three years earlier, investors piled into stocks in a European rally fueled by real and anticipated cuts in interest rates as central bankers tried to jump-start economies mired in recession. The surge of Americans' money into Europe helped the rally gain more breadth and momentum. Germany's interest rate fell several percentage points within 12 months, sending the Frankfurt DAX to a record high of 2,268 in 1993, a 45.9 percent increase in local currency terms. That was the best performance among European Union (EU) bourses. The United Kingdom finished last among the Twelve with a return just shy of 20 percent. Records were set throughout the EU, with nearly all the exchanges posting gains of at least 20 percent, matching the performance of the world stock market index calculated by Morgan Stanley Capital International. That compares to a 13.7 percent increase for the Dow Jones Industrial Average and a 14.3 percent rise in the NASDAQ Stock Market's composite.

Today, there are 28 Europe region funds; in 1985, there was one, according to Amy Arnott, an analyst with Chicago-based research group Morningstar. This mirrors a general explosion in the number of mutual funds offered to US investors. In 1990, there were 3,100 funds. By 1994, this soared to 4,500. International funds climbed from 182 to 468 during the same period. New products were created as investments nearly doubled to \$2 trillion in three years, according to the Investment Company Institute, a Washington, DC association. Collectively, mutual funds in the US now manage as much money as the nation's banks.

US-based funds have also been offering investment products to Europeans. Advertisements in leading financial publications from Fidelity Investments, for example, tout money market accounts in different currencies and other offerings. As part of the "1992" directives to harmonize its 12 member countries' laws and form a single market free of trade barriers, the European Community (now European Union) approved in 1985 a measure (Undertaking for Collective Investments in Transferable Securities, UCITS) to allow cross-border marketing of mutual funds. But these efforts have grown slowly. Europeans tend to prefer to bank and invest with an institution that is based in their home market. Another reason: Europeans have yet to undergo the popularization of investing in stocks and other equities, which began occurring in the US within the last five years, driven by the sharp fall in interest rates. Europeans' savings are largely held in money market and passbook-like accounts.



Europe region funds have not always been stellar performers, as Arnott points out. "Even after this year's [1993] run-up," she wrote in Morningstar's December report last year, "this category has still been one of the worst performing investment objectives over the trailing five year period, and volatility has been 40 percent higher than the equity fund average." The average annual return for Europe region funds was 5.42 percent for the last five years through November 1993, nearly two-thirds less than the average performance of 14.25 percent for US diversified equity funds.

The strongest performers during the last five years have been those funds that invest in growth, financial, and technology companies in the US, according to various fund rating services.

Europe funds did not get the lion's share of the \$10 billion that US investors poured into international funds last year. The largest amounts went to Pacific Rim/Asia and "emerging markets" funds.

If the top holdings of Europe region funds are any guide to an investment strategy, money managers are stressing consumer goods, telecommunications, and insurance. According to Morningstar, the four top holdings by the funds are Nestlé, British Telecom, Assicurazioni Generali (the Italian insurance company), and SIP (the Italian phone company).

**What lies ahead?** Interest rate sensitive sectors have been the best performing stocks in Europe, according to Dave Bennett of Prudential Securities. Just as in 1991 in the US—when the stocks of banks, insurance companies, builders, mass merchandisers, and auto manufacturers led the market rally—so too will these stocks have the strongest price appreciations in Europe, he maintains. Financials are up 41.9 percent since January 1993 while cyclical stocks climbed 30 percent. Consumer stocks lagged with a 3.5 percent gain.

Some analysts think Europe's stocks, like those in the US, now look pricey, citing the ratio of price to earnings (the number of times that earnings must be paid before equaling the share's price) as their reason for caution. Stocks in Germany, for example, trade at 20 times their current earnings and 17 times their likely earnings in 1994. The 10 year average of the P/E is 15. According to Morgan Stanley, Europe's Gross Domestic Product weighted P/E ratio is 21.9—48 percent above its 10 year average.

"European interest rates will continue to trend downward, but these high expectations mean that stock prices can no longer be considered cheap," said Arnott. "If interest rates decline more slowly than expected, or if corporate

earnings fail to improve, prices would tumble. A strengthening dollar could also put pressure on returns for funds that fail to hedge against currency risks. This is not to say that investors should avoid Europe stock funds. They should, however, invest in them with their eyes open."

*James D. Spellman is EUROPE's Luxembourg correspondent.*

### Europe Mutual Funds - Top Performers in 1993

Fund Name	Performance 12/31/92 to 12/31/93	Toll-Free Number (1-800)
Dean Witter Euro Growth	38.26%	869-3863
Alliance New Europe A	34.57%	227-4618
Alliance New Europe B	33.66%	227-4618
Paine Webber Europe Growth A	32.61%	647-1568
Merrill Lynch Eurofund A	31.92%	637-7455
Paine Webber Europe Growth B	31.65%	647-1568
Paine Webber Europe Growth D	31.61%	647-1568
Putnam Europe Growth	31.06%	225-1581

*Source: Lipper Analytical Securities Corporation, January 1994*

### Five Year Performance, through Nov. 30, 1993

Fund Name	Performance 11/30/88 to 11/30/93	Toll-Free Number (1-800)
Merrill Lynch EuroFund A	10.29	637-7455
Merrill Lynch EuroFund B	9.17	637-7455
Fidelity Europe	8.96	544-8888
Invesco European	7.87	525-8085
Capstone European	7.23	262-6631
G.T. Europe Growth A	6.18	824-1580
Smith Barney Shearson European B	5.47	451-2010
DFA Continental Small Company	4.85	310/395-8005

*Source: Morningstar Performance Report, December 1993*

### Annual Total Return Averages, 1986-1993 (October)

	1986	1987	1988	1989	1990	1991	1992	1993
Europe Stock	17.17	10.12	7.20	22.62	-6.67	6.54	-8.02	20.83
Pacific Stock	72.00	32.58	22.70	27.70	-20.02	13.67	-4.39	na
International World Stock	32.99	5.01	14.15	21.65	-10.83	18.40	-0.82	na
S&P 500	18.68	5.26	16.61	31.8	-3.12	30.48	7.62	11.04

*Source: Morningstar Mutual Fund Performance Report, November 1993, December 10, 1993*



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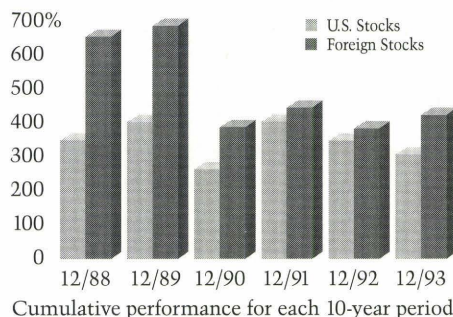
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### U.S. vs. Foreign Stocks\*

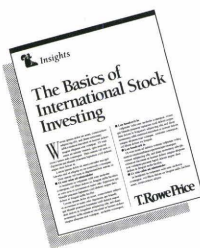


### Average Annual Total Returns\*\* (through 12/31/93)

<b>International Stock Fund</b>	40.1% 1 year	12.1% 5 years	17.4% 10 years
<b>European Stock Fund</b>	27.2% 1 year	6.0% since inception 2/28/90	
<b>Japan Fund</b>	20.6% 1 year	2.2% since inception 12/27/91	
<b>International Discovery Fund</b>	49.9% 1 year	13.5% since inception 12/30/88	
<b>New Asia Fund</b>	78.8% 1 year	31.0% since inception 9/28/90	

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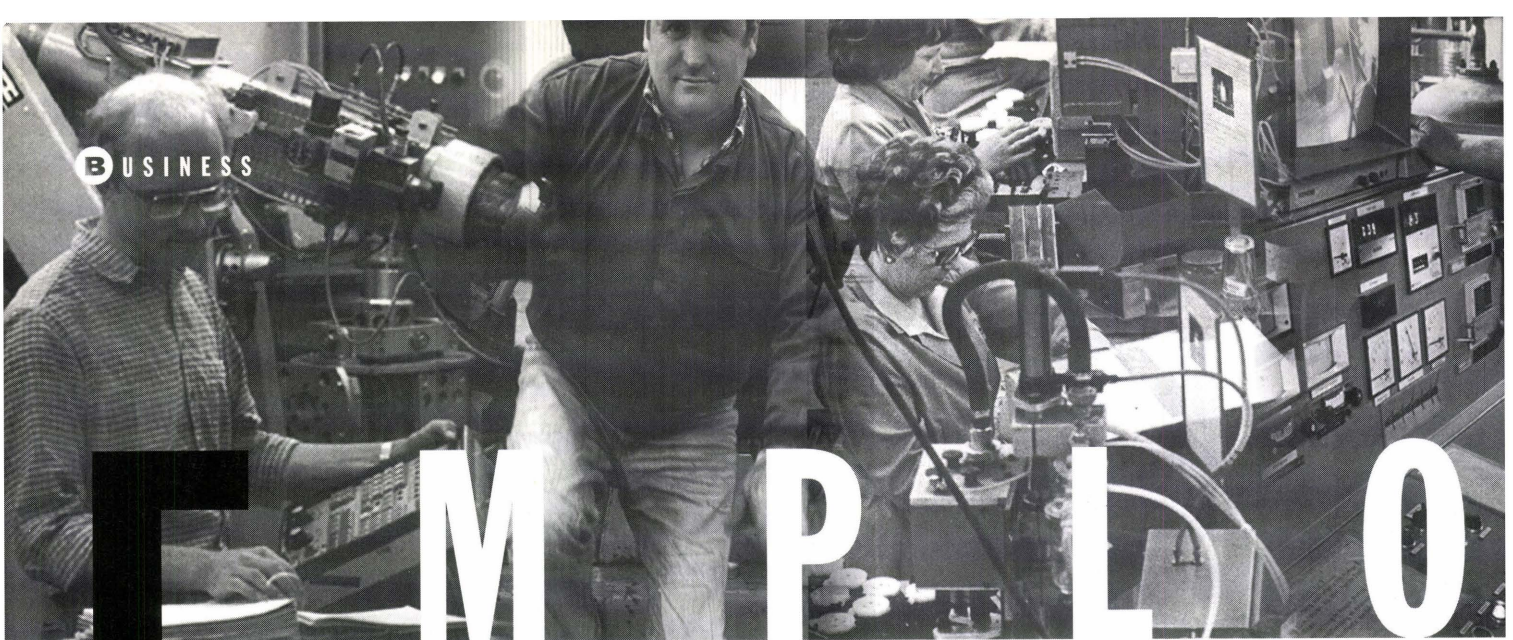
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\*Foreign returns are expressed in U.S. dollars. Sources: Foreign stocks—Morgan Stanley Capital International EAFE Index (Europe, Australia, Far East); U.S. stocks—Standard & Poor's 500 Stock Index. This chart is for illustrative purposes only and does not represent an investment in any T. Rowe Price fund. \*\*Figures include changes in principal value, reinvested dividends, and capital gain distributions. Total returns represent past performance and cannot guarantee future results. Investment return and principal value will vary, and shares may be worth more or less at redemption than at original purchase. Past and present expense limitations have increased the Funds' total return. There is no guarantee that the Funds will achieve their objectives. International investing has special risks, including currency fluctuations, the volatility of emerging markets, and limited geographic focus. Request a prospectus with more complete information, including management fees and other charges and expenses. Read it carefully before you invest or send money. T. Rowe Price Investment Services, Inc., Distributor.





# EXAMPLE

## E Europe's Most Pressing Goal: Generating New Jobs

By Amy Kaslow

THE 12 NATION EUROPEAN UNION is remarkably unified when it comes to identifying its most pressing problem: generating job opportunities for a society fast approaching economic despair.

Registering 20 million plus unemployed and a past decade of only marginal job growth, European leaders expect that President Clinton's mid-March international jobs conference will be a time for them to show their determination to reverse their decline.

They will share their experiences, ranging from the highly successful German apprenticeship program to the employers' now overwhelming burden of bearing social welfare costs. But they will also come seeking advice in a host of areas US public and private sector leaders are already engaged in, such as youth and urban unemployment, job training initiatives, flexibility in hiring and firing, hours and payscales for workers, and beefing up small and mid-sized firms.

"Our diagnosis of our problems is largely complete, we are now looking for prescriptions," says Pascal Lamy, Chief of the Cabinet of European Commission President Jacques Delors. Mr. Lamy was a principal architect of Mr. Delors' white paper on employment, which calls for "changes in economic and social policies" to combat deterioration in Europe's competitive position in employment, share of export markets, research and development, and establishing new products.

After the problems with ratification of the Maastricht Treaty and the departure of member states from the European Monetary System, the white paper filled an immediate need for a demonstration from Brussels that it can still

assume a leadership role in practical economic matters.

"We had to replug European integration on a concrete basis, and not leave people with the impression that Brussels is doing work only on 'far away' matters," Lamy says. "There are common features, of course, but national differences are profound," Lamy says of the comparison between the employment realities and outlooks for the Twelve.

By all accounts, Europe's chief challenge is to reduce welfare costs that strangle job creation. Its economies today are tangled in safety nets that were originally designed to ensure "social fairness" by providing a government-guaranteed network of health care, unemployment, and social security benefits. But governments buckling under huge budget deficits and employers who pay high "social costs" on top of wages no longer have the financial strength to afford these costs.

Zygmunt Tyszkiewicz, Secretary General of UNICE, a confederation of Europe's largest employer unions, is worried about the "delocalization of industry." Runaway "social costs and minimum wage requirements," he says, are causing a migration of [investment] capital from Europe to countries like China, "where labor costs are one two hundredth of the costs in Germany."

But Mr. Tyszkiewicz is also irked by other government policies that impinge on job creation in the long-run. "Subsidies for ailing or uncompetitive industries should be removed and channeled into something new that regenerates economies. Money going to prop up coal or wine growers could be used to encourage firms of the future, by fund-





ing education and research and development. Money should focus on the entry of firms rather than delay their exit."

France, where the unemployment rate is 12 percent (as in other European countries, unofficial figures put the jobless rate much higher), is riddled with European-style problems that impinge on job creation.

In Paris, government officials groan about the high social charges, worker training programs that fail to bridge the education system's "distance from actual demands of business," protectionist policies resulting in inefficient companies that cannot compete globally, and insufficient help for the small and medium sized firms.

"Twelve percent presents two big immediate difficulties," says André Nutte, a senior official at the French Labor Ministry. "One is the enormous problem of youth unemployment, which is upward of 22 percent. The other problem is the people who have been searching for jobs for a long time."

Mr. Nutte notes disturbing new trends such as the "brutal turnaround" for a growing number of white collar workers who were intensely recruited just three years ago but are now laid off and have poor prospects of re-entering the work force. With the increase in underemployment or part-time work, Europe must also now grapple with the emergence of the working poor.

All of these developments are familiar to Americans, but they are magnified in Europe, where the troubles will likely deepen before they ease and the prescriptions for combating them are embryonic. Lamy says he hopes to gain insights from US policy makers who

are "much more developed" in their strategies.

In the meantime, European Commission officials have fanned out to all 12 of the member states in an effort to sell the Delors framework for rejuvenating Europe's labor market.

"The point for us is to get governments to adopt collective responsibility, and so we are approaching this in a horizontal way," says Hywel Jones, Acting Director General of the European Commission's DG V. "It has to be a collective, coordinated effort," he says.

The European Commission's great challenge, of course, is to penetrate the national debate in all of the beleaguered economies.


On joblessness, "We don't know where the bottom is. We think we've reached it," says François Ecalte, Director of Forecasting at the French Ministry of Economy. France is still bucking EU advice on cutting subsidies for its national carrier, Air France, for example, and other costly measures to maintain the status quo. "Policy makers are proceeding cautiously, lest they jeopardize economic growth," Ecalte says.

As national governments such as France struggle with policy formation, they encounter plenty of friction with business and labor. Patronat, the French employers' federation, for example, has been agitating for interest rate reductions and pressing the newly independent French Central Bank to take more dramatic action. Gradualism, chastises Patronat Vice Chairman Ernest-Antoine Sellière, is not a viable option. "Economic activity has never revived without relatively low short-term interest rates," says Mr. Sellière.

While industry seeks more affordable borrowing to maintain, if not expand, their current payroll, French employers balk at Prime Minister Edouard Balladur's suggestion that refunds to businesses of value added taxes be predicated on job creation.

Keith Richardson, Director General of the European Round Table of Industrialists, a group of large multinational firms, says his members demand a more constructive and proactive approach than governments have mustered so far. He says wage levels, which must be negotiated between employees and employers, are already close to or may have even surpassed the limit of what European economies can manage. But government can effectively cut back on the non-wage costs—such as employer taxes and social security costs that exacerbate unemployment. "In effect, Europe has imposed a tax on jobs," he says.

"Can Europe afford to employ workers with current benefits and expect higher productivity?" Mr. Richardson asks. Big firms, he says, will grow by stepping up productivity which means first and foremost halting the increases in wages that are pricing European labor out of global competition.

As in the US, the large and often atrophying corporations dominate the industrial sector. But the service sector—where growth far outstrips industry—is the spawning ground for the smaller firms. Entrepreneurs call for government support—through tax relief and other incentives—in order to develop their businesses and hire new workers. 

*Amy Kaslow is a reporter for the Christian Science Monitor.*



# JOBS CONFERENCE

By Gina Gianzero **THE US ECONOMIC INDICATORS** are finally telling a more upbeat tale of recovery. Economic growth and new job creation are now nearly in sync. It is against the backdrop of such ostensibly positive developments that the Clinton administration has chosen to host a two day G7 Jobs Conference in Detroit "to confront the challenge of job creation and unemployment." Clearly, there is more to the US economic aggregates than meets the eye. Economists and administration officials warn that behind the recent drop in cyclical unemployment lurks a stubborn structural employment problem demanding a coordinated, global response.

"This gathering of global economic leaders shows both the seriousness with which we view the need to create jobs, and the cooperative nature of the approach our leaders are taking," declares US Treasury Secretary Lloyd Bentsen, who is scheduled to preside over a conference session on the global economy, trade, and jobs. Secretary Bentsen will be joined at the March conference by cabinet members Laura Tyson, Chairperson of the Council of Economic Advisors, who will speak on the world unemployment problem; Labor Secretary Robert Reich, whose formal remarks will focus on labor market programs and policies; and Commerce Secretary Ronald Brown, who will address issues of technology innovation and the role of the private sector. President Clinton is scheduled to open the conference.

According to White House conference coordinators, the conference's multi-faceted agenda reflects the multi-dimensional and international nature of the jobs problem. The guest list, which includes G7 ministers, EU commissioners, and senior officials representing labor, finance, trade and industry, and

social and home affairs, was assembled to "pull all of the pieces together" such that no one set of reforms would be pursued exclusive of the others. Through a series of informal, "hands-on" discussions, participants with knowledge of specific policy areas will share their experiences and observations concerning what has and has not worked in their countries. "This is part of a larger vision about economic security and about prosperity," explains one White House official.

As recently as July, during the Tokyo G7 Summit, when President Clinton first announced his intention to convene a jobs conference, the US employment situation was considerably more distressed than it is today. In particular, the unprecedented phenomenon of jobless economic recovery was alarming to administration officials. Recent improvements in aggregate unemployment figures reflect a cyclical swing in economic activity and conceal the more severe structural unemployment problem reflected in the uneven employment prospects within the American work force. Gary Burtless, a senior fellow and labor economist at

the Brookings Institution, insists that the structural problem is steadily worsening for workers without advanced skills, fueling "a very serious social problem in the United States." Burtless explains that in addition to a steady increase in the length of time these workers remain unemployed, the structural employment problem in the US has manifested itself in diminished wages, deteriorating fringe benefits, increasing intermittent unemployment, and a rise in involuntary part-time employment among such workers.

Burtless adds that although Europe's low skill workers are not experiencing the same erosion in wages and benefits as their US counterparts, they often face even more severe long-term joblessness. "We [in the US] don't provide an expensive package of social welfare protection for jobless workers. That's probably one of the reasons that, rather than face long spells of joblessness in the United States, workers accept employment but, unfortunately, employment that pays less well than equivalent jobs did 20 years ago. . . . Our jobless problem is small in relation to Western Europe, but our low earn-



# *Inside* EUROPE

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## SECRETARY STEPHEN OXMAN

Following are excerpts from Assistant Secretary of State for European and Canadian Affairs Stephen Oxman's remarks at *EUROPE* magazine's January press breakfast.

At President Clinton's meeting with President Delors and Prime Minister Papandreou, we reviewed the economic accomplishments of the last year, and agreed upon our mutual economic agenda for the next year. As you know, the President's promise to revitalize America's economy has been an important focus of our foreign policy, as well as of our domestic policy. Likewise, the leaders of the EU countries are just as concerned with reviving their own economies. We have focused on stimulating our economies by increasing trade, and we have made impressive progress in opening markets and lowering trade barriers. And let me just review as we did with the EU leaders. We reached agreement among the G7 on a package improving market access. Then, working together with the EU, we achieved a successful and far-reaching conclusion to the Uruguay Round, a very signal achievement. We also secured congressional ratification of the North American Free Trade Agreement, and together these accomplishments will open markets of billions dollars of exports, and they will create millions of jobs in the United States. Our trading partners in Europe and elsewhere will benefit equally. These are historic accomplishments.

Looking forward, our first agenda item for the next year...will be to continue to pursue our goal of lowering barriers to trade, and improving access to markets throughout the world. We will tie up the loose ends of ratifying and implementing the GATT agreement. We will try to resolve our remaining differences in important areas, such as audiovisual and financial services. We will also look for improved market access offers from Japan and other countries to ensure that our products have a fair opportunity to compete. Next in Brussels, we, with the EU leaders, agreed to put job creation at the head of

our economic priority list. The EU faces persistent high unemployment and sluggish growth. President Delors' white paper was a very, very important effort to address this problem. The US is now rebounding economically...but as President Clinton noted the other night in his speech, we must generate still more new jobs to keep our economy growing. Together, therefore, we and the countries of Europe must find ways to provide good, high-wage jobs for all our workers. The Jobs Conference, which the administration is hosting [in March], will allow us to assess each other's efforts, exchange ideas, and develop mutually reinforcing strategies for creating jobs throughout the world.

Third, with the EU leaders, we discussed the need to begin to address the next generation of trade issues. Many believe that the Uruguay Round will prove to be the last big multilateral negotiation to focus on lowering tariffs and other barriers. Our attention will now turn to issues such as harmonizing environmental regulation with international trade, trade and competition policy, including anti-trust laws and subsidies, and trade and labor standards. The NAFTA's landmark provisions protecting the environment are a good example of the type of agreement we will seek in the future.

Our economic accomplishments and agenda demonstrate in a concrete way why the United States so strongly supports the integration of Europe. And that is the benefit of dealing with the European Union on issues such as these. The unity represented by the European Union is not a myth. I can tell you from my own experience, and the Brussels meeting reinforced, how valuable our partnership with the European Union is for the United States. The success of our economic agenda will require constant close cooperation between the US and the EU of the type we have enjoyed for the last year and longer. And in thinking about European integration and seeing how strong the forces of integration run, I'm reminded of a comment Winston Churchill made about Anglo-American relations at the end of the second World



## ASSISTANT SECRETARY OF STATE (CONTINUED)

War; I think it applies equally. He said, "Anglo-American relations, the process of their strengthening, is like the Mississippi; it just keeps rolling along." And I have that feeling about European integration. Sure, there are setbacks along the way, as there were over the last 12 or 18 months, but when you work in the business many of us are in, you see how strong these forces are, how strong and deep the forces of integration run. And Churchill went on to say he thought it was an awfully good thing, he said, "let it roll, let it roll on full flood to broader lands and better days." And that's exactly the way we feel about European integration.

One of the principal tasks we face today and one that was a principal focus of the President's trip is to extend Europe's integration to the east. Both in the meeting with EU leaders and at the President's meeting in Prague, we moved toward replacing the divisions of cold war Europe with integration based on shared democracy and market economies. Both we and the EU are already providing substantial assistance to help the countries of Central and Eastern Europe with their difficult transition to democratic free market societies. Over the next year, the United States will be looking for new ways to foster regional cooperation among the newly emerging democracies. We will also concentrate on supporting the growth of democracy. For example, President Clinton announced that we are establishing a democracy network, which will bring new resources to independent, grassroots organizations in Central and Eastern Europe. But more than aid, these countries need trade, trade that will generate jobs and prosperity, and that will cement the integration of a formerly divided Europe. We and the EU must work together more to open our markets to goods from the East. We must remember that the benefits of open markets will not only accrue to the newly-emerging democracies. Prosperity and stability in the East will help assure the security of all of Europe. And the countries of Central and Eastern Europe are not only potential exporters, but potential importers. They can provide new markets, and are providing new markets, for Western goods and services.

In the weeks and months prior to the President's trip, some pundits criticized the administration's policy toward Europe. They asserted that the administration did not sufficiently recognize the importance of Europe, and that we had

abdicated American leadership in the world. In the wake of the President's trip, you don't hear those criticisms as often, and with very good reason. They were wrong when they were made, and they are wrong now. In his speech at the Hotel de Ville in Brussels, President Clinton reaffirmed the importance of our close ties with Europe. He said, and I quote, "Europe remains central to the interests of the United States, and we will help to work with our partners in seizing the opportunities before us all." And in his State of the Union Address...he again reminded us of the importance to the United States of stability and security in Europe. Europe has not, as some feared, fallen off our screens. On the contrary, the accomplishments of this administration's first year demonstrate a record of vigorous American engagement and leadership in Europe. The President's commitment to free trade, and our close consultations with the EU, were instrumental in securing agreement on the Uruguay Round, the major achievements of the NATO Summit, the Partnership for Peace, NATO support for a European defense capability, the combined joint task forces, the steps on nonproliferation, all resulted from American initiatives, in close consultations with our allies. Indeed, the Summit itself was proposed by President Clinton. And, we helped broker the trilateral statement on Ukrainian nuclear weapons. The United States will continue to remain engaged with Europe. In addition to the Jobs Conference, President Clinton will be visiting Europe twice this summer, once in June for the commemoration of the Normandy invasion, and again in July for the G7 Summit in Naples. Later this year, we will also host a Conference on Trade and Investment in Central and Eastern Europe, as the President announced in Prague. And we will continue to work with the EU in providing increased market access for goods from the East.

The bonds that tie the United States and Europe are unique, bonds of history, family, commerce, security, and most of all, deep and passionate commitment to the ideal of individual freedom. These bonds form the basis for our enduring partnership. Throughout the next year, and well into the future, we will continue to work closely with the European Union and our friends and allies in Europe, as we have in the past, to confront together the challenges that we face together.

## E.U. NEWS

### SWEDEN To JOIN EU

"We are very happy," Sweden's Chief Negotiator Ulf Dinkelspiel told reporters earlier this month after his country overcame last-minute concerns and accepted an offer to join the European Union.

"In the final analysis we have a very good agreement that constitutes a very good basis for the referendum to follow,"

he said, referring to a Swedish ballot that must now take place if it is to join the Union on 1 January 1995.

Sweden's Dinkelspiel said the agreement with the EU was good for both sides.

"Obviously Sweden stands to gain from joining the Union," he said. "[But] Sweden can also contribute. What matters most is we all stand to gain from an enlarged Community."



## SENATOR BILL BRADLEY

Following are excerpts from Senator Bradley's remarks at *EUROPE* magazine's December press breakfast.

While for 45 years our leadership in the world derived primarily from our ability to protect other nations from an obvious military threat that was coming from the Soviet Union, that threat has now essentially evaporated, and the question is then raised—what's the nature of US leadership? And I would argue that our leadership, more than ever before, has got to be a leadership of example. And I think that that example, for lack of a better phrase, should be of a pluralistic democracy with a growing economy that takes everybody to the higher ground. And I think also that the need to understand that leadership comes by example has implications for our policy toward Russia and the former Republics.

I think that that relationship should be guided by three principles. That we should think for the long term, in other words, make decisions and formulate policies that keep central before us the long term. Second, that it should recognize the extent to which interdependence is a reality, a reality that doesn't give us much margin for error to ignore events that are sweeping that land mass. And, I think third, the principle should be that our policy should affect human beings for the better. And if you keep those principles in mind, one of the things that I think is most important for us is to have a massive exchange of peoples between the United States, Russia, and the former Soviet republics.... It's with that in mind that I introduced and two years ago we passed the Freedom Exchange Act. Now, I first got this idea back in 1989 when I was out in Almadi [Kazakhstan], then called Alma-Ata, and I was visiting a high school. And the high school had about 15 students who had just come back from spending a year in the United States in Phoenix, Arizona. And I asked them a few questions, and they asked me a few questions, and I then said to them, "What's your most vivid memory of your stay in the United States?" And one little girl raised her hand and said, "well, my most vivid memory was the departure." And I said, "what do you mean by that?" And she said, "when we were at the airport, and the girl I was staying with came up to me and thrust a key in my hand and said, 'here, this is the key to our home. In case you're ever in Phoenix, and you don't have a place to stay, just go in and make yourself comfortable; you know where the refrigerator is.'"

The point is that a bond had been established by that young person's six-month stay in the United States, a bond that would have a lifelong impact on her attitude. I look at what happened in Europe after the War. The German-French exchanges, thousands and thousands of young people living in the homes of the other nation's families. I look at the US-Japan exchange programs. And I believe that if we are truly investing for the long term, that these have to take the highest priority. I know we're all concerned with today and tomorrow and the news that's

breaking and the cables that have to be written and the releases that have to be finalized. But if we're serious about transformation, and that's really what the issue is, then this kind of investment is absolutely essential.

**Can you give us a sense of how your colleagues in the Senate and your constituents in New Jersey are currently viewing Western Europeans? It has been said that whereas in the Bush era, the word "European" summed up a sort of ally, these days it summons up a vision of trade competitors.**

I'd say it's a long way from New Jersey to Asia. It's a shorter distance from New Jersey to Europe. The reality is that Europe and the United States will always have the cultural bond that is essential, and will always have the history of the last 50 years. I believe that Europe is absolutely central to the United States' future, to our self-interest as well as to the possibility of achieving greater democracy and prosperity in the world. We tend to have our disputes, as any friends do have from time to time, but as disputes go, they're rather minor. They are disputes that flow from mutual self-respect. And I believe that Europe is in a kind of identity crisis itself in terms of trying to define its own way. The United States can and should be a helpful friend and should be standing with Europe in a number of areas.

The United States' outlook has shifted to other places in addition to Europe. What Secretary of State Christopher said is very true. There is more and more of a look to Asia. That is the burgeoning dynamic engine of economic growth, and will continue to be. The second fastest growing part of the world, of course, is immediately to our south. NAFTA could very well be the first step in trying to develop even closer ties with that region. Europe is not only not going to be forgotten, it can't be forgotten. It is absolutely essential to our own well-being.

### WHAT THEY SAID....

#### **"NATO has teeth."**

—General Sir Michael Rose, Commander of UN peacekeeping troops, commenting on the shooting down of four Serb warplanes by NATO jets.

**"Just having a couple of weeks to enjoy peaceful surroundings in the company of the world's best athletes is a victory in itself....Even if it is something of an illusion."**

—Izet Baracic, Bosnian bobsledder, reflecting on his experience at the 1994 Winter Olympics in Lillehammer, Norway.



## BUSINESS BRIEFS

**Airbus Industrie** is to establish a subsidiary in Beijing to tap the world's fastest growing aviation market. "We have decided China is a region by itself," said Jean Pierson, Managing Director of the four nation European aerospace consortium. "We will keep increasing our presence there. We will put whatever is necessary there." China will spend \$90 billion on more than 1,200 rival aircraft between now and 2010, according to **Chase Manhattan Bank**. Airbus, stung by the recent loss of a \$6 billion order from Saudi Arabia to arch rivals **Boeing** and **McDonnell Douglas**, is determined to take a substantial share of these contracts.

•••

**British Airways** retained its title as the world's most profitable airline, reporting a pre-tax profit of \$96 million for the third quarter of 1993, more than tripling the year earlier result during one of the most savage recessions in the world air transport industry. This took BA's profit in the first nine months of 1993 to \$443, up 22 percent on the 1992 period. BA is the only major airline in the world to make profits every year for the past decade. It notched up profits of \$1 billion in 1990-93, while US carriers lost a combined \$10 billion and other European airlines dropped \$7.5 billion.

•••

**Philips**, the Dutch electronics giant, plans to spend nearly \$150 million to take control of **Grundig AG**, the unprofitable consolidation of Europe's consumer electronics industry. Philips will spend \$143 million to buy share certificates from a group of German and Swiss banks and transfer them into stock to increase its stake in Grundig to 50.5 percent. Philips bought a 24.5 percent stake in Grundig in 1979 and boosted it to the present 31.6 percent in 1984. Despite its minority holding, Philips controls Grundig's management and finances.

•••

**ABB** signed a memorandum of understanding "to upgrade several metallurgical and petrochemical plants in Ukraine," underlining the Swiss-Swedish engineering firm's pioneering investment role in the former Soviet Union and Eastern Europe. ABB Chief Execu-

tive Percy Barnevik said financing for the deal worth "several hundred million dollars" is nearly complete. No other Western firm can match ABB's commitment to the former communist nations of Europe, where the company already employs 20,000 workers and is set to hire as many in the former Soviet republics by the end of the decade. Mr. Barnevik, in Kiev at the invitation of Ukrainian President Leonid Kravchuk, chided Western firms for failing to invest in the country. "We must have Western aid in this part of the world."

•••

**Mercedes-Benz** plans to assemble its successful compact "Baby-Benz" car in Mexico by the end of the year to meet growing demand in the United States. At present, Mercedes only makes the "Baby Benz" in Germany, but it is shifting production abroad to avoid high local labor and social security costs and to position itself closer to overseas customers. Mercedes Mexican subsidiary began building larger executive models last year.

•••

**Glaxo**, Europe's biggest pharmaceutical company, made first half pre-tax profits of \$1.5 billion for the first time, thanks to surging sales in the United States, which contributed to a 22 percent leap in earnings from \$1.2 billion in the year earlier period.

The British firm's ulcer drug, Zantac, consolidated its status as the world's best-selling prescription medicine with sales increasing 5 percent to \$1.8 billion despite cuts in European government health spending. Glaxo intends to cement one or more alliances in the US by the end of the year, according to Chief Executive Sir Richard Sykes.

•••

**Bayer**, the German chemicals giant, is paying \$310 million for a 28.3 percent stake in **Schein Pharmaceuticals**, a privately-owned generic drugs company based in Florham Park, New Jersey. The purchase follows the \$546 million acquisition of **Copley Pharmaceutical, Inc.** by **Hoechst**, Bayer's German arch rival, last year.

•••

**Ahold**, the Dutch supermarket

group, consolidated its position in the top 10 food retailers in the US by buying **Red Food Stores** from **Promodes**, the French retailer. **Red Food Stores**, which has annual sales of \$585 million from 55 outlets in Tennessee and Georgia, is Ahold's sixth acquisition in the US since it moved across the Atlantic in 1977. The latest buy will boost Ahold's US sales by 9 percent to \$3.75 billion, just over half of its sales.

•••

**Finmeccanica**, the Italian state-owned engineering group, is considering buying a stake of up to 20 percent in **McDonnell Douglas**, the US aerospace firm. Finmeccanica, confirmed talks are underway with McDonnell Douglas, but declined to comment on reports that it intends to buy into the US group's Douglas Aircraft subsidiary. Finmeccanica, a member of the **ATR** consortium which makes medium sized commuter jets, recently agreed to acquire eight aerospace and defense firms controlled by **Efim**, a state holding company which collapsed in 1992.

•••

**Statoil**, Norway's state oil company, has gained a toehold in the US gas market with the purchase of a 38.1 percent stake in **Eastern Group**, a \$140 million-a-year US gas producer, trader, and distributor.

Statoil has long sought to export gas from the Norwegian sector of the North Sea but has failed to obtain prices that would cover transport costs across the Atlantic. The two companies are setting up a gas marketing venture through which Statoil will supply Eastern Group with a minimum of 5.6 billion cubic meters of natural gas over five years for sale in the US.

—Bruce Barnard

### INSIDE EUROPE Correspondents

Bruce Barnard

Reuters contributed to news reports in this issue of *Inside Europe*.

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**Detroit is the site of the March Jobs Conference, which will be attended by economic policy makers from around the world.**

ings problem is severe in comparison." While many of Western Europe's inflexible employment protection rules and rigid wage structures have ensured that wages remain high for a relatively small pool of skilled workers, they have also deterred the creation of new jobs for many of the continent's younger, lower skilled workers.

Most economists agree that although the jobs problem may manifest itself differently throughout the G7 countries, many of the problem's roots are basically the same everywhere. Labor-saving technological change, industrial downsizing, changing patterns of world trade, and other aspects of greater global integration comprise the most commonly cited group of culprits. According to Richard Barnet, co-author of the recently released *Global Dreams: Imperial Corporations and the New World Order*, "the nature of competition has changed.... The fact that production and services can be moved around so easily makes chasing low wages more important." The resulting growth in insecurity in the work place, explains Barnet, "extends from assembly line workers right up to managers."

The litany of proposed solutions to the jobs problem has ranged from calls for

greater restrictions on trade, something the Clinton administration hopes to discourage forcefully at the jobs conference, to re-equipping the work force for the new technological demands of the information age. The jobs crisis has also prompted a rigorous examination of labor market institutions and policies throughout the industrialized world, including in Japan, where, although official unemployment remains low, it has nonetheless threatened the country's time-honored system of lifetime employment.

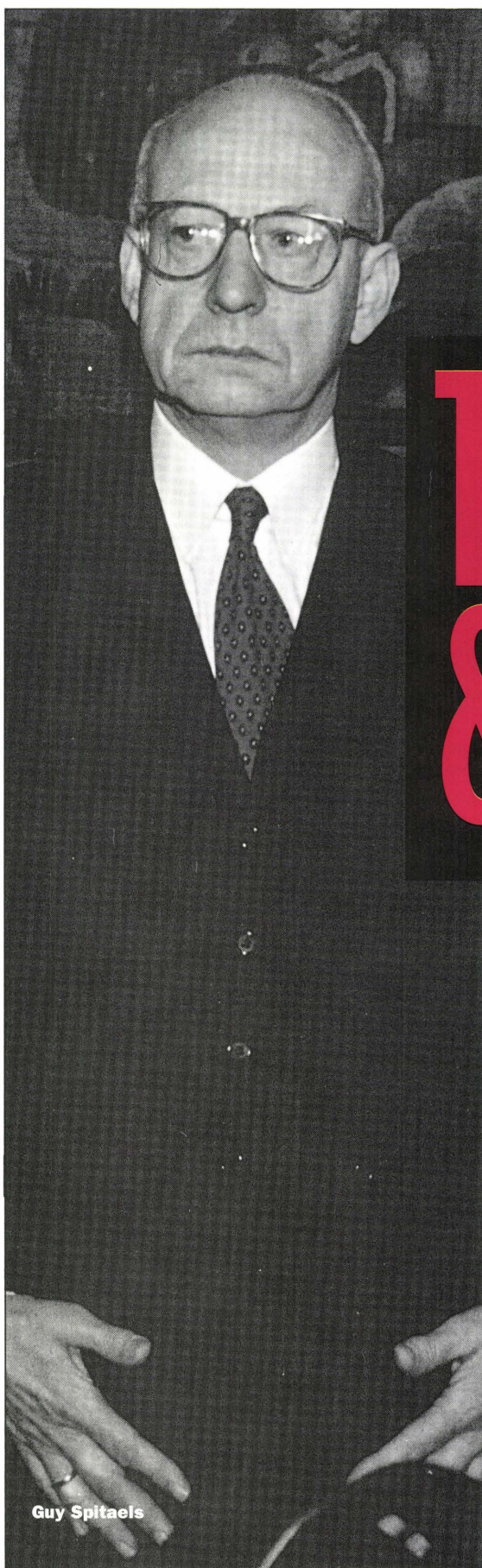
For Labor Secretary Reich, job training figures prominently among the solutions. He intends to overhaul the US government's training programs in an effort to prepare dislocated and disadvantaged US workers more effectively for the high-skill work that he claims new technologies are spawning worldwide. Although few experts dispute the value of training workers to become more adaptable and versatile, many do not concur with Reich's optimistic forecasts about the proliferation of new high-skill jobs. Hence his critics repeatedly question, "Training for what?" White House sources contend that jobs conference discussions will focus on the industrialized world's need to create both the value-added jobs and the skilled work force essential for improv-

ing living standards.

Economists like Burtless and Barnet generally applaud the animus driving the upcoming jobs conference. "We really do have a lot to talk about," says Burtless, adding that such a conference may serve to mobilize the research community and attract additional resources to the problem. Barnet's assessment is more guarded, "It at least says that the President of the United States understands that there is a global jobs problem." However, he emphasizes the global nature of the problem and the danger of failing to consider adequately the role of developing countries' policies in the mix. "If this is it then it doesn't fit the bill." The White House views the conference as reflective of a gathering crescendo in the focus on growth and employment issues, beginning with the recently released EU white paper on European employment problems and continuing post-conference with further dialogue at the OECD ministerial level and the G7 Summit later this year. Given that few issues stir more powerful sentiments than the question of protecting local jobs, the crescendo is likely to sustain its intensity for some time. **E**

*Gina Gianzero writes about economics and politics from Washington, DC.*





Guy Spitaels

Last year was a difficult one for Belgium, but nevertheless one of substantial achievement. Final approval was given by the Belgian Parliament to a series of constitutional amendments which will complete the country's transition from an over-centralized unitary state to a federal structure in which Dutch-speaking Flemings and French-speaking Walloons are largely responsible for their own affairs.

The Belgian presidency of the EU's Council of Ministers, in the second half of the year, saw the coming into force of the Maastricht Treaty in November

# Three Guys & a Scandal

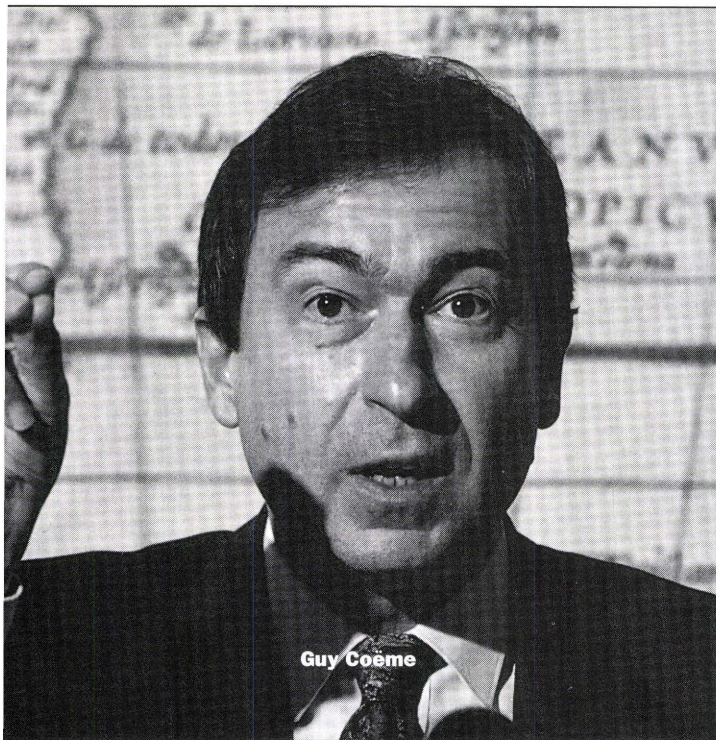
BY DICK LEONARD

and was generally accounted a success. The sudden death of King Baudouin, on July 31, was a heavy blow, but the succession of his brother Albert went extremely smoothly amid much evidence of popular enthusiasm. The economic situation remained extremely tight, yet the left-center coalition government of Jean-Luc Dehaene was able to take tough decisions to reduce the budget deficit without breaking up in the process as many had predicted.

Yet 1994 may prove altogether a more somber year. The country is mired in a corruption scandal, which some fear may reach huge dimensions similar to Italy's battles of corruption and submerge the whole political class. It is not yet anything like as bad as Italy's corruption crisis, but the wheels of Belgian justice grind exceedingly slow. Even if, which many doubt, total light is eventually shed on the affair, it will be a long time before the clouds of suspicion now enveloping many, probably innocent, people are lifted.

Already the scandal has drawn blood. Three prominent French-speaking Socialist ministers were forced to resign in January, and it was only with difficulty that the left-center government coalition was able to survive. The three who resigned, after there were re-





quests for their parliamentary immunity to be lifted, were Vice-Premier Guy Coëme, Walloon Premier and former party leader Guy Spitaels, and Interior Minister for Wallonia Guy Mathot. The Three Guys, as they are inevitably known, all strongly deny any wrongdoing.

The labyrinthine plot allegedly started in 1988, when the Italian arms company Agusta was awarded a \$330 million contract to sell 46 helicopters to the Belgian army. Agusta had won out after fierce competition from France's Aérospatiale and Germany's Messerschmidt-Bolkow-Blohm. Coëme was Defense Minister at the time.

Although the deal looked suspicious, no evidence of foul play emerged until last year when the Agusta company figured prominently in corruption scandals in Italy, particularly those involving the Italian Socialist Party and former Prime Minister Bettino Craxi. Documentary evidence was produced suggesting that Agusta had paid large sums to the Belgian Socialist Party to secure the helicopter contract and that payment had been made through a "front organization"

controlled by Guy Mathot, who was then a leading figure in the Liège branch of the party. The local party boss in Liège, André Cools, another former party leader, was mysteriously murdered in July 1991.

The inquiry into his murder had been assigned to magistrate Véronique Ancia. She traveled to Italy to interview Agusta officials as well as Craxi himself, and she subsequently asked the Belgian Parliament to lift the immunity of Coëme, Spitaels, and Mathot so that she could pursue her inquiries further. She submitted a 16 page confidential memorandum setting out the grounds for suspicion against the three men.

This document was leaked and was published in several Belgian papers, causing a sensation, as it revealed that Philippe Moureaux, a former Vice-Premier and close associate of Spitaels, was now his principal accuser. The allegations, which all three men deny, are that Spitaels, as party leader, instructed Coëme to ensure that Agusta got the contract, that Coëme (or a member of his personal staff) doctored a technical report assessing the three rival bids to make it more favorable to the Agusta proposal, and that Mathot received substantial funds from the Agusta firm destined for the election fund of the Socialist Party.

According to Moureaux, the party never received the funds, while a former mistress of Mathot claims he used the money to build a \$375,000 house at Saint-Raphael on the French Riviera. The precise role of André Cools, who was subsequently accused of running an extortion racket to finance the party in Liège, remains unclear, though the conviction is growing that his murder was connected with the affair.

The Belgian Parliament has thrown out the allegation that Coëme doctored any reports, accepting his explanation that these were merely successive drafts going through a normal procession of revision before they were submitted. Yet it did rule that there was a case for him to answer concerning possible corruption, and he will be arraigned, at his own request, before the Court of Cassation, Belgium's supreme court. Whether Spitaels and Mathot will also be charged will depend on the results of Judge Ancia's further inquiries.

Amid so much uncertainty, it is already clear that it will be several months before the case comes to trial and that in the meantime the atmosphere will remain poisoned by rumor and innuendo. There is some relief that, unlike in Italy, the accusations, so far at least, focus on only one party, but that party is a senior partner in the government and is the dominant force in the French-speaking part of the country.

The scandal seems likely to have an indirect effect on the EU. Guy Spitaels, the strong man of Belgian Socialism over the past decade, was a favorite to become the Belgian member of the new commission which will replace Jacques Delors' team next January. Even if Spitaels is totally cleared of implication in the Agusta affair (and the published evidence against him is extremely thin), it will probably be too late for his appointment to go ahead.

Meanwhile, Belgians are steeling themselves to go through a bleak period in their national life. The only benefits which they can see emerging will be a tightening up of procedures to award government contracts and a determined effort to make the finances of political parties more transparent. **E**

*Dick Leonard is EUROPE's Brussels correspondent.*



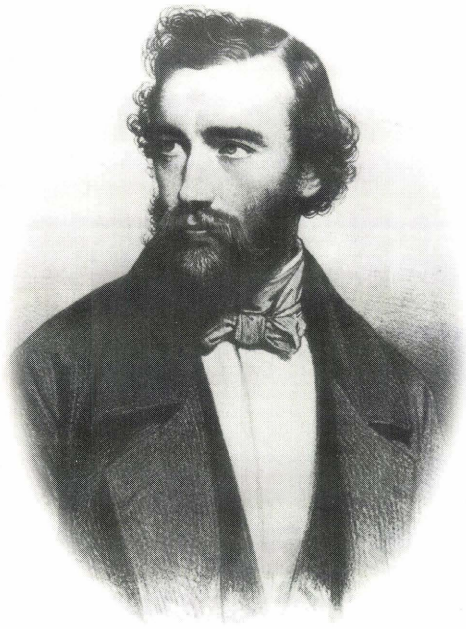




BELGIUM  
A Century of

# SAXO

“Saxophone-smash” concert in Washington, saxophone exhibit at the Smithsonian Museum of American History, saxophone competition in Belgium—could it be that President Clinton’s inaugural stint on the saxophone triggered a “sax-mania” of such magnitude that it went beyond the borders of the United States and got Europe attuned to Clinton’s publicized hobby?



Adolphe Sax

By Marie-Catherine Parmly

Well, not to undermine President Clinton’s personal charisma or the intrinsic power of the saxophone as a communication tool in foreign policy, one should note that it was not just by chance that President Clinton was offered a saxophone in Belgium during his recent European tour. Indeed, Belgium is the cradle of the saxophone, and 1994 marks the one hundredth anniversary of the death of Adolphe Sax, the Belgian father of the instrument.

The history of the saxophone started in Dinant, a picturesque Belgian town nestled on the banks of the Meuse River, famous for its hammered plate yellow copper called *dinanderie*. Adolphe Sax was born there, and today Dinant is preparing to honor its hometown boy on a grand scale. Sax’s former house has been converted to a museum, and the program set up for the “Sax Year” is dazzling for such a relatively small town. It includes an international jazz festival (July 21–24), an exhibit on the theme “The Saxophone in the History of Painting 1840–1994,” and, most importantly, the “Adolphe Sax International Competition for the Saxophone” (October 30–November 5), which will draw participants from Europe, the United States, Japan, and Canada. The closing concert will involve 1,000 saxophonists and will coincide with the dedication of a monument to Adolphe Sax, a creation of the Belgian sculptor Felix Roulin. Dinant’s secret dream is that President Clinton will drop in while officially visiting the US military cemeteries of World War II and the nearby site of Bastogne.





**From left: Lester Young, Dexter Gordon, John Coltrane, Johnny Hodges, Kenny G., President Clinton.**

# PHONE

In the United States, the adoptive country of the saxophone, the one hundredth anniversary of the death of Adolphe Sax is equally remembered. Washington hosted a "saxophone smash" concert co-sponsored by the Smithsonian's Division of Musical History and the Embassy of Belgium. This musical tribute to the saxophone was held on February 4 and featured three diverse styles of saxophone played by prestigious American artists performing short solo sets and presenting their comments about the instrument. Washingtonians heard David "Fathead" Newman, former Musical Director of the Ray Charles Orchestra and internationally known as a tenor saxophonist; James Houlik, dubbed by *The Washington Post* as "the Andres Segovia of the tenor saxophone" and a real "missionary" in the promotion of the instrument; and the star of the evening, Kenny G, the saxophonist whose recent compact disc *Breathless* is a multi-million seller and rates high in *Billboard's* top rhythm and blues albums.

This venue launched the opening of an exhibit dedicated to the saxophone at the Museum of American History in which hundreds of Americans could take a closer look at President Clinton's very own saxophone, on loan from the White House. But in all this 1994 saxophone euphoria, who still remembers Adolphe Sax and the somewhat difficult beginnings of his instrument?

Adolphe Sax, the son of a manufacturer of brass and woodwind musical instruments, was introduced to music early on. At age 15, he had already sent two noteworthy instruments to the Brussels Industrial Exhibition, and at age 20, he invented the bass clarinet. After settling in Paris, he reached a turning point in his career when he obtained a patent for his new instrument, the saxophone, on June 28, 1846. In fact Sax had invented the saxophone several years earlier, but only French

composer Hector Berlioz seems to have recognized the possibilities of the new instrument, which he reviewed in an article published in 1842.

The generic term "saxophone" covers a family of seven instruments ranging from contrabass to soprano. Unlike most brass instruments, saxophones have a reed (mouthpiece similar to that of a clarinet) allowing the performer to increase or decrease the intensity of the sound.

Despite Adolphe Sax's best efforts at promoting his saxophone, it was never fully accepted by the classical establishment, and very few pieces exist in the classical repertoire where the saxophone is the solo instrument of a symphonic orchestra. Sax fans are known to complain relentlessly about this "sax discrimination" in the classical repertoire.

It is only when the saxophone reached America that it finally acquired new respectability. American jazz redeemed the saxophone and nurtured its contemporary evolution and popularity. Yet the saxophone was a late addition to jazz. It figured little in the New Orleans small bands. Only with the rise of large bands did the saxophone become a central instrument and later developed as a solo instrument acclaimed in the performances of Sydney Bechet, Charlie Parker, Lester Young, and John Coltrane.

Beyond jazz, the saxophone has acquired a positive image and a style of its own in the late 1980s and early 1990s.

André Rysman, director of a European advertising firm, is quoted as saying that "the saxophone is to the 1980s what the guitar was to the 1960s." President Clinton's endorsement of this instrument only reinforces the image of the saxophone as a symbol of modernity. E

*Marie-Catherine Parmly is a writer based in Washington, DC.*



# Bruges

BY JANET BENNETT

THE TWO THINGS I LIKE MOST about Bruges are: first, it's not going to change. Each time I go back those wonderful stone and carved brick houses, the arched bridges, the ancient tree-lined canals will all still be there looking much the same as they did 700 years ago. This is because the city fathers keep an eye on how all the old buildings are maintained and underwrite restorations. Large signs and billboards are verboten: no golden arches advertising and no McDonald's. The second thing I like is that Bruges' human sized proportions means that visitors walk or bike everywhere because cars are not allowed in the center of town.

**Beginnings.** The history of Bruges begins and ends with an outlet to the North Sea called the Zwin, which was formed by a storm in the early 12th century. Such direct access to the sea led to the development of Bruges as one of the most important commercial centers in Western Europe. During the late Middle Ages, ships brought the riches of both East and West to its docks, including furs from Russia, fabrics from Italy, and fruit and spices from Spain and Egypt. Italian cities like Genoa, Florence, and Lucca built trade houses there. The Counts of Flanders and then the Dukes of Burgundy brought artists and craftsmen from all over Europe to decorate their palaces, churches, and guild halls. They commissioned the great Flemish artists to do their family portraits.

However, as prosperity continued so did the amount of sand and silt in the Zwin, which eventually made the estuary unnavigable. The good news is that Bruges remained untouched by "modern progress" and to this day retains its medieval atmosphere.

Medieval Appearances  
Notwithstanding,  
Bruges Looks Ahead  
to the 21st Century





**Business and Industry.** The most important industry within Bruges itself is tourism (the city welcomes more than 2.8 million visitors a year). In the last 20 years or so the immediate vicinity of Bruges has taken on its own importance, attracting several large international companies including Siemens, Fiat New Holland (builders of agricultural machinery), and Bombardier Eurorail, with its central location, excellent transportation infrastructure, and motivated work force. Notably, the electronics giant Philips has moved its television production headquarters from Spain to Bruges.

Moreover, during the past 15 years, the Belgian govern-

ment has spent more than \$2 billion to make Zeebrugge (eight miles away, but administratively part of Bruges and connected to it by a man-made canal) one of the best equipped and fastest growing ports in Europe.

**Sights and Sounds.** The most beautiful view of the city can be had by climbing the winding, narrow 366 step staircase to the top of the 13th century belfry located at one end of the Grote Markt (Main Square). Thankfully, there are stops on the way to the top of this perfectly proportioned tower, most notably the world-famous carillon on the second floor. On a clear day,

you can see Zeebrugge, Ostend, other coastal towns, and Bruges' extensive canals. (Another way to get oriented is to take a guided boat tour along those canals; tours are available March through November.)

Statues in the center of the Grote Markt pay tribute to 14th century guild artisans who instigated an uprising against the wealthy merchants who had dominated them. These same craftsmen later went on to defeat the knights of France at the Battle of the Golden Spurs in nearby Courtrai.

A one block walk down Breidelstraat takes you to the square called the Burg, the center of the city's religious and judicial activities for more than 1,000 years.

The Gothic Town Hall of Bruges, located on the Burg, is one of the oldest and most beautiful in the country, its facade adorned with pointed spires and elaborate statuary. Inside the scarlet-colored Gothic Room is a sumptuously ornamented chamber with murals depicting the main historical events of the city.

Next-door, the Basilica of the Blood is most famous for its contents—a cloth allegedly soaked with the blood of Christ brought back to Bruges in 1150 by a Count of Flanders returning from the Second Crusade. The cloth is now kept in a reliquary in the basilica, itself a fascinating building. The lower chapel is pure Romanesque with rounded arches and massive columns,





while the upper chapel with its gilt panels and paintings looks more like a Venetian palace. Every year on Ascension Day, the relic is carried through the streets of the city in an extremely colorful and festive religious pageant. Citizens of Bruges in authentic costume act out biblical events as they pass before thousands of spectators.

The loveliest and most tranquil place in all of Bruges is the 13th century Beguinage, where widows and single women of the time went to live in tiny houses on a large grassy square walled off from the rest of the city. Today Benedictine nuns, who wear the pointed white headdress of their predecessors, occupy these homes and manicured gardens. To reach the peace and beauty of the Beguinage, visitors cross a bridge over the Minnewater or Lake of Love with its graceful swans.

**Pleasures of the Table.** Belgian food is among Europe's best, and the fare in Bruges is as good as in Brussels, even though there are no Michelin three stars. The cuisine is based on traditional Flemish dishes and top quality local seafood, butter, and cream.

For a simple, but satisfying lunch or dinner, it's hard to beat the classic combination of mussels and french fries—*moules frites*, the mussels cooked in a broth of celery, white wine, onions, and parsley and piled high in enormous pots accompanied by perfect fries served in stainless steel bowls. And, of course, this being Belgium, a local beer is *de rigueur*. Breydel-De Coninck is one of the places in town that specializes in this signature dish. As the name implies De Visscherie specializes in fish and seafood and serves another Belgian classic, *waterzooi*, a soup-stew made with fish, seafood, or chicken with leeks and other vegetables cooked in white wine.

At the high end of the scale, the Duc de Bourgogne restaurant (in the hotel of the same name) offers stunning canal views (illuminated at night) from its luxurious candlelit dining room complete with brocaded curtains, velvet-covered chairs, and glowing fireplaces. Good choices are the local fish and the asparagus, when available. The romantic murals in the salon and antique gold paneling in the dining room set the stage for dinner at De Snippe, which begins with an *amuse-bouche* (a palate tickler) like

#### LOCATION:

The capital of the province of West Flanders, on the North Sea coast; 61 miles from Brussels; 60 miles from Antwerp; 170 miles from London. Population: 120,000.

**Rail:** Direct train service between Brussels and Bruges is frequent; trip takes approximately one hour from Brussels' Central or North stations. Passenger information, tel. (32) 50 38 23 82.

**Ferry:** Ferries (passenger/vehicles) and jet foils (passengers only) operate frequently between the UK (Ramsgate) and Ostend (about 20 minutes from Bruges). Passenger information: Sally Ferries, tel. (32) 59 55 99 55.

**Car:** The E40 to Brussels; near the E17 which goes Hamburg-Antwerp-Ghent-Paris. Note: Parking is prohibited in the center of Bruges; there are underground garages on the outskirts of town.

#### CONTACTS:

For business: Bruges Chamber of Commerce, tel. (32) 50 33 36 96; fax: (32) 50 34 22 97. Also Flanders Investment Council in Boston, tel. (617) 239 8225; fax: (617) 239 8296. For pleasure: Bruges Tourist Office, tel. (32) 50 44 86 86, fax: (32) 50 44 86 00. The office will reserve hotel rooms on request.

#### HOTELS:

**Hotel de Orangerie** (16th century building turned into an 18 room intimate inn with stained glass windows and stone floors; many rooms have fireplaces), tel. (32) 50 34 16 49.

**De Snippe** (quiet and elegant 18th century residence with superb restaurant), tel. (32) 50 33 70 70.

small bits of lobster and caviar mousse, continues to a main course such as sweet scallops and truffles, and ends with a dessert like *tarte tatin*.

**Future Plans.** Medieval appearances notwithstanding, Bruges has not lost its commercial instinct, and its mindset is firmly planted in the 21st century.

The city has plans to make itself even more accessible by establishing a link with the nearest TGV station (in Lille, France). To encourage businesses to hold their meetings here, Bruges actively promotes the city's unique aspects as a meeting place and

## VITAL STATISTICS

**Duc de Bourgogne** (nine small rooms and one of the best restaurants in town with great canal views), tel. (32) 50 33 20 38.

**Oud Huis Amsterdam** (converted townhouse with 22 rooms, many overlooking a canal; excellent bar), tel. (32) 50 34 18 10.

#### RESTAURANTS:

**Breydel-De Coninck** (ideal place to sample classically Belgian *moules-frites*), tel. (32) 50 33 97 46.

**De Visscherie** (seafood is supreme, but do try specialty of the region, *waterzooi*), tel. (32) 50 33 02 12.

**Duc de Bourgogne** (both ambiance and food rate rave reviews), tel. (32) 50 33 20 38.

**De Snippe** (the best Bruges has to offer for elegant and fine dining), tel. (32) 50 33 70 70.


#### MUSEUMS:

**Groeninge Museum** (houses masterpieces of Flemish 15th century art, including works by Jan van Eyck, Hans Memling, Rogier van der Weyden, and Hieronymous Bosch), tel. (32) 50 33 99 11.

**Memling Museum** (a converted 13th century ward of the Hospital of St. John displays six great works by Hans Memling, including the Ursula Shrine, a small gilded box shaped like a Gothic cathedral with exquisitely detailed illustrations of medieval life depicted on both sides and ends), tel. (32) 50 33 25 62.

**Palace of Gruuthuse** (former home of powerful Flemish aristocrat filled with household and decorative items reflecting lives of the privileged in the 15th and 16th centuries), tel. (32) 50 33 99 11.

assists organizers in booking meeting rooms and hotels and finding the requisite technical equipment.

Finally, 1994 marks the five hundredth anniversary of Hans Memling's death. To celebrate the renowned Flemish artist, the city museums have organized an exhibition that will include the masterpieces of Memling as well as those of his contemporaries that have been brought together from European and American museums and collections. 

*Janet Bennett is a writer based in Washington, DC.*



La Calobra Mallorca

More Than  
Just Islands  
in the Sun



# Mallorca, Menorca, & Ibiza

L

ong considered Europe's preferred playground, the Balearic Islands are far more than an exclusive destination for international jet-setters and royal family members. Mallorca, Menorca, and Ibiza, located in the western Mediterranean due south of Barcelona, attract more visitors, especially German, British, and Dutch, than any other region in Spain. Little doubt exists as to the reason why.

Like siblings, the islands have as many similarities as they do differences. So while it is true that anyone seeking sun, surf, and sports could enjoy any of the three islands, their characters are such that each spot merits a visit.

Mallorca, believed to have been inhabited as early as 4,000 BC, is the largest with 1,400 square miles. The blend is a patchwork of beaches, rural villages surrounded by fragrant lemon trees,

By Anne Salmerón



verdant mountains and valleys, rocky coastlines, and a major Spanish port, Palma de Mallorca, which serves as both the capital of the island as well as the region. "Culture, sports, and the infrastructure of sun and beaches" explains Mallorca's appeal, says Palma's Mayor, Joan Fageda Aubert. Indeed, the local airport is known as Spain's busiest, and tourism has replaced agriculture and maritime activities as the largest employer.

Just as the smaller towns, in particular Andraitx, Puerto de Soller, and Valldemossa, and out of the way breathtaking views, including the Mirador de Ses Animes and Cabo Formentor, deserve exploring, Palma does too. The city, first built by the Romans and later ruled by Arab kings, offers wonderful views of water. The Gothic-style cathedral, built during the 13th and 14th centuries, especially stands out among the old mansions and maze of curved streets.

While Mallorca maintains a mix of bustle side by side with peace and quiet, Ibiza never stops. A blend of hippies and jet-setters makes for a colorful community. Indeed, a truly free for all style predominates. Thus, people-watching and night life are the island's main sports.

Smaller than Mallorca with fewer mountains and a drier climate, Ibiza is ideal for traveling by motorscooter. Those seeking a sense of the island's history should visit the city of Ibiza, set on the hillside. The Carthaginians used Ibiza for trading purposes as far back as 645 BC. The city's 13th century cathedral offers a sense of the island's past, as does the neighborhood of Dalt Vila.

Whereas Ibiza is alive at all hours, Menorca could not be more peaceful. This is often explained by the British presence dating back to 1713, when the Treaty of Utrecht gave England both Menorca and Gibraltar. Apart from the local mood, the island's architecture also reveals English influence. Whereas sections of Mallorca and Ibiza have been victims of modern hotels and apartments, Menorca, with strict building laws, has maintained a historical flavor.

Especially interesting on Menorca is the vast array of prehistoric stone structures. These are mostly found in the southern portion of the island. The island also has 140 man-made caves from the 19th century BC. ☺

*Anne Salmerón is a journalist based in Madrid.*

## VITAL STATISTICS

Weather: average 18°C, high 26°C (August), low 10°C (January)

Population: Mallorca 613,813, Menorca 68,347, Ibiza/Formentera 85,740

### GETTING THERE

**Flights:** From Madrid, flights are one hour. From Barcelona 45 minutes.

**Boat service:** To the islands from the peninsula and within the island chain contact: Transmediterránea, tel. (971) 72 67 40, fax (971) 72 54 56; Naviera Mallorca, tel. (971) 71 09 53.

**Car rentals:** Daily rates on the island start at \$25, weekend at \$45, and weekly at \$185.

### HOTELS

Mallorca's mix of hotels is as eclectic as the island itself. For those who insist on staying in Palma, the **Borne**, a recently renovated palace with 29 rooms, is an excellent choice, tel. (971) 71 29 42. Rooms range from \$35 to \$85. In Deia, **La Residencia**, a superb value for a deluxe hotel, is unlikely to disappoint. Apart from its gorgeous setting, the hotel has 377 stunning facilities, tel. (971) 63 90 11. Prices are \$105 and up. The **Costa d'Or**, also in Deia, is better suited to shoestring budgets. With rooms from \$30, the hotel is known for its personality and attracts artists and writers, tel. (971) 63 90 25. Finally, in Soller, **El Guia** is ideal for those seeking easy access to morning hikes in the country. A simple spot where rooms run about \$40, tel. (971) 63 02 27.

Ibiza's best hotels are tiny. In the heart of the city, **El Corsario**, with 14 rooms and breakfast on the terrace, is a good bet at \$60 a room, tel. (971) 30 12 48. Also in the city is **Montesol**. Rooms with terraces and a bar that's known as a meeting point make this 1930s hotel a good option. Rooms tend to run about \$45, tel. (971) 31 01 61. Two gems outside of town include **Les Terrasses**, considered a perfect retreat, with perhaps the best cooking on the island, has rooms from \$75, tel. (971) 33 26 43. **La Colina de Ibiza**, an antique country house, couldn't be more comfortable. Rooms start at \$55, tel. (971) 33 27 67.

Menorca's capital city, Mahón, has **Almirante**, an 18th century mansion, con-

sidered the preferred spot in town. Rooms start at \$40, tel. (971) 36 27 00. Outside the city, **Biniali** is more like a private home than a hotel and has a pool. Rooms start at \$75, tel. (971) 15 17 24. A more moderately priced spot (rooms from \$25), **S'Engolidor** is a tiny pension, tel. (971) 37 01 93. A historic villa with just 17 rooms, **Ciudadela/Ciudadella** is 35 miles from Mahón. Rooms start at \$25, tel. (971) 38 34 62.

### RESTAURANTS

Balearic cuisine, unsurprisingly, relies heavily on fish. Palma's best bets for traditional Mediterranean food include **Club Náutico Cala Gamba** (\$30 and up), tel. (971) 26 10 45, on **Paseo de Cala Gamba**, and **Riffi** on Avenida de Joan Miró (\$20-\$30), tel. (971) 40 20 35. **Celler Can'Amer** at Calle de la Paz, 39 in Inca (18 miles from Palma) is known for traditional dishes that are tough to find (\$20 and up).

On Ibiza simple cuisine is best found at **Sa Gavina**, and leave room for the **Tatín**, a local dessert speciality. Avenida de Pedro Matutes Noguera, 20, tel. (971) 30 51 64, \$25. **Ca Na Joana**, with a pleasant terrace and local recipes, is 10 miles from the city (\$30), tel. (971) 80 01 58.

In Menorca's capital, **Jagaro**, tel. (971) 36 23 90 and **Pilar**, tel. (971) 36 68 17 are two of the better restaurants. While the setting surely contributes to Jagaro's appeal, the food, which tends to be an especially good value, should explain why this is considered one of the best spots in town. Pilar places a special emphasis on island dishes. Don't miss the desserts. Both restaurants run about \$25. **Rocamar**, slightly more expensive, serves international and island dishes. Many believe the Rocamar is the best on Menorca, tel. (971) 36 56 01.

### GOLF COURSES

Mallorca: **Canyamel Golf Club**, tel. (971) 56 44 57; **Club de Golf Rocaviva**, tel. (971) 56 58 75; **Golf Ponent**, tel. (971) 13 01 48.

Menorca: **Son Parc Golf**, tel. (971) 37 98 34.

Ibiza: **Club de Golf Roca Llisa**, tel. (971) 31 37 18; **Club de Golf Ibiza**, tel. (971) 31 50 03.



# CAPITALS

AN OVERVIEW  
OF CURRENT  
AFFAIRS IN  
EUROPE'S  
CAPITALS

**A**lmost three years ago, the tiny country of Slovenia inherited what many might describe as a legacy of economic privilege and advantage. Relatively well developed and remarkably Western oriented, Slovenia emerged from the rubble of communism with a "head start" of sorts over its Eastern European and former Yugoslav counterparts on the journey toward a Western-style market economy. The country's relatively good fortune and considerable reform progress have been bolstered by its modernizing capital city, Ljubljana.

With a per capita GDP that exceeds those of Greece, Portugal, and Eastern European countries, Slovenia is touted as the wealthiest country to emerge from the communist world. Several factors have converged to contribute to the country's advantageous poll position in the race to successful economic transition; its diversified production structure; a dynamic, primarily export oriented, manufacturing base (accounting for 26 percent of GDP in 1992); and a relatively modern infrastructure (although still short of Western standards). Slovenia's debt service burdens are negligible compared to those of many of its Central

## Letter from Ljubljana

and Eastern European neighbors. Furthermore, its already substantial ties with Western Europe grow stronger every day—over half its exports were to EU countries in 1992. Slovenia is also firmly entrenched in the global community, boasting membership in the IMF, World Bank, European Bank for Reconstruction and Development, United Nations, and Conference on Security and Cooperation in Europe. Its aspirations for EU membership by the year 2000 remain unabated.

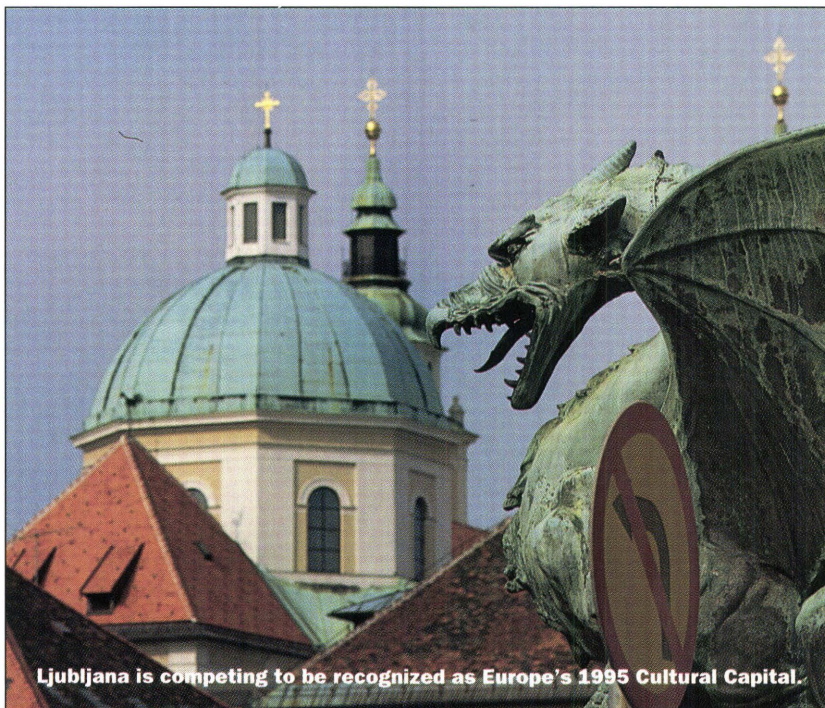
Titoist variations on Soviet-style communism afforded Slovenia and other republics in the Yugoslav

federation considerable historic exposure to the operations of a market economy. Tito's reforms included the opening of Yugoslav borders and the development of the distinctly Yugoslav self-management system, which replaced central planning with individual enterprise control over wages, pricing, and investment decisions. This system of social ownership produced many highly professional and skilled managers. Slovenia's particularly small internal market and its proximity to Western markets further contributed to its export oriented, Westward looking development. Accordingly, Slovenian managers

regularly served as intermediaries between Eastern and Western markets and developed an affinity for Western business culture. Some Slovenes insist that their young country, the engine of former Yugoslavia's economy, was never truly a communist state.

Despite its somewhat favorable inheritance from communism, Slovenia is not without its challenges. At the World Bank and IMF annual meetings last fall, Slovenian Finance Minister Mitja Gaspari described his country as undergoing a "triple transition," encompassing its newly gained independence, the establishment of a market economy, and a reorientation of its economic ties. Slovenia has not, in fact, purchased independence cheaply.

In an interview with *EUROPE*, Gaspari equated the loss of export markets and access to inexpensive raw materials in the former Yugoslavia to "an earthquake for Slovenian enterprises." Exports to the former Yugoslavia fell from 70 percent in the 1980s to 26 percent in 1992. Industrial production plummeted 16 percent between 1991 and 1992; per capita GDP dropped by more than \$2,000 since 1990; and as of last fall unemployment hovered near 14 percent. "Because we are constantly losing our Yugoslav mar-



Ljubljana is competing to be recognized as Europe's 1995 Cultural Capital.



kets, we are reorienting our trade to Western countries like Germany, Austria, Italy, and others," explains Gaspari. So far his country has been quite successful in this regard, having transformed a trade deficit in 1991 into a surplus in 1992. Slovenian leaders remain hopeful that the country's intense orientation toward developed country markets will improve its prospects for greater integration with Western Europe.

Certainly one of Slovenia's most attractive features is its centrally located capital city, Ljubljana. Nestled in the cradle of routes linking east with west and north with south, Ljubljana embodies the merging of European cultures, art forms, ideologies, and aspirations and is engaged in earnest competition for the chance to be recognized as the Cultural Capital of Europe in 1995. A city where remnants of the Roman Wall encircle skyscrapers, Baroque mingles with Art Nouveau, cathedrals compete with commercial centers, business conversations mix with idle coffeehouse chatter, and willow-shaded riverside benches offer refuge from boisterous outdoor markets; Ljubljana's every feature belies its potential to become a great European city—an entrepot at the heart of European integration.

Home to successive generations of Illyrians, Celts, Romans, and Slavs and ruled by Austro-Hungarians, Italians, and Yugoslavs, Ljubljana possesses nooks and crannies replete with the vestiges of myriad cultures. Opera houses, theaters, and museums beckon the culturally inclined. The ways of antiquity dot the old quarter, peppered with churches and crossed by cobbled streets.

Ljubljana is, however, very much a city in transition whose inhabitants have quickly renamed Revolution

Square, "Republic Square." Poorly maintained, pollution-stained buildings are plastered with newfangled placards, and many streets have been recently christened with new names; Tito's Road has suddenly become Vienna Road.

Once sandwiched between the ideological worlds of communist East and capitalist West, Ljubljana has always had its face pressed up against the Iron Curtain. The Curtain's final fall has ushered in a period of frenetic entrepreneurship and has inspired the birth of such capitalist endeavors as the Ljubljana Stock Exchange in 1990. The city is teeming with entrepreneurial hopefuls. Ljubljana is the proud owner of one of the major commercial fair centers in Central Europe and plays host to international and domestic trade shows year round.

Further evidence of this transition can be found in the city's post-secondary educational system. The University of Ljubljana, the country's largest institution of higher education, has of late opened its doors to American professors of finance and business administration who are re-vamping its business curriculum to provide a new generation of Slovenian managers with the marketing and financial skills they were denied under communism. "Depending on what happens to the south...I think [Ljubljana] is in a position to provide a lot of services and also to serve as a focal point for the countries to the south," observes William Sartoris, an Indiana University professor of finance who spent several months redesigning business programs at the University in Ljubljana. Many observers are confident that an end to the war in the Balkans will eventually restore Ljubljana to its position as a desirable site from which to serve the

markets of the rest of former Yugoslavia.

Perhaps the finest moment in Ljubljana's history occurred in 1821, when the city served as the meeting place of the Austrian Emperor, the Russian Czar, and the Neapolitan King at the Congress of the Holy Alliance. Ever since that time, Ljubljana has evolved naturally as a hub of European economic activity. Within a few hours' flight of major Eastern and Western European capitals, it stands firmly at a crossroads of European commerce. Simultaneously embracing its rich past and pursuing modern commercial prosperity, Ljubljana embodies Slovenia's aspirations to become once again a celebrated meeting place of leaders from all corners. In many respects, Slovenia and its capital are very close to possessing the market economy and attaining the integration with, and recognition from, Western Europe that Slovenes so fervently desire.

—Gina Gianzero

## DUBLIN

### LIFTING THE BAN

Opponents of censorship cheered when a 22 year old gag on the state radio and television service, RTE, from broadcasting interviews with a legal political party, Sinn Fein, was dropped earlier this year. It was not a black and white issue of liberals versus conservatives, however, but a complex issue which got caught up in the fate of the "peace process" aimed at ending the IRA's campaign of violence in Northern Ireland and the United Kingdom.

Sinn Fein is the political arm of the IRA and has always supported its "armed struggle" to end the British presence in the North. Back in the 1970s when the level of violence was much higher and included such actions as

the assassination of the British Ambassador in Dublin, the then government used its powers under Section 31 of the Broadcasting Act to ban from the airwaves Sinn Fein and the IRA which unlike Sinn Fein was an illegal organization. Outlawed paramilitary organizations in the North were also banned from RTE, which until recently had a monopoly position.

Newspapers were not affected by the ban and carried interviews with Sinn Fein and anonymous IRA members. But as the years went by and Sinn Fein became more involved in normal political activity such as contesting elections, campaigning on local issues, and so on, demands increased for the party to face tough questioning on radio and television over its support for the IRA.

A rather ludicrous situation had also been reached whereby RTE applied the ban in such a way that a Sinn Fein member who happened to be a trade union official could not be interviewed about a strike which had nothing to do with politics. Neither could the Sinn Fein leader, Gerry Adams, be interviewed in his capacity as a writer of childhood memories of growing up in Belfast.

The National Union of Journalists, to which most broadcasters belong, and RTE itself took their case to have the ban lifted to the European Court of Human Rights but lost. However, last year the United Nations Human Rights Committee found that the Section 31 ban was a breach of the International Convention on Civil and Political Rights.

By this time the minister in charge of broadcasting was a strong opponent of the ban—Michael D. Higgins, a writer and poet on the left wing of the Labor Party. A highly successful conference



organized in Dublin against censorship in all forms at which Salman Rushdie and Carl Bernstein spoke also contributed to the growing feeling that the ban on Sinn Fein was counterproductive and that support for the IRA's violent campaign would decrease if its defenders could be seen and heard.

But as the expiration date for the ban approached, Sinn Fein and the IRA were having intense internal debates on whether to respond positively to the joint Peace Declaration by the Irish and British Prime Ministers offering Sinn Fein a place at the negotiating table if the IRA would definitively end its campaign.

Some critics argued that it would be a mistake to lift the ban until the IRA and Sinn Fein renounced violence. Others argued that such an action would encourage them to re-join normal political life. The government with some misgivings did not renew the ban, but only after RTE gave assurances that extra precautions would be taken not to allow the airwaves to be used to promote violent methods or preach incitement to hatred.

—Joe Carroll

## AMSTERDAM

### WORLD CUP COACH

Johan Cruyff will not be in the United States this summer. At least not as the coach of the Netherlands national team in the World Cup championship to be held in the US. After months of dragging negotiations, the national soccer association (KNVB) decided to forget about Cruyff and chose Dick Advocaat as the coach for the World Cup instead.

It was something of a national disappointment, as Cruyff has been one of the most talented—and at least until recently one of the most popular—Dutch soccer play-

ers ever. Cruyff had stated several times he wished to be the coach of the national team this summer in order to return some of the goodwill he owed to Dutch soccer. But his financial demands made it impossible to come to an agreement with the KNVB. Exclusively for the world championship, Cruyff demanded an enormous fee, including the right to wear his own sponsored sports clothes, and another 10 percent of all revenues of the KNVB.

Johan Cruyff, 46, started playing major league soccer in the Netherlands when he was only 17 years old, in his hometown club Ajax Amsterdam. His first match on the national team was in 1966. He was the key player in the glory years of Dutch soccer, both with his club Ajax and with the national team. With Cruyff, the Dutch made the finals of the world championships in 1974 and 1978. Though they lost both times (against Germany and Argentina), their style was widely admired. Because of the color of the team jersey and its versatile technique, the national team was known

Barcelona FC. He was the European soccer player of the year in 1971, 1973, and 1974. At the end of 1978 he moved to the US to play with the Los Angeles Aztecs and the Washington Senators in the newly founded American soccer league. It was not a big success. He returned to Europe, played another year in Spain, returned to Ajax, and ended his career in 1984 with Feyenoord, Ajax's rival club from Rotterdam. He became the coach of his old club Ajax in 1985. Two years later he moved to Barcelona as the coach of Barcelona FC, where he continued his reputation with more championships and European titles.

Over the years, Cruyff has extended his influence over Dutch soccer. His disdain for the bosses of the clubs and the soccer association was never hidden. Within the Dutch soccer world, Cruyff came to be a source of irritation for some and was admired by others. The resulting division certainly has not done any good for Dutch soccer. Despite a number of excellent players, the Dutch national team has not partici-

quiet and unpretentious coach, the national team narrowly qualified for the final rounds of the 1994 World Cup. Beforehand, it had been agreed that Advocaat would step down after the qualification rounds but then the KNVB and Cruyff fell out after bitter quarrels. Probably for the first time, public opinion chose the side of the officials. Cruyff was depicted as greedy and money driven, and to his surprise, nobody came to his rescue when he was dumped by the KNVB. So it will be Dick Advocaat this summer in the United States for the World Cup at the helm of the Dutch national team.

—Roel Janssen

## ROME

### THE SECOND REPUBLIC

The transition from one political system to another is usually turbulent, if not downright violent. What is happening in Italy, on the other hand, is almost unreal.

The advent of what is generally called the Second Republic, which the upcoming special elections (March 27) will bring to life, is inevitably causing furious disputes. And the echoes of the death of the First Republic will reverberate for a long time to come, in part because of the many judicial aftermaths and corruption trials that have involved the old leaders of Italian politics. But, on the whole, this is all taking place—at least for now—in a manner respectful of democratic principles.

Having said this, however, let no one delude himself that the change won't take place. To begin with, the true "revolution" will begin with new faces. Right now there are 945 representatives and senators in Parliament. According to predictions, a good two-thirds of them will have to go home. This is something



**Disgruntled Dutch coach, Johan Cruyff, won't be the Dutch Nationals Coach in this summer's World Cup.**

as the "Clockwork Orange."

In 1973, Cruyff made a spectacular and lucrative transfer from Ajax to

participated in recent world championships.

Last year, under the guidance of Dick Advocaat, a



completely new in post-war Italy, which is used to continuously changing ministers and governments, but which always revolved around the same politicians.

The most recent elections, held in April 1992, were the first harbinger of change. The turnover bordered on 50 percent with the appearance of the Northern League, the first political movement which, from a conservative and even separatist position, broke the equilibrium of the parties which had shared power for 40 years. This is nothing compared to the cataclysm which observers predict will follow the imminent elections. Unless something happens at the last moment, very few of the old parties won't be decimated. Experts say that perhaps the only parties that will be able to save their members of Parliament will be the Northern League, which despite being a new formation has managed to involve itself recently in cases of corruption, and the PDS, the ex-communists.

It is always risky to hazard predictions in politics, but according to the majority of experts a few things seem certain. Like the impending catastrophe facing the Socialist Party of ex-Prime Minister Bettino Craxi, who is the most involved old guard politician in the huge anti-corruption investigation known as "Clean Hands." Already at the last administrative elections the Socialists had fallen from 14 percent, their record high, to barely 4 percent. Other parties condemned to die out, or almost, are the small centrist parties, which in recent years had been able to insert themselves and survive between the traditional governing party, the Christian Democrats, and the traditional opposition party, the Communists.

The biggest question mark, however, concerns the

Christian Democrats. Their name has been changed. In this, they imitate practically all the other parties. The upcoming elections will for the first time contain acronyms and emblems that are completely new. But, even though they have recycled themselves as the PPI or the Italian Popular Party, they still haven't been able to save themselves from the scorn of public opinion. With their old notables in disgrace, beginning with their most representative member, ex-Prime Minister and many times Foreign Minister Giulio Andreotti, they don't seem to have been able to produce any valid substitutes. And they even ended up losing the ensign upon whom they rested all their hopes. Mario Segni, the son of a former head of state during the 1960s, has created his own political movement, and the old DC (now PPI) has no other option than to pursue and court him.

In the middle of all this upheaval, the most reassuring aspect is that even if the politicians are upset, the economists seem relatively tranquil. The balance of external payments, thanks in part to the devaluation of the lira, has never been so good. And other economic figures on the whole (despite worries over unemployment that all Western countries share) aren't that bad. And, for the first time, the Parliament (as its last act before dissolving itself) has passed one of the most long-awaited laws that will render contracting bids on major public works transparent and corruption-proof.

—Niccolò d'Aquino

## LONDON

### ANGRY OVER ART

**T**he arts scene in London has rarely been livelier than during the chilly winter

months. It hasn't been the exhibitions, concerts, and plays which have kept Londoners buzzing with excitement, but two massive rows involving the arts administrators and critics.

First came the "super orchestra" scandals involving the state-funded Arts Council. London has too many orchestras, argued the council. Government funds are being cut, they added, and concluded that the best way to spend the reduced money available was to starve one of the orchestras.

This was supposed to force an amalgamation between existing ensembles, and presto, the "Super Orchestra."

Unfortunately, not everyone agreed with that idea, not the musicians, naturally, but there were also many who disapproved of the council's selection of which orchestra was to get the big subsidies and which should go to the wall.

Uproar ensued, the council began to waver and finally cracked under the pressure. Abandoning the idea of the super orchestra, the council members ran for hiding, hotly pursued by their critics who demanded resignations en masse after the ignominy of the U-turn.

Former Prime Minister Edward Heath, who is a lover of classical music and a prolific conductor, commenting that "the Arts Council's reputation is at its lowest level in nearly 50 years of existence," welcomed the replacement of its director. Undoubtedly, in the fullness of time other artistic heads will roll.

Elsewhere in London's art world, one lofty head that did not roll, despite the demands of 35 of the leading members of the arts establishment, was that of the acerbic arts critic of London's *Evening Standard*. Outraged by critic Brian Sewell's bitingly witty and distinctly prejudiced views of

much of modern art, the members of the arts establishment hit back in a letter to the editor of the capital's only afternoon newspaper.

They denounced Sewell for his "dire mix of sexual and class hypocrisy, intellectual posturing, and artistic prejudice," among other things. The editor, instead of agreeing to their request that he be dismissed, published the letter and ignited a blazing row that warmed the hearts of the strap-hanging commuters who Sewell claims as his audience.

His readers cheered when he labeled much of what is lauded by the art establishment—such as the infamous Tate Gallery exhibit of firebricks—as "claptrap." But it seems Sewell stepped over the line when he described a recent art exhibition as "feminist claptrap."

Television, radio, and the national dailies all jumped into the fray, with the result that art has had more exposure in the media than ever before. Suddenly, art is news.

Not since the mid-1980s when the Prince of Wales lambasted modern architects for having done more damage to the appearance of London than Germany's World War II Luftwaffe, have people had so much fun at the expense of the art establishment.

Since the Princely salvo, the general level of interest and debate about architecture has risen to the point where the elite can no longer ignore public reaction to their work—for good and for bad. The Sewell affair looks set to do the same for the art world.

As a friend just returned to London from a long trip abroad commented, "Isn't it wonderful to live in a city where people can get so excited and angry over art?" It certainly is.

—David Lennon



## LISBON

## LISBOA 94

Lisbon is one of Western Europe's most provincial capitals, enjoying almost cult-like status because of its white appearance and romantic location on the Tagus River. But currently this city on the Western fringe of the continent is proudly taking its turn in the limelight as European Capital of Culture. Its ambition during this 12 month reign is nothing short of trying to reinvent itself. The effort might not be nearly as big as when the city was redesigned after being devastated by an earthquake in 1755. But considerable building, renovating, and reconstruction, including crucial roadworks, has been completed in time for Lisboa 94. One project has involved face lifting all the colorful facades on the so-called "Seventh Hill," which houses an amazing variety of bars, restaurants, and discotheques.

Events, which began at the end of February, include a wide range of exhibitions, cinema and video performances, theater and dance productions, classical and popular concerts, as well as seminars on literature and philosophy. Former Finance Minister Vitor Constancio, who is managing Lisboa 94 with a budget of some \$45 million, says a vital element of the celebrations is to bring events, performances, and exhibitions to Portugal that would otherwise be too expensive to attract. But there are also a number of highly interesting Portuguese productions. The archeological exhibition "Subterranean Lisbon" is providing a fascinating insight into the history of the

capital, from its prehistoric roots until the present day, including Roman, Phoenician, Celtic, and Arab influences. Lisboa 94 coincides with the twentieth anniversary of the fall of the extreme right-wing dictatorship on April 25, 1974, and the exhibition "The Color of the Revolution" will provide a welcome review of posters and reproductions of murals from the period. Portuguese art is also on display and in the moving pictures department, three Portuguese directors have been commissioned to make films about Lisbon. Portugal is well known for its melancholic, yearning music, the *fado*, and this year sees the publication of the first scientific research project into this musical style, accompanied by a book and a double compact disc. The scope of events has been widened to include the former Portuguese colonies and one exhibition features Angolan sculptures.

In a country with a relatively weak economy and therefore limited buying power, culture is not necessarily the first commodity the Portuguese spend money on. That is why, says Vitor Constancio, prices are being kept lower than usual, in an effort to democratize culture.

Tourist information is available from the Portuguese National Tourist Office, 590 Fifth Avenue, 4th Floor, New York, NY 10036-4704, tel: (212) 354 4403; or the Portuguese Trade and Tourist Office, 1900 L Street, Suite 310, Washington, DC 20036, tel: (202) 331 8222. Travel agents offering package tours taking in Lisboa 94 include Portuguese operator Abreu at 317 East 34th Street, New York, NY 10016, tel: (212) 661 0555, fax: (212) 286 0977.

—Peter Miles

## BERLIN

## FLEXIBLE WORKING CONDITIONS

According to the Federal Statistics Office and the Economics Ministry, Germany's worst recession since the end of World War II has bottomed out. The gross domestic product (GDP) declined in 1993 by 1.3 percent, down from a growth rate of 2.1 percent in 1992. While the Minister of Economics, Günter Rexrodt, discerns "a slight recovery in the second half of 1993," the President of the Federal Statistics Office, Hans Günther Merk, speaks of a "standstill of recessive trends." In each of the second and third quarters of 1993, western Germany's GDP grew by 0.5 percent after a 3.4 percent drop in the first quarter. But in the final three months of last year, the GDP showed no growth and was 0.7 percent lower than in the comparable part of 1992.

A silver lining on the horizon is the economic recovery in former East Germany. In 1993 the GDP, up 10.1 percent, grew not only in volume, but also in quality. "The increased growth was accomplished by a smaller work force than in 1992, and this means that productivity has also increased," says Merk. He expects considerable growth potential and free capacities in eastern Germany.

But the real blemish on economic performance is unemployment, revealing a deep structural problem. Rexrodt recently said Germany could look forward to growth in 1994 of between 0.5 percent and 1 percent. This will not suffice to reverse companies' programs of labor shedding. There are 2.5 million registered unem-

ployed in western Germany. In eastern Germany, the number is 1.2 million, excluding workers in jobs subsidized by public funds. Unemployment is thus likely to rise further in Western Germany while in Eastern Germany unemployment seems to be stabilizing.

Many leading German enterprises had to cut staff in order to reduce costs and improve productivity, but other unconventional models of cost-saving labor deals have been implemented. The most spectacular is that of Volkswagen. Starting in January, Volkswagen, Europe's biggest volume car maker, introduced a four day working week of 28.8 hours in its six German plants, thus cutting its wages bill by around 20 percent. Under the influence of the worst recession and the shadow of threats of mass redundancies, the powerful trade union, IG Metall, has accepted the deal for two years, thus saving 30,000 jobs.

Another example of German trade unions becoming increasingly amenable to flexible working practices is Robert Bosch's new semiconductor facility at Reutlingen. The German unions overcame their ingrained opposition to weekend working in order to secure 300 jobs. The new plant is run round-the-clock, seven days a week—an unheard of practice in German industry.

At the BMW plant in Regensburg, Bavaria, some 5,000 people work according to a new sophisticated system of 36 hours a week. Instead of the conventional eight hour shift, workers put in nine hours and have one or two days off per week. Every three weeks the BMW workers can take five days off. But they must—also in every third week—work on Saturday. When the new model was in-



troduced, trade unions and some employees opposed it vehemently. "If we wanted to abolish the new regulation now, we would risk a revolution in the plant," says Manager Dieter Handel. While the machines are running 99 hours a week, instead of the conventional 80 hours, increasing productivity and cutting costs, the workers have discovered the benefits of time off on weekdays.

By threatening to build a new factory outside Germany for its projected A Class mini car, Mercedes wrung concessions on operating economies from unions which Chief Executive Helmut Werner estimates at \$115.8 million. The A Class will be built at Rastatt and safeguard 3,000 jobs.

Last January, western German chemical workers accepted real wage cuts in return for more job security. With 3.7 million jobless and a further 700,000 jobs in jeopardy, pay cuts may be a

necessary weapon to combat mass unemployment.

—Wanda Menke-Glückert

recording stars as Frank Sinatra, Guns 'N' Roses, and Gloria Estefan on the Spanish hit

number in Spain, earning the brothers one gold and two platinum discs.

Titled *The Best of Gregorian Chants*, the double compact disc boasts 38 of the religious numbers, some of which date back as far as the 7th century and were first collected under Pope Gregory (590–604 AD), from which the songs take their name.

According to news reports, research by EMI, the company which released the recording, indicates that around 60 percent of those buying the chants are young people between 16 and 25 years old.

And although sales of religious recordings always grow around Christmas, this is the first time that anyone in the Spanish recording industry can remember such a release "having legs" well beyond the holidays and garnering so much interest from such a young audience.

"We can't keep it in stock," says the manager of the classical record department of one Madrid department store.



MADRID

CHANTS TOP CHARTS

A group of Benedictine monks has bested such

parade with a compact disc of ancient Gregorian chants that has gone to number one.

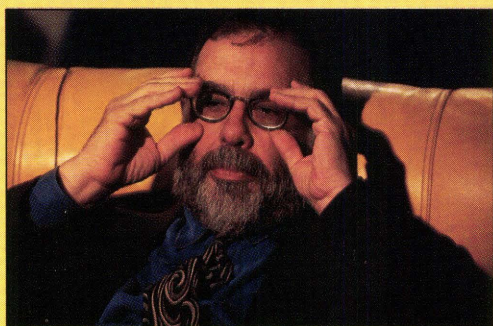
The recording sold some 260,000 copies in the four weeks following its release in mid-December, a phenome-

NEWSMAKERS

There is nothing new about celebrities who enjoy their wine, but these days more and more of them are busy filling bottles instead of emptying them. A surprising number of famous names have become wine growers, posing for photographs with their nose buried in a glass of their latest vintage.

Prominent among them is the French screen giant, **Gérard Depardieu**, an acknowledged lover of the grape. Other, less likely vintners include Danish **Queen Margarethe** and **Prince Hendrik**, former French soccer star **Jean Tigana**, and film director **Francis Ford Coppola**.

When the German food and



Francis Ford Coppola

wine magazine *Der Feinschmecker* set up a blind tasting of some of these "celebrity wines," the reviews were not encouraging. Depardieu's 1992 vintage was said to taste like rotten apples. German fashion czar **Rudolph Mognammer's** 1990 *premier cru* was "salty, musty, and dirty." Italian singers **Al Bano** and **Romina Powers** produced a 1992 wine that was "acidic, empty, and absolutely

disharmonious."

Not only are wine connoisseurs highly critical of newcomers; they are also blatantly chauvinistic. The voluptuous Italian actress **Ornella Muti**, who is said to care as much about her vineyard as her film career, has been warned not to put her name on the label if she wants her wine to be taken seriously.

•••

Prime Minister **Edouard Balladur** is popular enough to have been declared the runner-up, but the most beloved man in France in 1993 was an 81 year old abbot. **Abbé Pierre**, who has dedicated the past 40 years to helping the hungry, homeless, and poor, is regularly elected "Man of the

Year" by the French public. Known as The Abbé, Pierre is a feisty warrior who fought in the Resistance and spent six years in politics after the war. In 1949 he founded the Emmaus charity group—a network of communes providing work and food for the needy that is now one of the world's largest organizations of its kind, present in 35 countries.

His real fame came during the bitter winter of 1954, when homeless people were freezing to death and the government did little. The Abbé launched an impassioned midnight appeal on the radio which roused the public to an "insurrection of goodwill." People donated thousands of blankets and hundreds of tents and stoves. Just days later the French Parliament allocated housing credits 10



## COPENHAGEN

## CREATING JOBS

**T**he impressive service sector growth in the United States is the envy of all member states of the European Union. The Danish government hopes to emulate this success by creating 8,000 new jobs by subsidizing domestic services in private homes. About \$150 million has been earmarked for this purpose, and the subsidy is about \$10 per hour, which is virtually the same as the minimum contractual wage for unskilled labor.

The government candidly admits that the objective is to whitewash black market jobs by making new, tax-paying entrepreneurs price competitive. Critics doubt that this will be possible, and even if it is, no new jobs will be created, as losses of black market jobs will match any success for the new low cost entrepreneurs, whom the government is counting on to

make the scheme work. Established professional cleaning services have overheads too large to compete, and they are demanding a much larger subsidy if they are to enter this market.

This is an election year and the Danish government has promised not only to break the upward trend in the unemployment curve, but to engineer a drop of 20,000 in the unemployment figure, leaving a still hefty 340,000 people unemployed, somewhat more than 11 percent of the work force. Though the Danish economic growth rate is expected to be above the European average this year, no one believes it will create the necessary jobs, so the government has every political incentive to take action. The results will be crucial for the timing of the election, which is constitutionally called for by December.

Apart from domestic services, the government is pinning its hopes on job rotation, stressing the wider distribution of existing work, rather

than the creation of new jobs. Danes in jobs are to be motivated to take leave to look after children, to seek vocational training, to take a sabbatical, i.e. tour the world, or simply to do nothing for a year. Those who seek training will receive full unemployment benefits (about \$1,600 a month), while those who look after their children, or do nothing, can draw 80 percent of this amount.

The government hopes that between 20,000–25,000 jobs will be created by this initiative. Parental leave has to be granted by the employer, but the person on leave does not have to be replaced. Leaves for job training and the sabbatical require consensus among employer and employee, and hiring a replacement is mandatory. Parental leave was an instant success, but in times of high unemployment people are wary about leaving their jobs for a year, and employers complain that it is costly to provide temporary personnel with the often specialized skills re-

“The compact discs just walk out by themselves.”

In just four weeks, the record had sales of over \$2 million and that was just in Spain.

The monks of Santo Domingo de Silos made the recording live in a monastery located about 120 miles north of Madrid. Although they are reportedly happy about the sales of their disc (they stand to make as much as 10 percent in royalties), they are proving decidedly reluctant to bask in the limelight and fame which success has brought them.

Journalists trying to interview the monks are politely, but firmly, turned away and one of the brothers fielding telephone queries asks reporters to leave them be.

But it seems their problems with the press may be just beginning. EMI is planning to market *The Best of Gregorian Chants* internationally and the release of a *Best of Gregorian Chants II* is already being talked about.

—Benjamin Jones

times larger than the ones rejected the month before.

In spite of his age and poor health Abbé Pierre is still fighting on today. His latest crusade is an international drive to help excluded young people find a place in society. The new association he has created, “Appeal for the Struggle of Abbé Pierre,” plans to recruit hundreds of volunteer social workers, doctors, teachers, and psychologists to break what he calls “the vicious circle of exclusion-delinquency-violence” in the ghettos and slums of France, Eastern Europe, the United States, and South America.

•••

One of mankind’s fondest dreams, the possibility of traveling through time, was severely dented two years

ago when **Stephen Hawking**, the UK’s top physicist, published his bestseller *A Brief History of Time*. Hawking argued that human beings or spaceships, which are positive matter, could never travel back in time through a black hole because it only allows negative energy to travel through it.

But now some eminent scientists are questioning Hawking’s conclusions. **Dr. Amos Ori** in Israel has resurrected the theory that black holes could indeed be used as gateways through time. He says he has exposed flaws in Hawking’s argument by calculating a theoretical time travel model that appears to work. Other physicists, including **Dr. David Deutsch** from Oxford, are impressed by Ori’s theory and believe

that time travel will be shown to be possible—in theory—over the next few years. “But will we ever be able to build a time machine?” wonders Deutsch. “That is an enormous next step.”

•••

When Italy’s most powerful media magnate **Silvio Berlusconi** announced that he was entering politics, the news was not greeted with unconfined joy. His holding company, Fininvest, the country’s third-largest industrial group with hefty interests in broadcasting and publishing, packs a considerable punch. There is concern in journalistic circles that Berlusconi may try to manipulate the political tone of his newspapers to help him win the Italian premiership.

One man who has decided

not to play along with Berlusconi’s political plans is **Indro Montanelli**, 84, one of the most respected editors in Italy. He has resigned from the Berlusconi-owned *Il Giornale* newspaper, which he founded in 1974, in order to launch a rival independent daily, *La Voce*, which hits the newsstands this month.

Throughout his distinguished career, which included stints as a crime reporter and international war correspondent, Montanelli has always fought fiercely for editorial independence. *La Voce*, he says, will give him “the opportunity to break away from newspapers owned by big industrialists and to head a daily which represents the voice of the people and small businesses.”

—Ester Laushway



quired. Business productivity and competitiveness may suffer as a result, they say.

Opinion polls still predict a change of government, and the opposition Liberal Party, led by former Foreign Minister Uffe Ellemann-Jensen, may become the largest party at the June elections for the European Parliament. Perhaps a portent of things to come. But if the government led by Social Democratic Prime Minister Poul Nyrup Rasmussen can deliver the promised jobs, however created, it will be an open race.

—Leif Beck Fallesen

## ATHENS

### RAIDERS OF THE LOST SUBWAY

**F**or the next few months, a room in a first-class hotel overlooking Syntagma Square in Athens will offer a bird's-eye view of a unique archaeological attraction.

Not only is the \$2.1 billion Athens subway extension one of the biggest transportation projects underway in Europe at present, it also includes the largest archaeological excavation ever undertaken in the city that set the cultural pace in classical Greece.

Olympic Metro, the French and German-led consortium building two new subway lines through the city center, decided that the best way of reducing delays caused by ancient remains was to make archaeological excavation an integral part of the project.

The consortium agreed with the Culture Ministry on giving the state archaeological service full access to sites unearthed along the 18 kilometer length of the extension. The archaeologists also get financial backing and logistical support for their digs.

The result has been a level of cooperation rarely found be-

tween contractors and archaeologists. The Culture Ministry team came up with predictive models of what lay along the new subway routes based on finds from a century of digging around Athens and the writings of ancient authors.

Cemeteries, shrines, gardens, and schools dating from classical to Roman times were located close to station sites. By the time the excavations are over, about 60,000 square meters will have been combed for finds.

Five station sites were identified as archaeological "high-risk" zones where excavators were given every facility to explore. In Syntagma Square, they unearthed both a Roman bath and traces of what was probably the building where Aristotle taught philosophy in the 4th century BC.

Not surprisingly, the discoveries have already put the project—due for completion in late 1997—about six months behind schedule. A wealth of finds at the site of the Keramikos station, next-door to a cemetery for well-heeled ancient Athenians, prompted the contractors to change their plans.

Instead of starting tunneling operations there, a giant tunnel-boring machine was assembled at the other end of the route, giving the excavators an extra six months to finish digging.

Tunneling is carried out at an average depth of 60 feet, well below the archaeological levels. Seven of the 21 stations are being constructed underground to avoid disturbing ruins close to the surface.

Once completed, the excavations will not be covered up and forgotten. The Athens subway is intended to become a museum in its own right. Many of the finds will go on display in "mini-museums" to be located inside the stations, while the showpiece station beneath Syntagma Square,



Châteaux Clervaux is the new home of Edward Steichen's "The Family of Man" collection.

where the two new subway lines will cross, is to be designed around the architectural remains recovered there.

—Kerin Hope

## LUXEMBOURG

### FAMILY PHOTOS OF MAN

**A** world famous exhibit of photographs first staged in the 1950s in the United States will find a permanent home at the Château Clervaux in Luxembourg when the building reopens in May following extensive renovations.

Titled "The Family of Man," the collection of about 500 black and white photographs from 68 countries was selected in 1955 by Edward Steichen (1879–1973), a celebrated photographer from Luxembourg and a friend of photographer Alfred Steiglitz and writer Virginia Woolf. During his tenure as curator of the photography department at the Modern Museum of Art in New York, Steichen mounted the exhibit, which he hoped would show a broad range of life's experiences during the golden age of photography and photo magazines.

Contributions from legendary photographers such

as Henri Cartier-Bresson, Alfred Eisenstaedt, and Ansel Adams were displayed among those of amateurs. More than 9 million visitors in New York and in major cities in 37 different countries were drawn to the photos of joy, the family, comedy, growing old, enjoying leisure, and being content and sad. The catalog sold more than 3 million copies.

"The Family of Man" is, I believe, the most ambitious challenge that photography has ever mounted," Steichen said then. "Photographic art is able to give form to ideas and explain Man to Man. The exhibit has been conceived like a mirror of universal elements and daily emotions, a mirror of identities essential to understanding human character. We have searched and selected photographs taken in all parts of the world and covered all moments of existing, from birth to death."

Steichen had been a photographer for *Life* magazine during World War II and wanted to mount an exhibit that would show other sides of man besides wartime destruction. His selections were winnowed from more than 3 million submissions.

The photographs are rich



with surprises and uniqueness, which ensures their memorability. An aging tenor prepares in his underwear in his stage room for a performance. A pregnant woman naps with a ponderous cat perched before her stomach. Dressed in bamboo coats and wide-brim hats, workers gather tea leaves. Four Muslim women stand or sit on the crest of an outlook before an expanse of mountains. A man balances a block of bricks on a board on his shoulders.

After the exhibit finished its tour in the early 1960s, it was donated to the Grand Duchy. The exhibit was recently restored with the help of the granddaughter of the French master photographer, Henri Cartier-Bresson.

The city of Toulouse in France exhibited the collection during the first three months of 1993. The exhibit set records in attracting more than 11,000 visitors. This was the last tour before the collection will be permanently located at the Château Clervaux.

—James D. Spellman

## PARIS

### RETURN TO THE COUNTRY

The weather may still be dismal, but this is the month in which Mother Nature starts sending out signals that not even this winter will last forever. But for hundreds of small French villages this could be a sadly silent spring. Their schools and shops are closing one by one, as ever more people join the steady migration from the country to the city. It is a relentless exodus which in the past 50 years has shrunk France's rural population from 10 million down to 2 million.

To counter what has been labeled with prophetic gloom as the *désertification* of the

countryside, a growing number of small communes have resorted to advertising for new residents in the regional newspapers. Families, preferably large ones, are invited to leave the stress of urban life behind them and settle down in the picturesque tranquillity of a country village. The response to such ads has revealed a surprising number of French city dwellers yearning to get back to nature.

One such idyllic spot is Beuil, a hilltop hamlet to the north of Nice. Its last baker, a Belgian whom the locals described as a little "bizarre," packed up and left seven years ago. Since then everyone's daily *baguettes* had to be brought in from a neighboring village, and the civic-minded volunteer who imported them fed any unsold loaves to his chickens. Last spring the long-suffering villagers finally convinced their town council to buy and renovate the bakery

and then place an ad offering it rent-free for three years to the baker who would rescue Beuil from its breadless state. Of the more than 150 candidates who applied, the post went to a female baker from Marseille. She fired up the brand new oven for the first time in October, and Beuil residents can now go proudly forth again with their breakfast still warm clamped under their arm.

The 14th century village of St. Julien-du-Gua, in the Ardèche mountains south of Lyon, has also been revived thanks to a newspaper ad. With its population dwindling over the past 50 years from 800 to just 200, the village desperately needed more children to help keep its school open. Last summer Mayor André Coste decided to advertise for a family to come and settle in St. Julien. Some 400 answers from all over France poured into his office. One family with four

children has already moved in and three others, with 14 children between them, also have firm plans to make the village their new home.

Similar success stories can be told about other small villages tucked away in the French countryside. Their schools and churches, bakeries and butcher shops are surviving with the help of refugees from the cities, eager to return to their grass roots.

True, these village vignettes are exceptions to the rule and are no real solution to the very serious problem of the decline of rural France. But they are green shoots, and optimists can see them as a sign that the French at heart are all sons of the soil who will not let the countryside they love turn into a deserted wilderness.

—Ester Laushway

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# ARTS & LEISURE

## ART

### Egon Schiele

*National Gallery of Art through May 8, 1994*  
*Indianapolis Museum of Art June 11 to August 7, 1994*  
*San Diego Museum of Art August 27 to October 30, 1994*

The National Gallery of Art is the opening venue for *Egon Schiele*, the first comprehensive Schiele exhibit in the US since 1965. Many of the more than 70 drawings, paintings, and watercolors have never before been seen in this country, where Schiele, although gaining in stature, is not as well known as some of his Austrian contemporaries in other fields, such as Sigmund Freud, Gustav Mahler, and Ludwig Wittgenstein. The retrospective covers every period and subject of the artist's career, presenting a balanced view of Schiele's artistic achievement, which is all too often overshadowed by the dramatic aspects of his brief life.

Familiarity with Schiele's life is essential for understanding his art. From his early years as the child of a fit-prone, untreated syphilitic until his death of influenza at age 28, he never quite heeded the societal strictures of the time. Asked to leave

school at the age of 16 due to poor performance, he gained entry to Vienna's renowned Academy of Fine Arts, only to clash with a professor and withdraw from the Academy under threats of expulsion. This conflict, however, did not hinder his artistic career. He caught the eye of Gustav Klimt, exhibited at the Vien-

garnered increasing attention from various patrons and developed his own personal brand of Expressionism, distinguished by a unique palette and a rejection of Klimtian influence.

By 1910, though, despite his success (or perhaps because of it), he became dissatisfied with Vienna. He

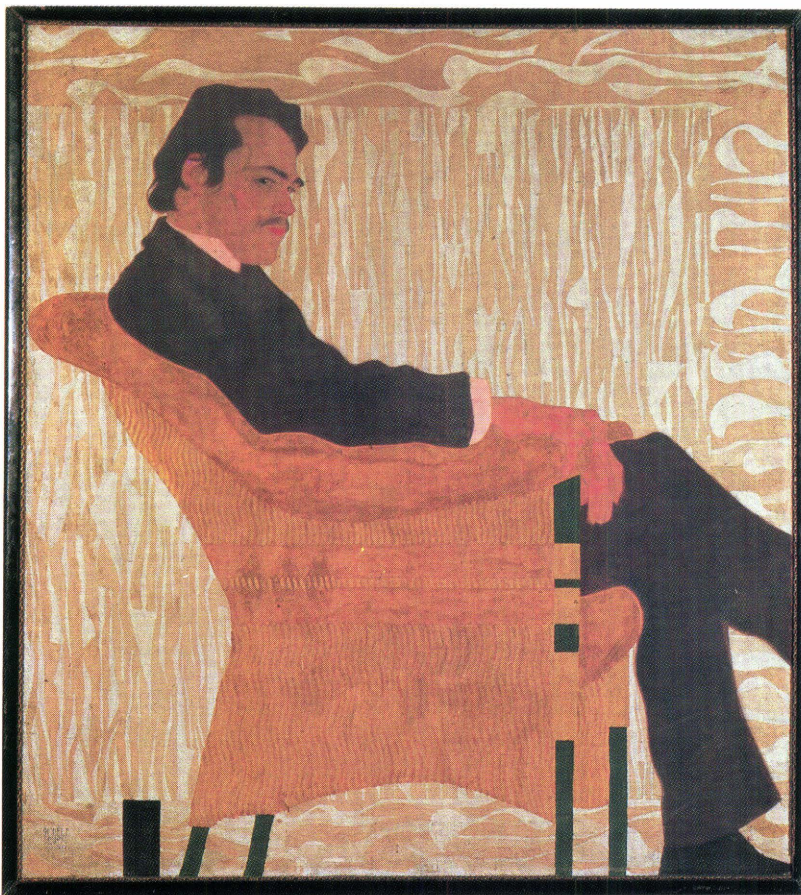
tempt by his father six years earlier. This town, which he called "the dead city," was his favorite landscape subject and was his home for part of 1911 until his unorthodox behavior (openly conducting an affair, having nude models pose in the garden, dressing in caftans, not attending church) offended the conser-

vative townspeople, and he and his lover, model Valerie "Wally" Neuzil, were forced to relocate. They moved to Neulengbach, another small town with a stringent moral code.

Following an incident in which a local child model of his ran away from home and sought refuge in his house, Schiele was jailed for 24 days on counts of kidnapping, statutory rape, and public immorality. Although the first two charges were eventually dropped, the third stuck on the premise that minors had seen "indecent" works in his studio.

Upon his release in May 1912, Schiele and Neuzil returned to Vienna, where despite his financial troubles Schiele's work gained greater recognition. By

1913, however, his original patrons were no longer reliable, and his paintings did not sell well until 1914 when Schiele acquired a new patron.



**Egon Schiele's *Portrait of Hans Massmann*, 1909.**

nese avant-garde *Kunstschau*, and formed the *Neukunstgruppe* (New Art Group). Following the group's first exhibit in late 1909, Schiele

spent the summer of 1910 in Krumau (now Cesky Krumlov in the Czech Republic), his mother's birthplace and the site of a suicide at-



## BOOKS

**The Downing Street Years**

By Margaret Thatcher; Harper Collins; 862 pages; \$30.

It is customary, even accepted, that most mortals, but especially politicians, will try to show themselves in the best possible light when they come to write their autobiographies. But, as in everything she did during her determined career, Mrs. Margaret Thatcher carries this convention to its extreme.

Not to put too fine a point on it, she was never wrong, at

least if you believe her version of events during her near-record 11 years as Prime Minister of the United Kingdom. Except, perhaps, when she was over-trusting of fickle and conniving cabinet colleagues who were always disap-

pointing her when not betraying her.

She has hardly a good word to say about any of them, and where she makes an exception she goes right over the top. Take the case of her beloved Cecil Parkinson, for example. She promoted him as Secretary for Trade and Industry at a time when she knew he was about to become a father by his mistress, an event that was shortly to lead to his resignation. Admirable loyalty, perhaps, but surely a case of faulty judgment.

Mrs. Thatcher did not reserve her contempt only for British politicians. World leaders whom she met—a lot, most of whom she outlasted—got the same withering treatment. A notable exception was

President Reagan, yet here again she allowed her enthusiasm to cloud her judgment. There is no evidence of the Iron Lady, an image she found not only pleasing, but justified, when Reagan not only invaded Grenada, a part of the British Commonwealth, but didn't even bother to consult her, pleading spurious grounds of secrecy.

Mrs. Thatcher's account of her own military adventure, the Falklands War against Argentina, is accorded the same one-sided treatment as most other issues with which she deals. She is particularly disingenuous about the withdrawal of unanimous support by her European allies within the then European Community, which was primarily triggered by the sinking of the Argentinian ship, the *Belgrano*, in dubious circumstances.

This was not the only occasion on which she underestimated her European colleagues, although she is loath to admit it. In fact, the chapters dealing with her relations with Europe are a chronicle of apparently strong Thatcher positions being steadily whittled away by perfidious foreigners across the Channel. Although she succeeded for years in delaying and disrupting the work of the twice yearly European Council meetings of heads of government, as well as sending her ministers to European meetings with largely obstructive instructions, she could not hold back the inexorable tide of European integration.

Apart from the intrinsic merits of the European unification ideal, the reasons for her failure were twofold: dwindling support within her own Tory party and a shift in the mood of the country as a whole, which she failed to detect. It is not without significance, that with the exception

It was during this period that his favorite sister and sometime model, Gerti, got married, and his thoughts turned to marriage. Having broken off his relationship with Wally Neuzil in order to court Vienna bourgeoisie Edith Harms, Schiele married in June 1915, three days before being drafted and sent to Czech Bohemia. For the rest of World War I, Schiele remained in the military, although he was assigned jobs that allowed him to visit Vienna regularly and pursue his art.

By 1918, the year of Klimt's death, Schiele was back in Vienna and was generally considered Austria's leading artist. He had a sell-out exhibit at the Vienna Secession in March and painted prolifically, finally tasting financial success. This success led him to rent a larger studio, which was difficult to heat during Vienna's autumn fuel shortage; Edith, six months pregnant, fell victim to the Spanish flu and died on October 28; Schiele lasted three days longer.

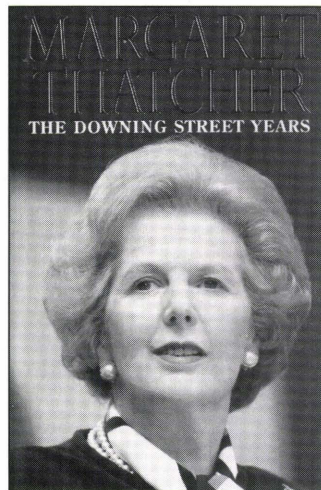
Schiele's turbulent existence provided him with his major themes: the duality of life and death, isolation, fear, and passion. The exhibit consists of six chronological and thematic divisions which facilitate comparison between the artist's handling of similar subjects at different times in his career: Schiele and his Models, 1909–11; Portraits, 1909–14; Landscape and Still Life, 1909–18; Self and the Search for Meaning, 1911–15; Relationships with Women, 1910–18; and Portraits, 1915–18.

When discussing Schiele, it is easy to focus entirely on the drama of his life and the emotion in his art, losing sight of his talent as a draftsman. Schiele was a master of line often compared with the late medieval German artists Holbein and Dürer. He exe-

cuted contours that were flowing or jagged, spare or curlicued, with equal skill. The importance of line accounts for the primacy of his watercolors and drawings over his oils; Schiele produced drawings as works in themselves, not as studies for paintings, and executed at least 10 times as many works on paper as on canvas. The drawings, with their perfection and spontaneity of line, are also more accessible to the general public than are the ponderous allegorical oils, many of which have been lost, damaged, or destroyed. This exhibit reflects Schiele's own preferences, consisting primarily of works on paper, punctuated by paintings.

Egon Schiele's rebel image may be somewhat undeserved; after all, what teenager never clashes with a professor? What free-spirited 21 year old never offends more conservative older people? He may have been a great artist, but Schiele was still very young. Indeed, one could say that before he died he became quite conservative, rejecting his lover in favor of a well-bred wife, supporting a household, and preparing to be a father. Although openly defiant of social mores and convinced of his artistic immunity, he remained middle-class at heart. The *Egon Schiele* exhibit is a balanced selection of the artist's work, allowing the visitor to see beyond his mythologized life and appreciate his art.

—Lauren Ptito





of by-elections, the only election she lost was the European Parliament election of 1989, an occurrence which she glosses over in a couple of lines. The reason she lost was that the Labor Party had reversed its anti-European position while the Tories were perceived to be anti-European.

Yet, it cannot be denied that she managed to win three general elections and almost surpassed the prime ministerial longevity record established by Lord Liverpool a century before her. This can be ascribed in part to the quality of the opposition during her tenure, but that does not fully explain the phenomenon of Thatcherism.

She came to power at a time when the United Kingdom was in apparently terminal economic decline. It was a period of political drift and pervasive national malaise. What the country needed was a politician of conviction with a clear agenda and, with the women's liberation movement in high gear, a woman in 10 Downing Street was all to the good.

In the early years, Mrs. Thatcher delivered on her promise and promises. She virtually smashed the trade unions, which had been a major contributing factor—though not the only one—in the decline of British industry, and she introduced deregulation and privatization to unleash the competitive forces within the British economy. She enabled British industry to slim down so that it is now in comparatively good shape to trade successfully.

Internationally, she was the first Western leader to detect what was happening in the Communist Bloc and to embrace Gorbachev.

But the other side of her legacy could tip the balance in the history books—the deterioration of the much ad-

mired national health and third-level education systems; the emasculation of local government; the estrangement from Europe; and the economic neglect both of large geographical and social classes of the United Kingdom has historical parallels with the "Two Nations" denounced by Disraeli.

In the end, like most political leaders, especially those of an autocratic bent who have clung on to power too long, Mrs. Thatcher lost touch with her people and, in turn, with her party. Yet, even at this remove, she can convince herself that it was the party, especially her own cabinet and not the people who let her down. She reserves her most caustic criticism for Michael Heseltine, who challenged her for the leadership, and for Geoffrey Howe, whose resignation speech to the House of Commons added several nails to her coffin, "a final act of bile and treachery," according to his bitter victim.

This final chapter is the liveliest in the book. For the rest, it is deadened by a lapidary prose style and an over-attention to the minutiae rather than the swirl and significance of major events. While the word "Thatcherism" may endure, this book provides no evidence that it was backed by a political design any grander than getting one's own way at the expense of those who were not "one of us."

—Peter Doyle

### The Cold War

By Martin Walker; Henry Holt & Co.; 404 pages; \$25.

The American publication of Martin Walker's fascinating book—it appeared before Christmas in the UK—is fortuitously timely, coming out as it does on the heels of President Clinton's recent visit to Moscow and other stop-offs in the former Communist Bloc. This is a book which should be read by all those who, like the President and his advisors, are trying to come to terms with the new world order.

As they contemplate the

confusion in Central and Eastern Europe and the former Soviet Union (FSU); the economic chaos, the resurgence of ethnic and racial rivalry, the irredentism, political and military strategists on both sides must be tempted from

time to time to reflect longingly on the comforting certainties of the cold war. This book will help to fuel their nostalgia.

Indeed, for all the tension that was generated and sustained through almost half a century of confrontation between East and West, the book provides an almost endearing picture of the two superpowers, condemned to play out their roles in symbiotic isolation from the rest of the world. One almost feels sorry for them.

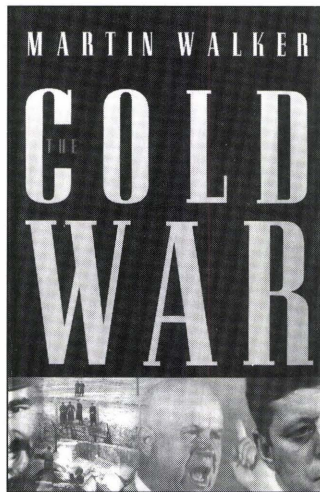
The cost for both in economic terms was colossal, as it was also in human terms for the FSU. What Professor Paul Kennedy calls "imperial overstretch" was evident in the US as early as the

Kennedy era. There was a serious leakage of gold and the balance of payments tripled in a decade. Yet, despite Khrushchev's "we will bury you" it was the FSU which blinked first and ultimately caved in.

In retrospect, the result of the cold war may seem to have been inevitable, but at the time it was far from predictable, even to the most prescient, at least in the West. This was partly the fault of politicians like Kennedy and Eisenhower who knew there was no missile gap, but who nevertheless allowed a massive military build-up, especially when they could capitalize on the fears of the general public following the launching of Sputnik. The eyeball to eyeball standoffs over Berlin and Cuba also provided a domestic constituency in the West in support of bolstering its arsenal.

How close the world came to nuclear war over these two tinderboxes we will probably never know. Even as distinguished a cold war strategist as the arms negotiator Paul Nitze wrote in *The Washington Post* recently that we will never be certain what has deterred the use of nuclear weapons since 1945. Yet Mr. Walker's book gives us some intriguing glimpses into the nature of the delicate negotiations that kept the world from war and the personalities involved in decisions that could have meant the end of the human race.

At the height of the Cuban crisis, when the Joint Chiefs of Staff were still urging an invasion, Kennedy wondered aloud to his Press Secretary Pierre Salinger if they realized that a mistake could mean 200 million casualties. Over in Moscow, Khrushchev was wondering much the same thing in front of his gung-ho generals. "They looked at me as though I was out of my mind





or, what was worse, a traitor," he recalled in his memoirs.

Another exchange between American military top brass has an eerie ring of *Dr. Strangelove* about it. Mr. Walker depicts the Chief of the Strategic Air Command, General Tommy Powers, laughing off the possible contribution of nuclear radiation to genetic mutations with the remark: "Nobody has yet proved to me that two heads are not better than one." And, reminiscent of George C. Scott, he dismissed any suggestions of prudent restraint vis-à-vis Russian civilian targets by shouting: "Why are you so concerned about saving their lives. The whole idea is to kill the bastards. At the end of the war, if there are two Americans and one Russian, we win."

According to Mr. Walker, Mao Tse Tung's blithe readiness to accept the risks of nuclear war stunned even his collaborators in the international communist movement. When, at a Moscow summit, the Italian Communist Party leader Togliatti, expressed concern for the fate of his own country in such an event, Mao replied "But who told you Italy must survive? Three hundred million Chinese will be left and that will be enough for the human race to continue."

Although China finally organized its own bomb, it never became a major player on the nuclear stage. The defining roles were reserved for the US and the FSU as the rest of the world watched anxiously from the wings. The curtain came down on the drama with little warning and without any consultation with the audience. America's European allies were shocked by the Reykjavik agreement between Reagan and Gorbachev in 1986 for a nuclear-free world. Reagan's staunchest ally, Mrs.

Thatcher, as well as more particularly Chancellor Kohl, were aghast at the prospect of the exposure of Western Europe to conventional force attack.

In the final analysis, the alacrity with which Gorbachev went along with these proposals was explained by the subsequent economic collapse of the FSU. Its ability and will to mount even a conventional attack can now be legitimately questioned, although it cannot be dismissed altogether as long as economic and political uncertainty persist to the East.

The challenge for the

West now must be to reduce the temptation to recidivism in the Kremlin and elsewhere. There are still large nuclear and conventional arsenals in existence which must be neutralized for all time. Compared with

the expense of the cold war, the costs of copper-fastening democracy and restoring an acceptable level of individual prosperity in the FSU and the rest of the former Communist Bloc is a price which is both affordable and worth paying.

Mr. Walker, Washington Bureau Chief of the UK's *Guardian* newspaper, doesn't go into the post-cold war scenario in this book. But, as a former Moscow Bureau Chief for his newspaper he is well-qualified to do so in his next volume.

—Peter Doyle

### Lenin's Tomb: The Last Days of the Soviet Empire

By David Remnick; Random House; 530 pages; \$25.

David Remnick, who covered events in Moscow during the final days of the Soviet Union for *The Washington Post*, has written an exciting, fascinating, and fast moving chronicle of "the last days of one of the cruelest regimes in human history."

Unlike Strobe Talbott and Michael Beschloss' book *At the Highest Levels: The Inside Story of the End of the Cold War*, which chronicled events at the highest levels of officialdom in the Soviet Union and the United States, Remnick literally goes across the vast Soviet Union to interview "average" citizens.

There is a sadness that pervades the book as we hear various dissidents

and average citizens talk about their grim lives, their suffering, and their families' suffering at the hands of Stalin, and the overall absurdities, distortions, and outright lies they have had to endure for the last 70 years.

*Lenin's Tomb* actually reads like a series of short stories, with interviews ranging from Stalin's grandson, Yevgeny Djughashvili, to dissidents in the Memorial movement to striking coalminers and angry fishermen.

Remnick says that "the return of history to personal, intellectual, and political life was the start of the great reform of the 20th century, and whether Gorbachev liked it or not, the collapse of the last empire on earth." His main

thesis is that when the state no longer dominated the "truth" with its official lies, the state could no longer exist. As he put it, "When history was no longer an instrument of the Party, the Party was doomed to failure."

The author's brief glimpses of Yeltsin and Gorbachev's early years, Sakharov's heroic struggles, and Gorbachev's days as the last General Secretary of the Communist Party, as well as the most illuminating portrait of the August coup I have read, all have this reviewer agreeing with the many publications who hailed *Lenin's Tomb* as one of the finest and best written books of 1993.

—Robert J. Guttman

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