FRANCE: CHANGE IS IN THE AIR • AIRBUS • U.K. ELECTIONS

EUROPE

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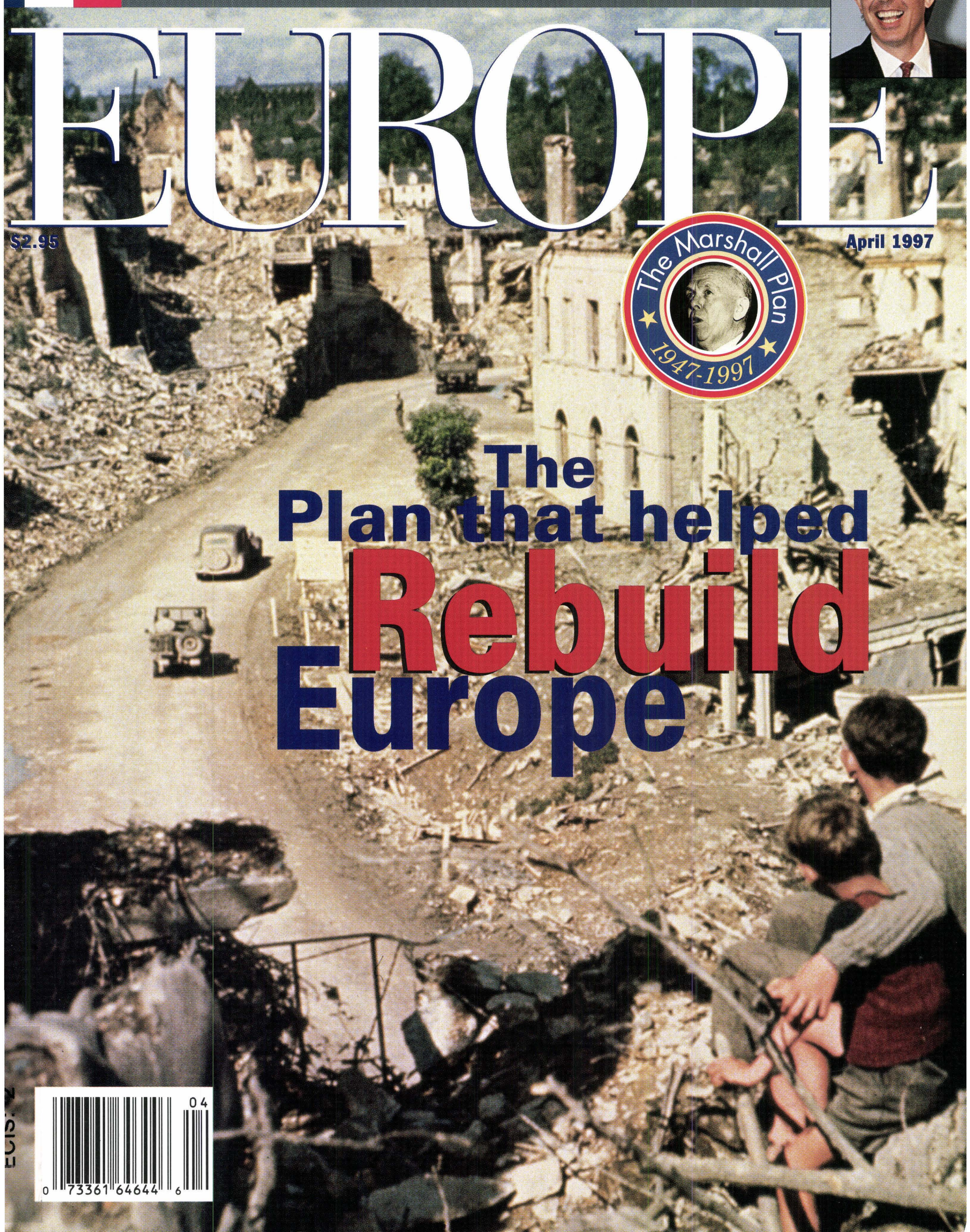

The Plan that helped Rebuild Europe

Ambassador-at-large Jean-Daniel Tordjman is France's special representative for international investment. The post was specially created for him in 1992 after he had spent seven years as Minister for Economic and Commercial Affairs at the French Embassy in Washington. The top-level contacts he established there have been invaluable in helping him to attract international investors to France, to mobilize the necessary government support to assist businesses coming to France and to then keep foreign firms happy on French soil.

Ambassador Tordjman's global mission keeps him so busy that his feet barely touch the ground. He jets from one country to the other, meeting with government officials, financial experts and business leaders. Due to his extensive experience and unique insight into international business, he is often called on to analyze trends in world investment and to forecast likely changes and developments.

Q: Looking ahead to the 21st century, are there any major changes on the horizon in regards to the development of American investments in Europe—and in France in particular?

JDT: First of all, we can say that American firms will continue to be extremely interested by Europe, which is the world's largest single market. American firms are the most important investors in the world, with investments now reaching a level close to $600 billion, which is an enormous amount of money. They are largely focused on Europe and will continue to develop their presence here.

Then comes the question of exactly where in Europe will they invest. There are three major markets—Germany, France and the UK—and the choice is there. A great number of American firms have chosen France. Our main competitor is the UK, which has a few advantages, such as the ability for everyone to speak English, but you do not choose your site because of the language.

The site is chosen because of the prospects for profits. And prospects for profits are probably as good, sometimes even better, depending on the industry, in France as in the UK. American firms very often need to be on the continent, where the action is. The action now is to go a little further in monetary integration and maybe later in political integration, so a lot of firms are interested in being on the continent, and there France is in an excellent position.

Q: What are the main factors that have made France a prime location for international companies?

JDT: France is the third largest host country in the world for international direct investment. Between 1980 and 1996, the accumulated stock of international direct investment rose from $22 billion to $160 billion, placing France in top position in Europe. Why this spectacular increase? Because France has a wealth of natural assets and the national and regional authorities have worked hard to promote these assets to potential investors.

As the only country with direct links to Europe's six largest markets—Germany, the United Kingdom, Benelux, Switzerland, Spain and Italy—France is an ideal location for many types of industrial facilities, logistics and distribution centers.

The country's recognized industrial strength, high productivity, creative and flexible workforce make France the right choice for production sites.

The same is true for research and development centers. Indeed, France has a long tradition of welcoming R&D facilities which rely on France's highly creative and skilled researchers.

Finally, France is a perfect location for strategic decision-making centers of multi-national firms. The country's economic, industrial and financial strength, in addition to its international mindset, support this capacity.

Q: What is the investment climate like in France today?

JDT: General Motors, Ford, IBM, Federal Express, Canon, Mitsubishi, Allied Signal are but a few of the international investments that have been made in France recently. Freedom to invest is the rule. New measures have simplified administrative procedures for international investors, creating a highly unrestricted environment for investing.

In addition, a significant number of tax incentives have been decided: the headquarters regime is now applied worldwide, permitting companies to take advantage of certain tax breaks that were previously limited to operations within the European Union; the headquarters regime has also been extended to include distribution centers, financial centers and their back offices; the use of accelerated depreciation on certain investments has been extended, and there is now a new fiscal regime for foreign expatriates. The special costs for furniture removals, reconnaissance trips and school fees they face may now be taken into account in tax declarations.

Q. What kind of assistance do you provide to international investors?

JDT: I was appointed ambassador-at-large for international investment to emphasize the positive approach the French authorities take with respect to international investors. That means establishing ongoing contacts with internationally owned businesses in France, canvassing major international firms throughout Europe, North America, Asia and the Middle East, and acting as a central interlocutor for industrial investment projects.

The Invest In France Mission provides international investors with:

- Information on France as host country for international investment.
- Assistance in setting up investment projects such as production sites, distribution and logistics centers, research centers, decision-making centers. We work in close association with DATAR (France's regional planning and development agency), public service authorities, the French regions and the French business community.
- Assistance to international companies already established in France.

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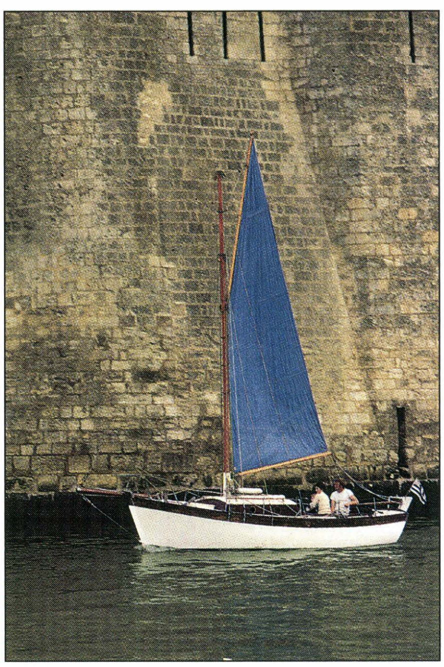

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Letter from the Editor

As European integration moves toward its next gigantic step of introducing a single currency, the euro, by the turn of the century, it is important to look back 50 years and remember the condition of Europe after World War II when the Marshall Plan went into effect.

Martin Walker, in his article on the Marshall Plan and how it helped save Europe, points out that the plan gave a large "impetus to European integration." The Marshall Plan helped bring the European countries together to restore their devastated economies and was a harbinger of things to come.

"It is generally conceded that the Marshall Plan was the first important initiative that led to the Coal and Steel Community, eventually the Common Market, and what is now the European Union," says Albert Beveridge, president of the George Marshall Foundation.

Maurice Schumann, a former foreign minister of France, tells *EUROPE* that "European integration was not a goal but a consequence of the Marshall Plan. The basic goal was providing a strong base for resisting communism in Europe."

On the cover: Two French boys watch convoys of Allied vehicles pass through the ruins of Saint-Lô, France, in June 1944.

EUROPE discusses the economic and political situation in France today as the government battles 12 percent unemployment while it tries to meet the requirements to join EMU (economic and monetary union). Axel Krause, reporting from Paris, writes that, despite the many troubles facing the current Chirac-Juppé government, "change is in the air."

The French are slowly changing many of their business habits in order to compete globally. One example of the changes in the business community that are taking place across France is the restructuring of the joint European aircraft builder Airbus in order to compete with a bigger Boeing. *EUROPE* analyzes the Airbus consortium today and looks at its future role in producing the world's largest aircraft and other jumbo jets.

"The smart cards are coming and sooner than you think," writes Robert Lever in his article on the fast growing role of this new financial tool in Europe. Lever also profiles Banque Transatlantic, a small French bank with a global reach.

"April in Paris" is a phrase heard so often that it is hard to understand the reason for Ester Laushway's article on leaving Paris in April. After reading her humorous account of a family vacation in Arcachon and Saint-Jean-de-Luz, we are encouraged to discover the charms of other parts of France in the springtime. Benjamin Jones presents a family vacation in La Rochelle, described as "the most attractive town on the coast between Nantes and Bordeaux."

Robert J Guttman

Robert J. Guttman
Editor-in-Chief

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

EYE ON THE EU

Profiling Personalities and Developments Within the European Union

One of the biggest successes of the EU over the past 10 years has been the removal of a vast range of barriers—physical, technical, and fiscal—which had prevented the development of a single market within the European Community. In what was known as the 1992 Program, an ambitious timetable was drawn up in 1985 to introduce no fewer than 300 measures designed to secure the removal of all these barriers by the end of 1992.

Despite much initial skepticism, the program was pushed forward with great energy, and by 1992 some 95 percent of these measures had been adopted.

Recent surveys have shown that the beneficial effects of this program have been considerable. Up to 900,000 extra jobs have been created over the past four years, the gross domestic product of the EU is between 1.1 percent and 1.5 percent higher than it would have been without the program, while investment is 2.7 percent higher.

Moreover, the removal of trade barriers has boosted trade between the member states of the EU. Intra-EU imports now account for 67.9 percent of total manufacturing imports, compared to 61.2 percent before the 1992 program began. Intra-EU service imports have also increased, from 49.6 percent of the total to 50 percent. This increase of trade among the member states has *not* been at the expense of third countries.

Up to 900,000 extra jobs have been created over the past four years, the gross domestic product of the EU is between 1.1 percent and 1.5 percent higher than it would have been without the program, while investment is 2.7 percent higher.

Extra-EU manufacturing imports have increased their share of EU markets from 12 to 14 percent over the same period.

The impact of the single market program is also reflected in the narrowing of price differentials between member states. Prior to 1992, the average differential for consumer goods was 22.5 percent, and 33.7 percent for services. These have now fallen to 19.6 percent and 28.6 percent respectively, which has undoubtedly contributed to the sharp fall in EU inflation rates over the past few years.

Yet the program is still incomplete—apart from the 5 percent of measures not adopted, several member states are not fully implementing all the measures that were agreed. The European employers' organization, UNICE, is now demanding that there should be a big push during 1997 to remove the black spots that have been identified by two large surveys, which included Commission interviews with 13,500 companies. The three largest problem areas identified are:

Public Procurement: Contracts for building and supplies in the public sector, above a minimum value, should have been opened up to free competition, with firms anywhere in the EU being able to submit tenders. The Commission reports that the legislation opening up the market for public tendering has been implemented poorly, or not at all, by many member states. A particularly flagrant example was the construction of a new parliamentary building in Belgium for the regional Flemish parliament, for which tendering was restricted to Flemish building firms. The Commission has taken Belgium before the European Court of Justice, and if it wins the case a heavy fine is likely to be imposed on Belgium.

Indirect Taxation: Value Added Tax should be levied on goods and services in the country where they originate, rather than where they are consumed, according to the 1992 proposals. The changeover has not yet occurred, owing to the failure of the member states to agree on the details of a tax-collection system. This has resulted in a mass of burdensome paperwork for suppliers, and the lack of tax harmonization has undoubtedly acted as a restriction on trade.

Energy Liberalization: This is proceeding very slowly, in spite of a recent agreement to partially open the market. Serious liberalization measures would undoubtedly lead to a significant reduction in industrial costs.

The commissioner responsible for the internal market, Mario Monti, has responded enthusiastically to the call from UNICE, and has initiated a vast consultation program before devising new proposals to speed up the completion of the program. The Commission has already made firm representations to the intergovernmental conference to extend the range of qualified majority voting in order to prevent vested interests in a single member state from holding up progress.

Monti regards the completion of the single market as an essential element in the economic and monetary union due to start in 1999. As he explained in a recent public lecture in Brussels, the single currency represents the M in EMU, but the single market represents the E. Unless both elements in EMU are operating satisfactorily, it will not be a success.

—Dick Leonard

THE BARD: BYTE BY BYTE

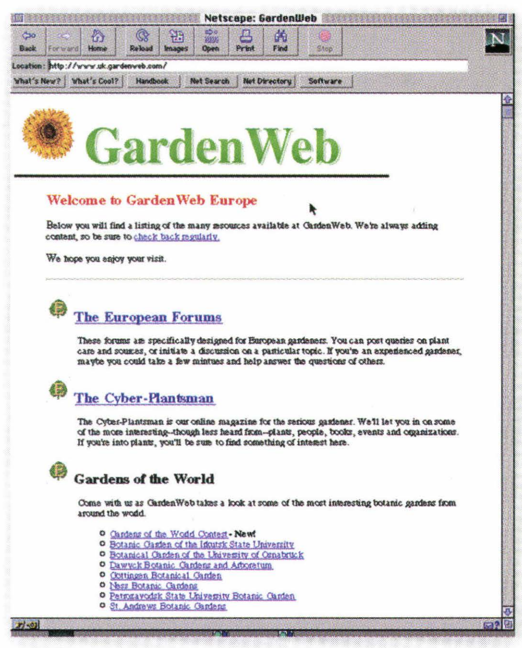
Shakespeare wrote that April had an "uncertain glory" because of its unpredictable weather. He has been forever linked with the month as historians believe April 23 was both the day he was born and died. But the Bard's own glory is far from uncertain 381 years after his death as his words continue to be read, performed, and now downloaded from the Internet around the world.

At this writing, more than a dozen Web sites have been devoted to his life and works as well as the thoughts, analyses, and just plain ramblings of scholars and students worldwide. If your last dose of Shakespeare was force-fed required reading, seize the day and sample some on-line offerings.

For the texts themselves Jeremy Hylton's Complete Works of William Shakespeare (the-tech.mit.edu/Shakespeare.html) has it all—comedies, tragedies, histories, and poetry. The site is mostly gray, but its information is substantial. Hylton lists the plays chronologically and by genre. He has a section on frequently asked questions, or "FAQs," and "Bartlett's Familiar Quotations" relating to Shakespeare. Hylton also has a keyword search that will scan through some or all of the texts to find places and names, such as Antonio, the character name which shows up in seven of the Bard's plays.

For lighter viewing, Shakespeare Web (www. shakespeare.com) has some interesting historical tidbits and an amusing discussion area. Webmaster Prospero has put together "Today in Shakespeare History" with news items such as the earl of Essex's 1601 confession of his plan to take over the government or a debate in 1610 on the exploration of Virginia. Students seem to check in regularly at the site's discussion groups, which are divided into three user categories: "genuinely interested students," "lazy or dishonest students," and "everyone else." Even the lazy or dishonest often get responses on last-minute term paper questions. And for those who prefer to experience Shakespeare through performance, the site's resident company, Shenandoah Shakespeare Express, provides its current touring schedule.

True devotees often cross the Atlantic to walk in the Bard's footsteps and absorb some local English color. This spring offers an unusual attraction, as the builders and craftsmen put the finishing touches on the Globe Theater replica in London. The original Globe, where most of Shakespeare's works were performed during his lifetime, was destroyed in 1644. In 1970, American-born actor-director Sam Wanamaker spearheaded a group that hoped to re-create the experience of the Elizabethan stage. After much ado about the location and financing, the project is scheduled for completion in June. The theater's Web site (www.rdg.ac.uk/globe/Globe.html) has photos of the circular, open-air structure, which is on the south bank of the Thames near where the original stood. Visitors can take a virtual tour or learn about the Globe's history. Those lucky enough to go there in person can see the workers re-creating the early 17th century craftsmanship and later this summer a true renaissance of Shakespearean theater.



VIRTUAL GARDENS GROW

Garden-related Web sites are sprouting up all over. If a spring trip to Europe is on your agenda, check out some sites that give virtual previews of some botanical gardens that are far from garden-variety. The Web site of the Royal Botanic Gardens at Kew is one of the older and larger sites for gardening enthusiasts (www.rbgkew.org.uk/). The gardens got their start in 1759 when Augusta, dowager princess of Wales, had some land on her estate southwest of London set aside for a formal garden. The spot expanded to the 300 acres of today and includes areas devoted to azaleas, heather, bamboo, and aquatic plants. The Web site isn't as colorful as the gardens themselves, but it does outline the major attractions and provide directions, hours, seasonal events, and a searchable database.

The Botanic Gardens of Berlin site offers a better virtual tour (bgbm3.bgbm. fu-berlin.de/BGBM/default.htm). A map allows viewers to see the gardens' 180-foot greenhouse and get details on some of the 20,000 species of plants exhibited.

A member of the Hapsburg family had a hand in creating another of Europe's well-established botanical gardens. In 1754 Archduchess Maria-Theresa created a pharmaceutical garden that would become the botanical garden of the University of Vienna (s1.botanik.univie. ac.at/hbv/hbv.htm). The garden and its 9,000 species of plant life is open to the public April through October, free of charge. Parts of the site are posted only in German.

One garden off the beaten track and a bit smaller in scale than those in European capitals is the Botanical Garden of Orchaise, France (haven.ios.com/~aqua/orch-home.htm). The privately owned garden is in a small town in the Loire Valley not far from the much-visited Blois Castle. The owners converted the grounds of an 11th century priory into a collection of some 1,900 varieties of plants. They opened the garden to the public in 1968, and it can be seen March through October, the first and third Sundays of the month.

If none of the above locations is on your itinerary, some of the all-purpose gardening Web sites might steer you toward botanical gardens or arboreta all around Europe. Garden Web Europe (www.uk.gardenweb.com/) lists half a dozen gardens with the promise of more to come. But the Internet Directory of Botany (www.helsinki.fi/kmus/botgard. html) wins hands down as the most exhaustive site on gardens and every aspect of plant life. The site, which is compiled by the Botanical Museum at Helsinki University, includes gardens in places that are often along tourist routes, such as Copenhagen, Denmark, or Florence, Italy. Exploring many links that are not in English and/or are overly scientific can be tedious, but, then again, weeding comes with the territory.

SITE OF THE MONTH: ENVIROWEB

Earth Day may come only once a year, but scores of environmental organizations worldwide work everyday to protect the environment and encourage awareness among government leaders, businesses, and individuals. The Environmental Web Directory (www. webdirectory.com/) has simplified the task of finding out what is going on to conserve natural resources, protect endangered species, or clean up polluted areas. By clicking on "general environmental interest" and then "country," visitors to the Web Directory will find environmental sites scattered all over Europe. The Institute for Marine Biology in Crete (www.imbc.gr/), among the featured sites in Greece, details its research. Ireland's near 50 year old conservation group, An Taisc (www.commerce. ie/ca/antaisce/), also links to the directory. And the Algarve-Environment site (www.nexus-pt.com/alg/πalgarve.htm) recently provided updates on flooding in Portugal. So whether it's April 22, the official day for reflecting on the plight of the planet, or any other day, Netizens have a wealth of information at their fingertips.

—*Christina Barron*

No Turning Back

President Jacques Chirac and Prime Minister Alain Juppé say they are determined to stimulate France's economic growth and create badly needed jobs.

For nearly six months, Laurent Festor, a diligent 24 year old bachelor, with the equivalent of a master's degree in logistics and several years of business experience under his belt, wrote 500 letters to companies throughout France seeking full-time work. Among nine other French job applicants competing fiercely for a junior management position with multinational glass maker Saint-Gobain, he was hired. "I was very lucky," he said.

Festor is an exception to what beleaguered Prime Minister Alain Juppé terms his government's "serious, collective failure"—creating jobs for young men and women now accounting for more than 25 percent of France's jobless of some 3.1 million. So too is Saint-Gobain an exception compared to many French companies because it recently announced record earnings for 1996 on a sales rise of 30 percent.

But, France is by no means as badly off as many critics and observers have been saying.

A long *New York Times* article in February concluded that the country "quite palpably sags," racked by a sense of having lost all sense of direction and mission. Meantime, a fictionalized commentary in *Business Week* portrayed shocked business magnate, Bill Gates, discovering France's supposedly hostile business environment. "Get me out of this place, Gates cries," the article conjectured.

Such gloomy observations have inspired the comments of critics and observers for the past few years; writing in *EUROPE* three years ago, this reporter noted "the nation's sense of anxiety and frustration" under Socialist President François Mitterrand, amid growing unemployment and opposition

By Axel Krause

Chirac is determined to move FRANCE forward

to his politics.

Today, change is in the air. Yet, some critics, particularly foreigners, continue ignoring slow, painful reforms underway throughout France and fragmentary, but encouraging, signs of economic recovery. Partly as a result, there now is widening consensus among bankers and financial analysts that France will qualify for membership in the economic and monetary union (EMU). The prospect of a leftist victory in legislative elections next year could also lead to a more expansionary monetary and fiscal policy.

Faced with chronic, record levels of unemployment, strikes and demonstrations, growing pains of cost-cutting reforms in France's generous welfare system and ailing state-controlled companies, and, more recently, the spectacular popularity of the extreme right-wing National Front party, the current government is, to say the least, unpopular. Frequently, it finds itself on the defensive, including over its often strained diplomatic relations with the United States.

Elected in 1995 to a seven-year term with a 52.6 percent margin, President Jacques Chirac, the energetic, centrist, reform-bent Gaullist, blames delays in his plans for streamlining on deep, continuing resistance to change. "We are a country profoundly conservative," Chirac told a nationwide television audience last December, "in which it is extremely difficult to move anything," because of "traditions and fears."

Yet, adds the feisty, 65 year old president, there is no turning back on his government's determination to reform everything from the country's politically vulnerable judicial system and restrictive immigration policies, to stimulating economic growth in order to create jobs, which remains a top priority. He also wants to keep interest rates low and the franc strong, which means tight monetary and fiscal policy, with little room for maneuvering.


By all accounts, Secretary of State Madeleine Albright and President Clinton enjoy a good relationship with the French president.

in the "international environment," should set the stage for a "stronger growth performance in the next two years." And if Chirac's reforms prove successful, the OECD indicated, unemployment could fall, with a decline in the budget deficit, allowing France to meet qualifying criteria for monetary union under the Maastricht Treaty.

By early March, prospects were indeed brightening. Last year, buoyed by a strong dollar, low interest rates, and high-tech products, such as Airbus planes, France posted a record trade surplus of $21.5 billion, 24 percent higher than in 1995. Exports have continued rising nearly twice as fast as imports. Surging foreign investment, led by such US companies as Motorola and Federal Express, is adding to the improved outlook. Managers of medium-sized and small businesses recently polled report they feel more confident about the future, are boosting investments, and like Saint-Gobain, are carefully hiring again.

Sporadic squabbles, tension, and even snubs will continue influencing French-American diplomatic relations, but so, in a positive way, will the good chemistry between the two presidents, who talk by phone several times a month and, thanks to Chirac, in English.

Abroad, Chirac continues pressing for a controversial, French-dominated "European identity" within an expanded NATO structure and what he terms an "activist" foreign policy in other areas.

At the Elysée Palace, despite recurring rumors to the contrary, the consensus is that Chirac will continue supporting his longtime ally, Prime Minister Juppé, even though in polls only 35-40 percent of French voters approve their overall performance. The 52 year old former foreign minister is thus expected to continue running the government until legislative elections next March, backed by a strong, conservative majority in the 577-seat National Assembly.

With no change in domestic or foreign policy planned, why change the prime minister, responds a presidential advisor. He and other sources quickly add that Chirac isn't comfortable with any of Juppé's would-be successors, notably Philippe Seguin, president of the National Assembly, who is most frequently cited.

Since no one is ruling out "social disruption" in coming months, ignited by more sporadic strikes and anti-government demonstrations, the key test for the government's future—and the election's outcome—will be how the economy performs in the months ahead.

By almost any measure, last year's performance was weak, as GNP "faltered" close to 1 percent, the Organization for Economic Cooperation and Development reported, amid weakening domestic demand, falling business inventories, and "disappointing" financial returns from nine companies and banks privatized between 1993 and 1996. The government's overall budget deficit stood at 4 percent of GNP, a percentage point short of qualifying for membership in European economic and monetary union. Losses at many state-controlled companies and banks reached record levels, even as slowing inflation hit a record low of around 1 percent.

Surprisingly, the OECD, in its highly critical report on the economy, approved by the government to deliberately publicize its problems, came to a guarded upbeat conclusion: easing of monetary conditions and improvement

Management streamlining was accelerating at leading, ailing companies, ranging from the travel and leisure group, Club Mediterranée, to the state-owned French Railways, Air France, and auto maker Renault. Driven by strong export demand, the government's revised forecast for at least 2.3 percent growth this year was now within grasp, and by year-end could reach 4 percent, many economists said. However, most also agreed that unemployment would continue rising until the summer and then, at best, stabilize at around 13 percent, more than double the US rate.

As the Juppé government in late February won parliamentary approval for a tough anti-immigration bill, following a massive protest demonstration in Paris that attracted up to 100,000 people—led by film personalities, students, trade unionists, and intellectuals—some Socialists began worrying about their future. "The Left should have the courage to say that immigration isn't the number-one problem in our country," said Martine Aubry, the outspoken, daughter of former European Commission President Jacques Delors, who is running as a Socialist in the northern city of Lille for a seat in the National Assembly.

She and most of her Socialist allies are backing party leader Lionel Jospin, who in the event of victory, would most likely succeed Juppé as prime minister. The potential winning issue for the Left? Tackling "unemployment, exclusion (of residents from French life), and social disruption," says Aubry.

A former education minister, the 59 year old Jospin opened the campaign on March 18 by outlining a package of economic and social reforms that he said would send "a shock" to the economy, creating 350,000 public sector jobs, primarily among youth. The reforms would also entail reducing working hours, income taxes, and improving the state medical insurance program with a view to increasing purchasing power. The main challenge of a recovery, Jospin told a news conference, is stimulating not supply as the government is doing, but consumer demand.

Within hours, Jospin's plan was attacked by government leaders as being unworkable and too costly, which one business economist said was aimed largely at "getting people to dream."

Assuming the Left, possibly including the Communists, wins control of the National Assembly, thus forcing Chirac into a power-sharing arrangement known as "cohabitation," no major changes are expected in France's foreign policy. Even before the sudden death in February of Pamela Harriman, Clinton's vivacious, skilled ambassador, tensions were easing and compromises were being found over such prickly issues as a French-led European role in a renovated NATO.

Sporadic squabbles, tension, and even snubs will continue influencing French-American diplomatic relations, but so, in a positive way, will the good chemistry between the two presidents, who talk by phone several times a month and, thanks to Chirac, in English. The near-term future, lies between the extremes of gloom and exaltation and, assuming that the economic recovery takes hold, it is moderately bright. Ⓔ

Axel Krause, based in Paris, is a contributing editor for EUROPE *and a contributor for* Time *magazine. He has been covering France since 1962.*

FRANCE

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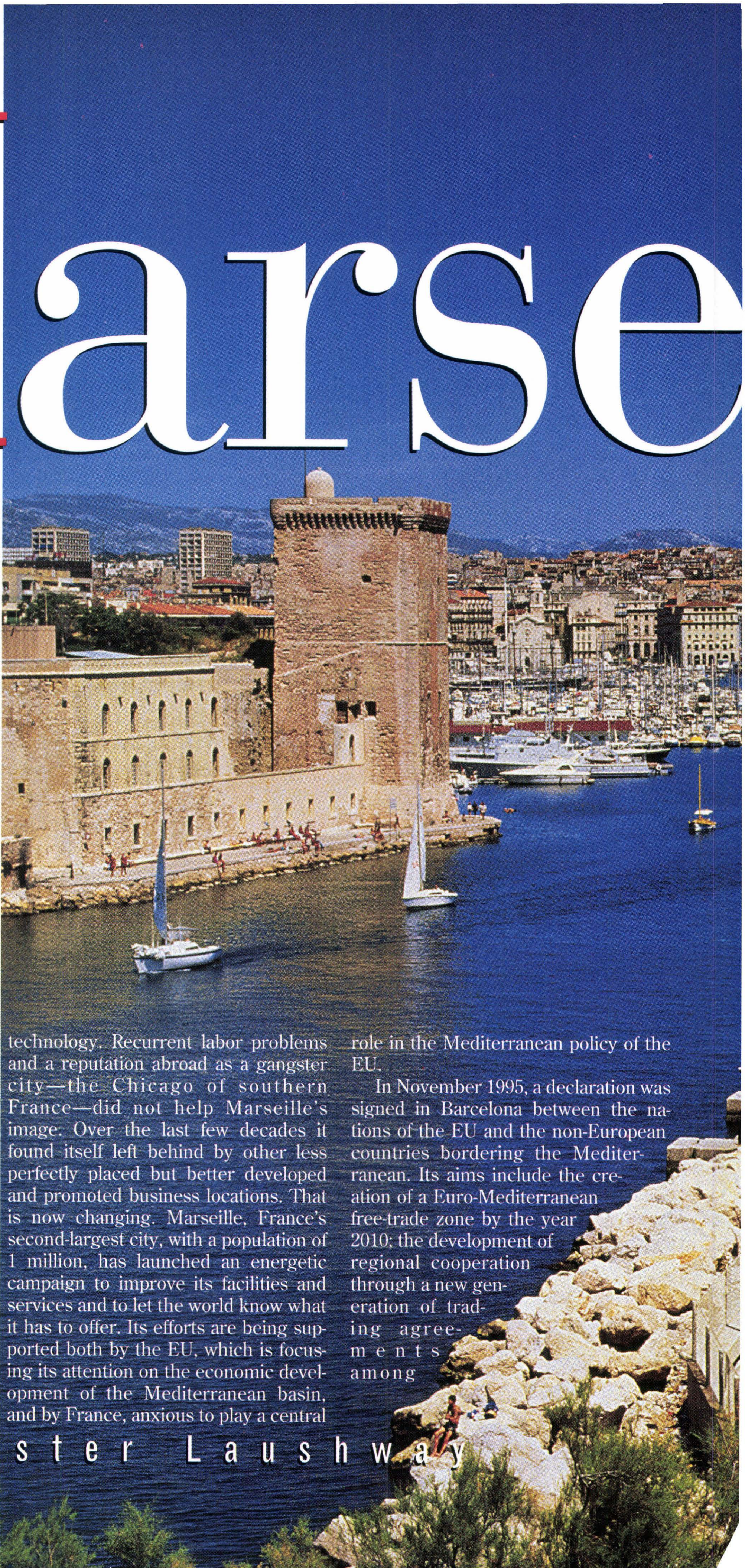


"Our position on the edge of the Mediterranean makes us not only Europe's neighbor, but also that of the Middle East and Africa, and the port and airport connect us to the five continents daily. In fact, we are in a privileged position."

Henry Roux-Alezais, chairman of the Marseille-Provence Chamber of Commerce and Industry, and chairman of the Port of Marseille Authority echoes what the Greeks realized 25 centuries ago when they founded Marseille: its location makes it a natural hub for international trade in the Mediterranean basin.

Marseille, the capital of Provence, is so ideally located, with a protected, deep-sea harbor, that for hundreds of years it dominated shipping in southern Europe and northern Africa. But success bred complacency, and while Marseille continued to rely on its natural assets, other ports to the north worked hard at developing their services and technology. Recurrent labor problems and a reputation abroad as a gangster city—the Chicago of southern France—did not help Marseille's image. Over the last few decades it found itself left behind by other less perfectly placed but better developed and promoted business locations. That is now changing. Marseille, France's second-largest city, with a population of 1 million, has launched an energetic campaign to improve its facilities and services and to let the world know what it has to offer. Its efforts are being supported both by the EU, which is focusing its attention on the economic development of the Mediterranean basin, and by France, anxious to play a central role in the Mediterranean policy of the EU.

In November 1995, a declaration was signed in Barcelona between the nations of the EU and the non-European countries bordering the Mediterranean. Its aims include the creation of a Euro-Mediterranean free-trade zone by the year 2010; the development of regional cooperation through a new generation of trading agreements among

By Ester Laushway

Founded by the Greeks 25 centuries ago, Marseille has long been a center for trade and transport in the Mediterranean region.

ille

An up and coming Mediterranean hub

European, North African, and Middle Eastern nations; and the setting up of a vast financial aid program, half of which will be funded by the EU, by loans from the European Investment Bank.

Jean-Daniel Tordjman, France's ambassador-at-large for international investment, sees the commitment of "this enormous amount of money, in the range of $14 billion," as a definite sign of the bright future of the Mediterranean region: "The funds will be attributed on a project-by-project basis, not just distributed among the nations, and this means we will have lots of new projects and a rising level of confidence in the area." Ambassador Tordjman believes that "Marseille and Provence can play a crucial role because they are part of the most advanced Europe, and they also have many links with the nations of the eastern Mediterranean." His optimism is shared by local and regional authorities, who are doing all they can to convince French and foreign investors of the attractions of the Marseille area. As Jean-Claude Gaudin, the city's mayor, and president of the Regional Council, points out, "the region possesses, apart from its natural attributes, great technological and scientific potential."

Its location is certainly a strong argument in its favor, as is its infrastructure. Right at the heart of the Mediterranean, flanked by the leading economic regions of Spain and Italy, Marseille and Provence can tap into a potential market of 360 million consumers. Marseille is the largest port on the Mediterranean, with nearly 90 million tons handled yearly, capable of harboring the world's biggest ships. Its international airport is ranked second in France for freight and third for passenger traffic and is currently undergoing an expansion program that will double its capacity to 10 million passengers a year. An advanced communications network, including a teleport, and an extensive road and rail system link the region to the rest of Europe, and by the end of the century, the high-speed TGV train will put Marseille within four hours of northern Europe's major cities. An increasing number of companies from abroad, the majority of them American, have decided to capitalize on the region's assets. In 1995, Provence led the rest of France both for the number of foreign firms it attracted and in the creation of new jobs. Among the sectors that consistently draw international investment are the petrochemical industry, food processing, and above all, microelectronics.

American companies are a strong presence in all these domains. Arco Chemical, already established near Marseille, is planning to invest a further $200 million to produce petrol additives. Dole Foods, working with two giant Marseille-based distributors of fresh and dried fruits and vegetables, has helped to make the food industry into the second biggest activity sector in the region, with a turnover of $4.8 billion. But it is microelectronics, thanks in great part to American firms such as semiconductor manufacturer Atmel and Du Pont Photomasks, that is experiencing the biggest boom. The Provence region is now the largest microelectronics activity pole in southern Europe and represents more than 25 percent of French production. Adrian Philips, site manager of Du Pont Photomasks, gives a great deal of credit to the highly educated and "particularly creative" labor force in the region: "In a sector where the quality of what we produce depends on the quality of our personnel, this is basic. Ninety percent of our employees are recruited locally."

A number of American companies, including Du Pont Photomasks, have located in the region.

Ambassador Tordjman is convinced that the steady influx of American companies into the region will help Marseille in its ambition to become a major international business center: "Americans do not only bring their money, they also bring their ideas, and more importantly, they bring their vision of the world. They know how to make money from the many assets here and how to turn into gold the capacity and creativity of the people here."

The French government is also throwing its support behind Marseille's bid to become the ideal business site in the Mediterranean region. It has designated the Euroméditerranée project, a major economic and urban development program launched this spring, as an "operation of national interest"—an endorsement not granted to any project in France since the construction of the La Defense business district outside

WorldMedConference

Marseille is making a determined bid to become the Mediterranean region's prime gateway to southern Europe. The most impressive marketing operation it has organized to date was World Med '96, an international conference held in September last year onboard a gleaming cruise ship, *The Napoleon Bonaparte*.

A first World Med conference was held almost four years ago, to try to draw investors to the region, but it was on a much humbler scale than this widely attended second edition, which had the full support of local, regional, and national authorities.

Six hundred French and foreign business leaders and economic experts from 43 countries attended, with the largest delegation—36 participants—coming from the United States. They met with 900 representatives of the region to exchange thoughts, concerns, and plans for the future. The first two days were taken up with a busy schedule of on-site visits and seminars focusing on five key sectors of activity in the region: the food industry, microelectronics, chemicals for health, energy resources, Europort-Euroméditerraneé.

The general consensus that emerged from these seminars is that the international business community is far more optimistic about the current state of affairs in France than the French themselves and that Marseille has all the natural assets needed to become a choice international business site. What the region needs to do is improve its services and reverse its negative image abroad with a dynamic marketing program.

One main local attraction that organizers had been counting on unfortunately went missing for most of the conference: The sun only made its appearance on the last day, which was reserved for a cruise along the Mediterranean coast. But in spite of the less-than-perfect weather, World Med '96 was an immensely attractive and well-organized showcase for the Marseille-Provence region and resulted in bringing four new international companies into the area within a month.

The next World Med conference, just more than two years away, promises to end the century with a blockbuster event. Not only will Marseille celebrate 26 centuries since it was founded by the Greeks, but 1999 also marks the four-hundredth anniversary of its chamber of commerce and industry, which is the world's oldest. There is no doubt that the entire region plans to sail into the new millennium in style, and World Med '99 will be a flagship of the festivities.

—Ester Laushway

Paris 20 years ago.

The label means that the national government will contribute half the financing, set at $340 million over the next five years, to transform 755 acres between the city center and the port into a state-of-the-art business district. It is intended to become a focal point for the tertiary sector, specializing in international exchanges and business services.

Since 240 acres of the Euroméditerraneé site belong to the Port of Marseille, the expansion of its operations forms an important part of the project. Jacques Truau of the Marseille Port Authority, says that the port's industrial complex in Fos, already the biggest industrial-harbor zone in southern Europe, will continue to be developed, and a new passenger terminal will be built. Once the Rhone-Rhine waterway is operational, Marseille will establish inland shipping links with Switzerland, southern Germany, and Central Europe. "The Marseille-Fos facilities have all the assets to become a major hub and dispatching platform for the collection and distribution of goods moving between Europe and other Mediterranean destinations, not to mention those in Asia," he affirms. Shipping firms in general agree that Marseille should take advantage of the increase in maritime trade between Asia, Europe, and the United States. As a measure of confidence in the port's future, the Chinese firm Cosco is opening a second line between Marseille and the US East Coast this year.

Cruise ship traffic, too, after years of giving Marseille a wide berth, is picking up considerably, with 30,000 passengers in 1995 and 100,000 passengers this year docking in Marseille. Talks are currently underway with American cruise lines to include Marseille as a regular port of call, and passenger numbers are expected to double within two to three years. The signs are encouraging and the potential of the Marseille region is tremendous, provided it can regain the trust of investors who were previously frightened off by its rough-and-ready reputation. One of its most energetic spokesmen is the young deputy mayor of Marseille, Renaud Muselier, never short of reasons why the capital of Provence should become the capital of the entire Mediterranean basin. "We have the benefit of the French culture, the Mediterranean climate, and because of having fallen somewhat behind in the past, we can also take advantage of a whole range of European and national aid packages to help companies establish themselves here. We are, therefore, once again in a super-competitive position, with reasonably priced real estate, numerous incentives, considerable know-how, exceptional communication networks, and a quality of life that is hard to find anywhere else."

The French government has designated the Port of Marseille expansion as "an operation of national interest"—the first such endorsement in 20 years.

In November last year, Marseille played host, for the first time ever, to a Franco-Spanish summit attended by Spanish Prime Minister José Maria Aznar and French President Jacques Chirac. It was another signal to the world that Marseille, just like it did in the past, is striving to play a prominent role in the Mediterranean region's future. Ⓔ

Ester Laushway is EUROPE*'s Paris correspondent.*

Sm

The next generation of money

The smart cards are coming—sooner than you think. In the coming months Americans are likely to see a growing number of European-style smart cards, which look like credit cards but in effect store cash on an imbedded microchip. These "electronic wallets" or "electronic purses," which are rapidly gaining favor in Europe, eliminate the need to carry around pockets full of change and bills for small purchases.

By Robert Lever

Smart cards started out in Europe mainly as phone cards—a way to avoid using coins at public phones, in a move to reduce vandalism—but are rapidly growing into a system for electronic cash transactions at stores and over the Internet.

These cards are widely seen as a means to a cashless society. But because the chips imbedded in smart cards can store a wide range of information, the technology for smart cards can also be adapted to a variety of uses besides commerce:

• People can carry smart cards that contain their medical histories, and this data can be transmitted from a doctor to a hospital, or from one hospital to another. In France kidney dialysis patients have their medical histories on such cards, allowing doctors in any of 245 centers to instantly know about their recent treatment and state of health. These cards can also facilitate billing procedures, lower costs, and reduce fraudulent claims.

• Holders of mobile phone cards can insert the cards into any compatible phone, and that will become his personal phone, wherever he is. Calls to the user's personal number can reach him, and calls made will be billed to his account, because the critical information is in the card, not the telephone.

• Smart cards can be used for food stamps or welfare cash payments, public transit, parking meters, and on college campuses instead of cash. At Florida State University, the school uses a smart card that serves as ID, access control, library, cafeteria, ATMs, and for many purchases on or off campus.

• Personal computers will soon come on the market with smart card slots. Holders of different kinds of cards can use them to access restricted databases and to pay for items, even in very low amounts, over the Internet.

Some believe a single card could be used for multiple purposes like video membership and frequent flyer mileage. But one of the most attractive uses of smart cards is for electronic cash, and companies involved in the cards say there are advantages for both consumers and retailers in using the systems for transactions under $10 or $20. One study by Killen & Associated suggests electronic commerce will grow from $90 billion in 1995 to $2 trillion in 2005.

For consumers, the attraction of the cards is eliminating the need to carry around small quantities of cash. For merchants, who will be required to install new reading devices, taking smart cards will speed up transactions because there will be no need for on-line verification; moreover, taking stored value cards will be as good as cash.

Most payments over the Internet—for access to certain documents, for example—are expected to be less than $10, making it uneconomical to use central accounting systems like credit cards.

Banks like smart cards because they effectively get free use of the funds while the unused cash remains on the

art Cards

Smart cards will eliminate the need for consumers to carry small quantities of cash and speed up transactions since they don't use on-line verification.

The coming months will see an onslaught of European-style cards aimed at replacing cash and a host of other uses.

cards, as with traveler's checks. If cash cards become widespread, it could pose problems for central banks by boosting the money in circulation and reducing the money the central banks earn by holding the funds.

The leaders in the cards and the underlying technology are mainly European—France's Bull and Gemplus, Germany's Siemens Nixdorf, Mondex of Britain, and Danmont of Denmark. But US firms are scrambling for position, and MasterCard last year announced plans to acquire 51 percent of Mondex, a joint venture involving 17 global banks.

A major test of smart "cash" cards is currently ongoing in Swindon, England, where some 13,000 have been distributed by Mondex and local banks and 700 retail outlets accept the cards. The bulk of purchases are for things like parking and bus fares. But one unique feature of the Mondex cards is that customers can use standard pay phones to "download" cash from their accounts, or transfer cash from one person's card to another using a specially adapted phone.

Mondex is preparing a card capable of carrying five currencies on a single chip, although they will be in separate compartments.

"At some point there will be an international electronic wallet," said Brigitte Baumann, president of the North American unit of France's Gemplus, which claims the number-one position for the smart card market as a whole.

The cards can be programmed with a high degree of security—using PIN numbers, for example—so that a lost or stolen card cannot be used.

"We consider that as you are putting money on a card, real money, you've got to have a high security card, because if anyone is able to produce fake cards, it's equivalent to producing fake money," said Eric Planchard, president and CEO of Bull's North American smart card marketing unit.

Is the United States ready for these kinds of smart cards, which are growing rapidly in places like Germany, the Netherlands, Belgium, Spain, and Portugal?

In Europe, most countries have a handful of major banks that work closely with the government. It may take longer in the United States because a variety of banks and technology firms are working on competing products with different technical standards. But many analysts believe these glitches will be worked out.

A worldwide group including Microsoft, Hewlett-Packard, and several European companies last year agreed to form a work group to develop common standards to integrate smart cards with personal computers. And several banks are cooperating in pilot projects in the United States and Canada.

Companies like Gemplus and Mondex are banking on the arrival of these cards, sooner or later, in the United States, as an irresistible force.

"Once you get hooked on smart cards, you don't want to go back to having lots of change," said Baumann of Gemplus.

"This year will be a very big year. Banks are now making decisions on whether they will go with Visa or Mondex...mass transit projects are coming, and a lot of pilot projects are going on."

The biggest test of smart cards in the United States took place at the Summer Olympics in Atlanta, when more than a million cards were distributed.

The next big step is expected later this year, with MasterCard, Visa, Citibank, and Chase Manhattan Bank expected to issue about 50,000 chip cards to consumers on Manhattan's Upper West Side, with some 500 merchants participating.

Half of the cards will use the Mondex system but will be manufactured by Gemplus. The other half will be Visa Cash Cards, with technology by Schlumberger—a diversified US company founded by two Frenchmen, with headquarters now in both Paris and New York.

Other tests are being carried out at college campuses by employees of AT&T and Wells Fargo Bank, and a community project is planned this year in Guelph, Ontario. Mondex plans a national issuance of cash cards in the United States in 1998.

One reason the smart cards are catching on faster in Europe is that the underlying technology has already been in use for some time, aided by close cooperation between big banks, telecom firms, and the government. Millions of people have used the chip-based phone cards—originally designed to eliminate theft from coin-operated public telephones. And in France, virtually all bank cards have been converted from "magnetic stripe" technology to chip technology to cut down on fraud.

Planchard estimates that regardless of what happens with "electronic wallets," credit and debit cards around the world will be converted to imbedded chip technology sometime soon.

"You can find in Asia complete manufacturing plants manufacturing fake mag stripe cards today," he said. "The cost of fraud is rising very quickly. You and I will be in a situation where we won't have credit or debt cards if we don't improve the security."

The direction of smart cards in the United States remains "a bit cloudy because technical standards still have yet to be defined," says Tom Lebsack, director of marketing for Schlumberger Smart Cards and Systems in North America.

Some companies are pressing a lower cost, disposable "memory chip" card, in which a bit is "killed" each time a user spends some cash. Others argue for a more sophisticated microprocessor, which is in effect a tiny thumbnail-sized computer that holds many functions.

Still others are pressing for a "contactless" smart card that use radio frequencies, for faster processing in rapid transit systems and toll booths, for example.

There are some common standards already in place, such as the size and thickness of the cards, but details are the subject of some fierce battles. Schlumberger, for example, is proposing a Java-based card, using the programming language common on the Internet, to allow programmers to have free access to develop new applications.

"There are hundreds of thousands of Java programmers worldwide," Lebsack said. With these kinds of open standards, "they can develop new applications for smart cards that nobody has thought of yet." ⊜

Robert Lever is an editor for Agence France Presse. He profiled French publisher Hachette in EUROPE'*s March 1996 issue.*

BANQUE TRANSATLANTIQUE

A small bank with a GLOBAL REACH

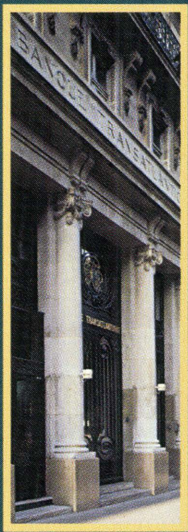
With some 200 million francs ($40 million) in assets, Banque Transatlantique barely makes the list of the top 100 French banks. But it has a global reach that is the envy of many a banker, in France or elsewhere.

"I don't think there is a country in the world where we don't have a presence," says the bank's chairman and chief executive Jean-Maurice Pinquier. From Mozambique to Vietnam, Venezuela to Burma, the bank serves its customers by helping to set up accounts, receive funds, or solve a variety of problems.

The bank, which was founded in 1881 as a merchant bank, found a special niche in the 1920s by becoming the bank for France's overseas civil servants. It kept that niche by providing, in addition to private banking services, little things for customers: finding parts for a Peugeot in Beirut, arranging piano lessons in Skopje, getting schoolbooks in Addis Ababa.

Banque Transatlantique is for French abroad a bit like American Express was at times in the past for US travelers, but it takes personal services a bit further. It offers asset management, insurance, and legal services. On one occasion, a bank representative even delivered a mast to a sailboat stranded in a race in the Bahamas. Its "personal services" division handles matters such as car registration, carrying out home repairs for customers who are away, or booking theater and opera tickets.

And yet Banque Transatlantique has only one teller window at its headquarters on Boulevard Haussman in Paris. It also has representative offices in Washington and London and an affiliate on the island of Jersey. It is majority-owned by the state-owned CIC banking group, France's fifth largest, which has been in the process of privatization.



As other institutions are moving toward electronic banking and the Internet, Banque Transatlantique is moving cautiously. Pinquier says the bank will keep up with technology, but it is not worried about its customer base because of its long experience with long-distance banking.

"We have customers around the world," he said. "We use the mail, fax, and the telephone."

Banque Transatlantique is also on the Internet (www.france.com/btusa), but like many other French banks is using the World Wide Web for display purposes, not for banking operations, yet.

"We can use the Internet to send e-mail or give an overview of the bank... but if you're talking about transferring money from one place to another, you need to have very good security."

He compared the introduction of Internet banking to that of ATMs two decades ago.

"It was young people who began this. Twenty years later, now you have people in their forties and fifties using ATMs. People who are in their seventies and eighties still don't use ATMs," he said.

Despite technological advances, Pinquier says there will always be a need for personal contact in banking, and his bank retains a personal touch because of its size.

"If you inherited 100,000 dollars, would you invest that in a virtual bank by Internet, without talking to anyone, or would you rather talk to someone personally, even if the end result is the same? We will be on the Internet...but we will never be a virtual bank."

Pinquier became president in 1995, when the bank was strapped with debt from bad real estate deals, and brought its focus back to personal banking services and overseas clients. (He said the group posted its first profits in three years for the 1996 fiscal year.)

By using a bank with international connections, people who go overseas can often avoid the problems of getting access to cash, setting up accounts, getting credit cards or mortgages. It also assists foreigners seeking to relocate to France and helps with tax and estate planning for diplomats and others who move around the globe.

About 20 percent of its international customers are non-French, and Pinquier says the bank is launching in 1997 "Operation Gershwin" to attract American customers in France for banking and offshore investments.

"We want to be the bank for Americans in France," he says.

Banque Transatlantique has only about 260 employees worldwide, but it has a multitude of partners around the world with whom it has worked. In the United States, for example, it has dealings with Riggs Bank, and others to ease the transition for people moving from one continent to another and allow them to set up accounts quickly and have access to their funds.

Still, the bank's small size means everyone has a personal banker, many of which Pinquier gets to know himself.

"How many banks are there where you can deal with the president himself?" he says. Even if the bank is bought by another group, he said "I think they will keep us the way we are because of our specificity."

By Robert Lever

Airbus

Challenging Boeing for control of the skies

With the force of an electric shock, the news from Seattle, Washington, last December hit Airbus Industrie in Toulouse, France, hard—and twice. First, American aircraft giant Boeing announced plans to acquire arch rival McDonnell Douglas, thus creating the world's largest integrated aerospace company. And second, Airbus board members were still smarting from their failure two days earlier to agree on a long-delayed restructuring plan.

As shares of Airbus's member country companies tumbled on European stock exchanges, government and industry planners in France, Germany, the United Kingdom, and Spain rushed back to working on the restructuring. Meantime, analysts described the news from Seattle-based Boeing as a dramatic, compelling "wake-up call" to accelerate reorganizing Airbus into a private corporation to facilitate raising capital on world financial markets for building future aircraft.

Editorialized *Air & Cosmos*, France's leading aviation magazine: "The challenge (from the United States) is addressed to the entire European aerospace industry."

By early March, many fears about Europe's aerospace future had evaporated. Airbus was again moving forward on its restructuring. It confirmed plans to develop a new 100-seat regional airplane with aerospace companies in China and Singapore. And, in sharp contrast to Boeing, had made it clear Airbus was proceeding with previously announced plans to place a 550-seat, super-jumbo commercial jet in service by around 2003.

The A3XX would be the world's largest aircraft, breaking a monopoly currently held by Boeing's 747 among planes with more than 400 seats. The new plane, Airbus officials say, could even be stretched for additional capacity later.

In late January, Boeing surprised the industry by announcing it was dropping plans to build a new larger and longer-range version of the 747, arguing the market did not justify the risk nor an initial investment estimated at between $7 billion and $10 billion.

Meantime, at Toulouse headquarters, Jean Pierson, the pugnacious,

Airbus's proposed 550-seat A3XX would surpass the capacity of Boeing's 747 and carry 450 more passengers than the Concorde.

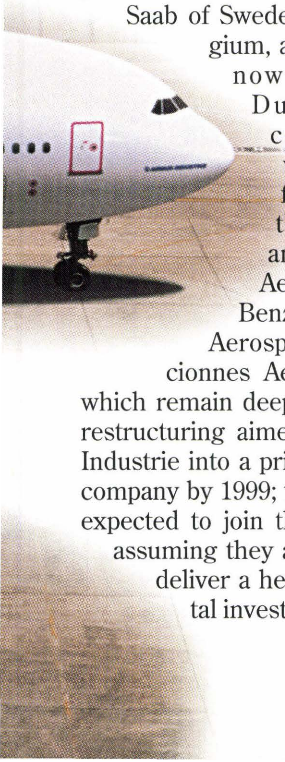
By Axel Krause

French managing director of Airbus Industrie, said he was going ahead with the jumbo, "no matter what Boeing says," and that the consortium would be looking for partners around the world, including in the United States—outside Seattle.

Meeting with French aerospace writers at headquarters in late February, Pierson added that Airbus (now with 32 percent) is seeking a 50 percent share of the world market for passenger jets with more than 100 seats. The consortium has no choice but to expand its range of aircraft. By the same token, said Pierson, "We understand Boeing's strategy of sticking with its cash cow, the 747…in their position, we would do the same."

Assuming plans for the A3XX materialize, the risks for participating Airbus shareholders and their governments are enormous. But so are the potential rewards for whoever is right. As a senior executive of Singapore Aircraft Leasing Enterprise told Bloomberg News, "If Boeing has got it wrong and there really is demand, Airbus is going to be in the enviable position of being the only maker of these very large aircraft." Currently, the most advanced Boeing 747 seats a maximum of around 450 passengers; the competing, four-engine, long-range Airbus A340 can seat only 375.

Lining up with the Airbus assessment, several major European aerospace companies recently announced they planned on becoming risk-sharing partners in the A3XX: Alenia of Italy, Saab of Sweden, Belairbus of Belgium, and Fokker Aviation, now part of Stork, a Dutch engineering company. Not involved yet are the four heavyweights that currently own and operate Airbus: Aerospatiale, Daimler-Benz Aerospace, British Aerospace, and Construccionnes Aeronauticas (CASA), which remain deeply embroiled in the restructuring aimed at turning Airbus Industrie into a private, limited-liability company by 1999; the four partners are expected to join the venture by then, assuming they agree the jumbo will deliver a healthy return on capital invested.



What is Airbus today? Since its founding 26 years ago, the partners operate as a relatively loose, pan-European management, marketing, and design umbrella group, assigning work based on the shareholding of member companies. France's government-controlled Aerospatiale (37.9 percent stake) makes cockpits and handles some final assembly; Germany's Daimler-Benz Aerospace (37.9 percent) makes fuselages and also assembles planes; privately owned British Aerospace (20 percent) makes wings; while Spain's CASA (4.2 percent) manufactures other components.

Last year, Airbus tripled its 1995 orders, having delivered 126 planes, and this year, it expects to deliver 183 aircraft in all categories of its family of wide-bodied planes, representing a 45 percent increase.

What is the consortium worth? Since Airbus doesn't publish a consolidated balance sheet, that question has, from Airbus's beginning, intrigued the world aerospace industry, amid allegations that Airbus is always in the red and only survives thanks to generous government subsidies. The first independent evaluation of what Airbus is worth—assuming it were a corporation—was published late last year by Lehman Brothers investment firm, and showed the opposite.

The report, which was unsolicited by Airbus, concluded that the group was worth between \$15 to \$18 billion, compared to Boeing's market capitalization of around \$35 billion. The report estimated sales would rise from nearly \$10 billion to around \$20 billion in the next few years and that Airbus would generate annual operating profits of around \$1 billion, after deductions for refundable government loans and costs of research and development.

Airbus shareholders spend a combined 12 percent on research and development, compared to Boeing's 5.3 percent, the Lehman report concluded, adding that, if privatized, Airbus would prove highly attractive to investors. But that very big if still looms, clouded by uncertainty.

British Aerospace and Daimler, backed by their governments, have openly and repeatedly pressed to have their assets transferred to the new restructured company, with a view to having a detailed plan ready by the end of this year. As one of their chief executives recently told the *Wall Street Journal*: "It is not necessary that all assets be brought in on day one," quickly adding, "You need a core of activity within Airbus in order to get the most competitiveness," compared to Boeing.

France disagrees. Aerospatiale and French government planners argue that the new company will lack skilled, seasoned managers to successfully run the new company, while privately expressing fears that Aerospatiale's role and image would disappear if the bulk of all civilian aircraft manufacturing were absorbed into a "European Boeing." Complicating matters: Aerospatiale is negotiating a complex, controversial merger with military-fighter maker Dassault Aviation, which could involve Aerospatiale's partial privatization within a year.

A 3 X X

Meantime, Airbus may gain some time—thanks to the European Commission. Boeing's proposed merger, submitted to Brussels for anti-trust scrutiny, will undoubtedly be delayed, Brussels sources say. Competition Commissioner Karel Van Miert indicated in late February that Boeing's acquisition of its arch rival is "complex and difficult," and indicated that the Commission probe could extend into the summer. Whatever the final outcome in Brussels, industry observers conclude, Airbus and Boeing will continue battling for years to come. ⊜

George Ma

His plan helped

For one of the most significant speeches of the century, Secretary of State George C. Marshall made little immediate stir when he announced the European Recovery Program, subsequently named the Marshall Plan, in his commencement address to Harvard University on June 5, 1947. The *New York Times* headline on the following day read "Truman Calls Hungary Coup 'Outrage'." The second headline continued "Demands Russians Agree to Inquiry," and only the third headline said "Marshall Pleads for European Unity."

By Martin Walker

On June 5, 1947, Secretary of State George Marshall (left) accepted an honorary degree from Harvard and outlined a strategy for rebuilding Europe.

Marshall's grand plan to rebuild the war-ravaged economies of Europe was almost humbly presented. "It would be neither fitting nor efficacious for this government," he stressed, "to undertake to draw up unilaterally a program designed to place Europe on its feet economically. This is the business of the Europeans. The initiative, I think, must come from Europe."

His deputy, Dean Acheson, ensured that it did, briefing three British journalists on its importance and advising them to tell their editors to send full copies of the speech to Ernest Bevin at the British Foreign Office. Bevin immediately telephoned Georges Bidault, the French foreign minister, and within two weeks, they and the Russian foreign minister, Vyacheslav Molotov, were all meeting in Paris.

Molotov was invited to the Paris meeting because the Marshall Plan's promise of US financial support to rebuild war-torn Europe was designed to be open to all. Marshall stressed in his Harvard speech, "Our policy is directed not against any country or doctrine, but against hunger, poverty, desperation, and chaos. Its purpose should be the revival of a working economy in the world so as to permit the emer-

rshall
save Europe

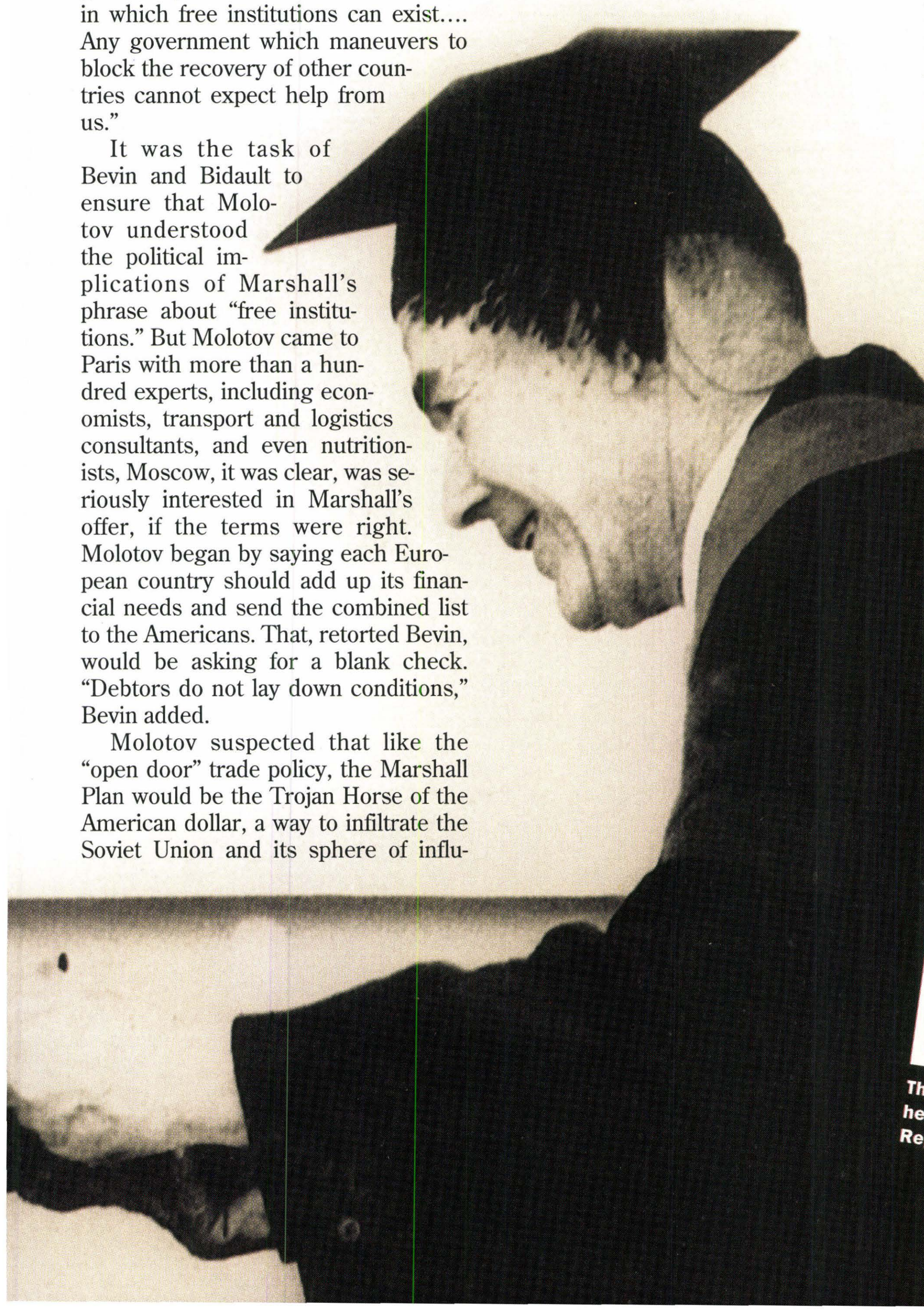
gence of political and social conditions in which free institutions can exist.... Any government which maneuvers to block the recovery of other countries cannot expect help from us."

It was the task of Bevin and Bidault to ensure that Molotov understood the political implications of Marshall's phrase about "free institutions." But Molotov came to Paris with more than a hundred experts, including economists, transport and logistics consultants, and even nutritionists, Moscow, it was clear, was seriously interested in Marshall's offer, if the terms were right. Molotov began by saying each European country should add up its financial needs and send the combined list to the Americans. That, retorted Bevin, would be asking for a blank check. "Debtors do not lay down conditions," Bevin added.

Molotov suspected that like the "open door" trade policy, the Marshall Plan would be the Trojan Horse of the American dollar, a way to infiltrate the Soviet Union and its sphere of influence in order to destroy it. He suggested that "only Allied countries that had suffered from the ravages of war should participate." This would exclude both Italy and Germany. Bevin and Bidault said no. Trying to force a decision, Bevin then offered a proposal for a steering committee to draw up a program for four years and list what Europe needed and what it could provide.

Molotov objected again, saying there "must be no infringement of the national sovereignty of the European states." He was then handed a telegram, only partially decoded, straight from Moscow. It reinforced Molotov's hard line; Stalin would not accept common planning, with its implication of American and British economists poring over the Soviet economy. In effect the Paris conference was over.

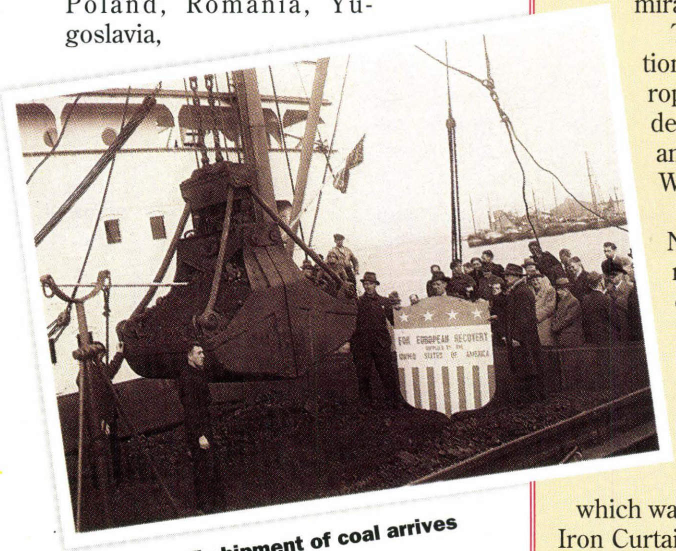
The Marshall Plan, Molotov finally declared, "will lead to Britain, France, and the group of countries that follow them separating from the rest of Europe, which will split Europe into two groups of states." In this, Molotov was absolutely right. But then Britain and the non-communist parties in France and the other Western European countries had already chosen their sides. If the Iron Cur-



The plan was named for Marshall in order to help ease its passage through the Republican dominated Congress.

tain was indeed falling across Europe, then all but the socialists and those to their left knew on which side they preferred to be. On July 4, two days after Molotov's departure, Bevin and Bidault invited 22 European governments, all except Fascist Spain and the Soviet Union, to a wider conference in Paris the following week. The Czechs, Poles, and Hungarians all agreed; Bulgaria and Albania expressed interest; and only Yugoslavia and Romania said they would first consult with Moscow.

Moscow cracked the whip. The Czech premier, Klement Gottwald, and the foreign minister, Jan Masaryk, were summoned to Moscow on July 8, to be threatened with grim consequences should they go to Paris. Masaryk glumly observed that he had gone to Moscow as the minister of a sovereign state and returned as a Soviet lackey. On Moscow's orders, Poland, Romania, Yugoslavia,



A "Marshall" shipment of coal arrives in the Netherlands.

Bulgaria, Albania, Hungary—all rejected the invitation, as did Finland. In retrospect, this has been defined as the moment when the Soviet boot crushed itself into the face of Eastern Europe. But for the US Congress, it took the communist-led putsch in Czechoslovakia in February 1948 to persuade its members to vote for the funds for European recovery. The final vote took place as the US and British began airlifting food into blockaded West Berlin.

The generosity of the US taxpayers was stunning. At a time when the American GDP was around $250 billion a year, the Marshall Plan devoted

From Acheson to Albright

President Clinton and his new foreign policy team were all raised as students in the shadow of that great post-1945 generation of Americans who launched the Marshall Plan and NATO to contain the Soviet Union without all-out war. The second Clinton administration sees the next four years in almost equally ambitious terms, and when Madeleine Albright invoked Dean Acheson's name before the Senate Foreign Relations Committee as she prepared to be the first woman to join the ranks of his successors, one of the wheels of history had come full circle.

"Senators, you on your side of the table and I on my side have a unique opportunity to be partners in creating a new and enduring framework for American leadership," she concluded. "One of my predecessors, Dean Acheson, wrote about being present at the creation of a new era. You and I have the challenge and the responsibility to help co-author the newest chapter in our history...to answer a prayer that has been offered over many years on a multitude of tongues, in accordance with diverse customs, in response to a common yearning. That prayer is a prayer for peace, freedom, food on the table, and what President Clinton once eloquently referred to as 'the quiet miracle of a normal life'."

The most immediate foreign policy goal, according to the new national security adviser Sandy Berger is to assert that America is a European power which plans "to build an undivided, peaceful, and democratic Europe." The Clinton team's ambition is to do for Central and Eastern Europe what the cold war generation achieved for Western Europe.

"The purpose of enlargement is to do for Europe's east what NATO did 50 years ago for Europe's west: to integrate new democracies, defeat old hatreds, provide confidence in economic recovery, and deter conflict," Ms. Albright told her Senate confirmation hearings.

The Clinton team all sing from the same inspirational hymnbook. Just before Christmas, Ambassador to NATO Bob Hunter defined the goal in equally Achesonian terms: "What the European Union and NATO are trying to do in Central Europe is nothing less than to complete the promise of the Marshall Plan, which was thwarted by Joseph Stalin some 50 years ago and bounded at the Iron Curtain. We now have a chance to take that grand effort to completion. How rare it is in history—perhaps unique—that we have a chance to take a second bite at history's apple. In doing so, we have a chance to fulfill the legacy of the Marshall Plan."

Secretary Albright and her colleagues are determined, one way or another, to persuade Russia to swallow an enlarged NATO Alliance that stretches right up to Russia's borders, while devising new mechanisms to draw a compliant Russia into a US-led transatlantic trade and security system. The politics of post-Soviet Russia and the inevitable resentment of a former great power adjusting to its weakened role have made this a complicated task. And while Poland, Hungary, and the Czech Republic are widely expected to be the first new members of NATO, the vexed issue of other Eastern European states, including the former Soviet republics of Ukraine and the Baltic states, is unlikely to be resolved before President Clinton leaves office. But between the fiftieth anniversary of the Marshall Plan this June and the fiftieth anniversary of the signing of the NATO treaty in 1999, the grand design to complete the dream of America's great cold war generation is now set to unfold.

—Martin Walker

Inside
EUROPE

APRIL 1997 VOLUME V/NUMBER 4

EU NEWS

UK ELECTIONS

The UK appears headed for a change of leadership after 18 years of Conservative rule and, with it, a new tone in its attitude to the European Union.

The general election being held on May 1, 1997, is expected to mark the end of almost two decades of Conservative rule, unless there is the greatest ever political upset in British electoral history.

For months the opinion polls have been showing Labor so far head, 20-25 percent, that even allowing for polling error and a last-minute swing back to the ruling party this would not be enough to save it from defeat.

Announcing the election, Prime Minister John Major said that his party had overseen a "revolution in choice, opportunity, and living standards. We have changed this country immeasurably for the better. We have not finished those changes." The government, he said deserved the opportunity to continue.

"Time for a change" has been the riposte by the Labor Party. "Enough is enough" is another of their campaign slogans. "I want a new government to lead a national renewal," says Labor leader Tony Blair.

Despite the prime minister's optimism, the vast majority of the nation believes that Tony Blair and his New Labor Party will win. The primary reason being that after 18 years, many voters believe the Conservatives have degenerated into a squabbling bunch. The government mishandling of the "mad cow" or BSE crisis was only the latest in a litany of errors.

In their drive for power, Blair and his supporters have assiduously eradicated from the Labor Party all the socialist ideology that appeared to have lost them electoral support throughout the 1980s and 1990s.

They have broken the dependence on the trade unions, have abandoned any commitment to nationalization, and embraced the principles of the free market. The Conservatives accuse Blair of stealing their policies.

Banking on the assumption that the British are basically a very conservative people, Blair has pinned his electoral hopes on a strategy that assumes that the people don't want radical policy changes. He is promising a more caring and better-run government.

The UK electorate are concerned primarily about domestic economic and social issues, such as employment and the economy, the national health service, and education. These are the issues that matter. The Blair team is working on persuading large numbers of voters that all these areas will be better managed by Labor.

Moving the party into the center, Blair also aligned his position on European integration with that of the government. Echoing Major, he declared that he saw "formidable obstacles" to the UK adopting the single currency by January 1, 1999.

Nonetheless, it is certain that a Labor government will adopt a less adversarial tone toward the European Union. There will be less jingoistic anti-European declarations. However, though a European by conviction, Blair is unlikely to lead his country down the road toward greater federalism.

The most serious complaint leveled again Labor is that in creating its shiny new middle-class image, it has refused to spell out its policies, opting instead for expressing pious good intentions.

New Labor, argue the Conservatives, is just a public relations cover for socialist Labor, which once in power will revert to its old policies of tax and spend and redistribution of income by taking from the rich or, worse, the middle class.

But as the polls draw near, the impression throughout the nation appears to be, as Labor has said, it is "time for a change." All the bookies are certain that after the election UK Inc. will be under new management.

—*David Lennon*

EU FOREIGN MINISTERS NEGOTIATE AID TO ALBANIA

In an effort to resolve the armed insurgency in Albania, European Union foreign ministers met with the Albanian caretaker premier, Bashkim Fino, in Rome during the last week of March. Fino received assurances that his strife-torn country would receive humanitarian aid as well as the EU's assistance in reorganizing the police and the army. The EU has already provided nearly $2.3 million in food aid to Albania. The Italian government has announced plans to lead a multi-national force to protect the humanitarian aid.

The troubles began as a grass-roots civilian revolt, triggered by rage over failed investment schemes that left thousands of Albanians bankrupt. Initially the central government ignored the situation, which has evolved into a vague, lawless insurgency with no clear agenda. During the past month, mobs of Albanian civilians have looted military weapons warehouses and are heavily armed, yet there is no clear momentum for a revolution or a coup. The only apparent unifying goal seems to be the ousting of President Sali Berisha, whose right-leaning government refused to respond to the financial crisis. Yet communication in this country, where telephones work erratically and faxes are nonexistent, appears to be minimal, and there is little sign of an organized plan to force Berisha from office.

Meanwhile, the international community is looking to find a solution to the crisis that threatens to spill over and effect many neighboring countries. In the past weeks, Italy alone has had to deal with an uninterrupted flow of refugees. More than 12,000 Albanians have arrived in the southern Italian ports of Bari and Brindisi.

Following the meetings in Rome, Albania's foreign ministry was awaiting the arrival of an eight-member EU delegation that would assess the situation and make proposals on how to end the insurgency that has to date left more than 160 people dead.

—*Saskia Reilly*

IRELAND'S ROBINSON WON'T SEEK RE-ELECTION

The speculation surrounding whether or not Irish President Mary Robinson would seek reelection ended last month. A brief personal statement from Aras an Uachtarain, the Irish president's official residence, said Mrs. Robinson would not be seeking a second term as president when her seven years in office ends this fall.

EU TURNS 40

European ministers gathered in Rome on March 25 to celebrate the fortieth anniversary of the birth of the European Union. On March 25, 1957, six member countries signed the Treaties of Rome establishing the European Economic Community (EEC) and the European Atomic Energy Community (Euratom), which both came into being on January 1, 1958. Over the last 40 years, that group has expanded to become the 15 member European Union. While celebrating the Union's many successes, the meeting also discussed upcoming projects, including the new single currency, the euro, and bringing in new member states. The overall feeling was positive, as Italian Foreign Minister Lamberto Dini wrote in a program for the occasion, "For 40 years, the European Union has been synonymous with peace and prosperity."

EU CONCERNS FOR MID-EAST PEACE PROCESS

The European Union could play "a much more effective role than we have done in the past" in trying to solve the crisis in the Middle East peace process, says Dutch Foreign Minister Hans van Mierlo, who is currently chairman of the EU Council of Ministers. Van Mierlo made his comments after meeting with Moroccan Prime Minister Abdellatif Filali in late March.

"I hope sincerely that the situation between the Arab countries and Israel will not be frozen," Van Mierlo said, referring to recent threats by Arab foreign ministers to reimplement an economic boycott against Israel.

COMMISSIONERS MEET US OFFICIALS

European Commissioner for Competition Karl Van Miert will visit Attorney General Janet Reno on his trip to Washington, DC on April 17. The EU Competition Commissioner will be discussing the EU-US cooperation agreement on competition rules, international competition rules through the WTO, the OECD ship-building agreement, the British Airways-American Airlines alliance, and the Boeing-McDonnell Douglas merger among a host of other current issues. Van Miert will also speak on "EU Competition Policy in the Transatlantic Marketplace" at a European Institute luncheon.

European Commissioner for Economic and Financial Affairs Yves-Thibault de Silguy will attend the IMF Interim Committee Meetings in Washington, DC in late April. The Commissioner will also give a talk on the euro and economic and monetary union in New York.

European Commissioner for External Relations with the countries of Central and Eastern Europe, Turkey, Cyprus, and the countries of the former Soviet Union Hans Van Den Broek will meet with Secretary of State

Madeleine Albright on his visit to Washington, DC on April 21–22. They will discuss EU enlargement, Turkey, Cyprus, and the Balkans. Van Den Broek will also present a speech on EU-US relations at the Mid-Atlantic Club in Washington, DC.

JEAN MONNET PLAQUE

On May 9, the day on which Europeans celebrate Schuman Day in honor of Robert Schuman, one of the founders of the European unity movement, European Commission Ambassador Hugo Paemen will unveil a plaque honoring Jean Monnet, another pioneer for European unity. The event will be held at the Willard Hotel in Washington, DC. A Europe Day reception will follow the ceremony.

MEAT FIGHT LOOMS OVER THE ATLANTIC

A transatlantic meat fight is looming as EU and US veterinary negotiators had not resolved the differences over meat import inspection rules by the April deadline. Without a veterinary agreement, the EU's harmonized import conditions will apply to a number of meat products, including poultry and egg products, dairy products, and pet food. If the two sides fail to reach an agreement, the EU has said it will implement new inspection standards that will prevent around $50 million worth of US poultry imports from entering the EU. In such case, the US could retaliate by blocking shipments of EU meat, mostly $300 million of pork.

WHAT THEY SAID

"Life for the Union begins at 40."
—Hans van Mierlo, Dutch foreign minister, on the fortieth anniversary of the signing of the Treaty of Rome, the pact which began the European Union

"The people reaching our shores are no longer refugees...."
—Giannicola Sinisi, Italian interior ministry undersecretary, on Albanians claiming to be refugees from Albania's political turmoil being turned away from Italian shores

"Paraguay has an excellent image in Europe."
—Jacques Chirac, president of France, in a speech in Paraguay while on a Latin American trip to promote increased trade between Europe and Latin America

"The division of our continent into two parts is being left behind."
—Martti Ahtisaari, president of Finland, at a dinner honoring presidents Yeltsin and Clinton during the Helsinki Summit in March, where the two leaders discussed, among other things, NATO expansion

"Our teachers tell us we've done the same as Europe."
—a Belgian student on a school project demonstrating the use of the euro, the EU's future single currency

"Whatever the future holds, Hong Kong will never walk alone....The countries of the European Union all have a large stake in Hong Kong's continuing success."
—Malcolm Rifkind, UK foreign secretary, referring to continuing European connections with Hong Kong

BUSINESS BRIEFS

The French taxpayer stands to gain as much as $9 billion from the partial privatization of **France Telecom**, the national telecommunications monopoly, but the receipts will be swallowed by the cost of bailing out other state-owned firms including **GAN**, the troubled insurance group and **Credit Lyonnais**, the giant bank felled by unwise loans and investments.

The sale of the first tranche of France Telecom shares will start on May 6 in the biggest French privatization since the disposal of **Elf Aquitaine**, the oil group. The shares are expected to start trading on the Paris and New York stock exchanges on June 9.

But the gains to the French treasury will be cut by the $5.3 billion cost of rescuing GAN and the likely $26 billion price tag to rescue Credit Lyonnais, whose lending spree led it to temporary ownership of the **MGM** film studio.

The government intends to privatize GAN and Credit Lyonnais after putting their finances in order.

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Gianni Versace, the flamboyant Italian fashion designer favored by stars like Madonna and Elton John, plans to list his company on the Milan and New York stock exchanges in the spring in a bid to cash in on booming global demand for luxury goods.

Mr. Versace, 50, who founded his fashion house in 1976, is following in the footsteps of the Italian luxury footwear and handbag group **Gucci**, whose shares have tripled in value since the company was floated in the Milan stock exchange 18 months ago. The recent share issue by Spanish designer **Adolfo Dominguez** was more than 50 times oversubscribed, setting a record on the Madrid exchange.

Valentino, another Italian fashion house, is also mulling plans to go public later in the year.

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Adidas, the German sportswear group, sharply boosted its sales and profits in 1996 as it positioned itself to challenge the market leaders **Nike** and **Reebok**.

The company, which almost collapsed in the early 1990s, attributed its surge—35 percent increase in sales to a record $2.8 billion and a 28 percent jump in net earnings to $187 million—to a strong brand exposure at the Atlanta Summer Olympics and the Euro '96 soccer tournament in Britain.

Adidas chairman Robert Louis-Drefyus said the company would post double-digit profit growth in 1997 with sales in January up a third on the beginning of 1996.

In a bid to challenge Nike and Reebok, Adidas has signed a sponsorship deal with top sports stars, including Kobe Bryant of the Los Angeles Lakers.

• • •

European airlines are hiring US executives hoping their experience in deregulation will help them survive the new "open skies" regime launched this side of the Atlantic on April 1.

Swissair, the fiercely independent Swiss national carrier, surprised the industry by appointing Jefferey Katz an **American Airlines** veteran, as its chief operating officer. Next year Mr. Katz steps up to chief executive.

The appointment came just weeks after **Lufthansa** named another former AA executive, Frederick Reid, as its president and chief operating officer, the first American to run a non-US airline.

Richard Branson, owner of **Virgin Atlantic**, also turned to a US executive, Jonathan Ornstein of **Southwest Air**, to launch his no-frills European carrier, **Virgin Express**.

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General Electric has launched an ambitious European sales drive to double annual sales of domestic appliances such as refrigerators, stoves, and washing machines, to $2 billion by 2000.

The US firm also plans to more than double sales of electrical and lighting products from $1.2 billion in 1996 over the next three to five years.

GE's "white goods" campaign follows the patchy European performance of its US rival **Whirlpool** after it acquired the household appliances operation of Dutch electronics giant **Philips** in the early 1990s. Whirlpool failed to hit sales targets because its pan-European strategy failed to take into account consumer differences in European countries.

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While GE targets European consumers, **Maytag**, a US rival, is launching a European-style washing machine on the American market.

Maytag said the front-loading machine cleans clothes better and at a lower cost than the traditional US style top-loader.

The first European model was launched last year by **Frigidare**, the US unit of **Electrolux** of Sweden. GE, meanwhile, is preparing a summer launch of its front loader.

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Paribas, the French financial services group, plans to expand its payroll by a quarter to bolster its position in capital markets and derivatives trading.

ABN-Amro, the Dutch bank, boosted its activities in the US capital markets by acquiring **Citicorp's** global futures trading business. Last year the group acquired **Standard Federal Bank** in Michigan for $1.9 billion

—Bruce Barnard

INSIDE EUROPE

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roughly $15 billion over five years to sending food and providing grants and loans to rebuilding what would become a major trade competitor. There were some shadows of the altruism of the plan. The insistence that US tobacco exports be included in the aid, and that Britain and France open their colonial empires to US exports, provoked some resentment, including a vote in the French national assembly to ban Coca-Cola.

But there could be no doubt about the success of the plan. In Western Europe as a whole, industrial production rose by 62 percent in the two years after the desperately low point of 1947. Such a swift improvement on the previous year's economic figures was reassuring. Between 1949 and 1950, West Germany's foreign trade doubled and rose another 75 percent the following year. In 1946 the Western zones of Germany had produced 2.5 million tons in steel, which soared to 9 million tons in 1949 and to 14.5 million tons in 1953. The pace of industrial recovery was extraordinary in Germany, dramatic in France, and rather more modest in Britain and Italy. In France by 1954, industrial production was 50 percent higher than it had been in the last year before World War II. In Britain, there were far fewer signs of recovery until September, 1949, when the pound was devalued, from $4 to $2.80 to the pound. The British dollar deficit then began to ease and disappeared altogether within two years.

But Britain proved more resistant to the second aspect of the Marshall Plan, the impetus it gave to European integration. The Organization for European Economic Cooperation, the body which implemented the Marshall Plan, held a council meeting on October 31, 1949. Paul Hoffman, the president of the Studebaker auto corporation and the OEEC administrator, delivered a plan for "the integration of the European economy." This was not just an idea, Hoffman insisted, but "a practical necessity."

"The substance of such integration would be the formation of a single large market within which quantitative restrictions on the movement of goods, monetary barriers to the flow of payments, and eventually all tariffs are permanently swept away," Hoffman went on. "The fact that we have in the US a single market of 150 million consumers has been indispensable to the strength and efficiency of our economy. The creation of a permanent, freely trading area,

The generosity of US taxpayers was stunning. The plan devoted roughly $15 billion over five years.

comprising 270 million consumers in Western Europe, would have a multitude of helpful consequences."

Hoffman envisioned not only the formation of the European Economic Community, but the target that would not be reached for another four decades, until the EC's maturity in the late 1980s finally brought forth the strategic goal of the European "single market" by 1992, with Britain finally, belatedly included.

Martin Walker is a contributing editor for EUROPE *and the Washington bureau chief for the British newspaper the* Guardian.

Maurice Schumann

Senator and former Foreign Minister of France

The Marshall Plan 1947–1997

Maurice Schumann hardly looks 86 sitting in his small Senate office in Paris, where he recently met with *EUROPE* contributing editor Axel Krause. Schumann has represented the North district of France since 1974 and enjoys switching into English, which reflects a British accent and his years in London as a journalist (1933–1939) and then as spokesman for General Charles de Gaulle and BBC commentator throughout the war years (1940–1945).

A co-founder and active supporter of what became President Jacques Chirac's Gaullist Party, Schumann is also a gifted writer, philosophy teacher, and member of the prestigious French Academy. He has held top jobs in previous French governments, including foreign minister (1969–1973) under President Georges Pompidou. Asked what he planned after expiration of his term in 2001, Schumann indicated he wasn't ruling out a reelection bid—assuming continuing good health. He presents a European view of the Marshall Plan and European integration.

When did you first hear about the Marshall Plan?

In December 1946, during a conference I was attending in Cleveland, Ohio, organized by Time-Life. The theme was what the world expected of America. I represented France as a parliamentarian, and the concluding comments by Averell Harriman gave me my first foretaste of the plan itself.

What was your initial reaction to the Marshall Plan?

It was very favorable. Many forget today that the great danger facing Europe at that time was Stalinism...in Europe.

You mean in Western Europe?

Yes, communist parties were very strong and popular in France and Italy, and there were still communists in the French government.

But wasn't the Soviet Union negotiating to participate in the Marshall Plan in 1947?

Yes. But contrary to what Foreign Minister [Vyacheslav] Molotov said later about Moscow's sincere intentions, the fact is that they were trying to torpedo the Marshall Plan.

Why were the Soviets against the Marshall Plan?

The Soviets were determined not to

give up a single millimeter of territory (in Central Europe), and the Marshall Plan, had they joined, would have threatened them. Thus, when the Czechs sought to enter the plan, they were convoked by Stalin and ordered to withdraw.

What were the reactions in France to the plan?

As a deputy in the National Assembly, I felt a special responsibility to support overall French-US friendship and cooperation and so, with colleagues, drafted and circulated a brochure that emphasized this. However, one-fourth of the French were voting Communist in that period, and the French Communist Party, with its sympathizers, had mobilized a strong campaign against the Marshall Plan. This was the beginning of a wave of anti-Americanism.

How was President Harry Truman perceived during this critical period (1945–1953)?

True, during this term, he ordered the atomic bombing of Hiroshima and Nagasaki, but he also stopped the building of Soviet bases in Turkey. I supported his policy, and so did many others in the National Assembly, including the Socialists.

So, France generally supported US post-war policies?

Yes, we were favorable. I refer to the three-fourths of France voting non-Communist, including the Socialists. There was a general malaise in Europe.... I take my hat off to (the Americans) as we badly needed supplies and reconstruction help. We were in bad shape.

What was General de Gaulle's attitude?

I never heard him utter a single word against the Marshall Plan.

Wasn't there a considerable amount of resentment among French and European business interests with regard to conditions imposed by the Marshall Plan, notably in the steel industry?

There was opposition to the (Robert) Schuman Plan that created the European Coal and Steel Community but not the Marshall Plan. The Patronat (France's powerful employers' association) was all for it.

One of France's important European leaders, Robert Marjolin, recalled in his autobiography that "Europe was only too happy to put its destiny into the hands of America." Do you agree with this apparent absence of European leadership?

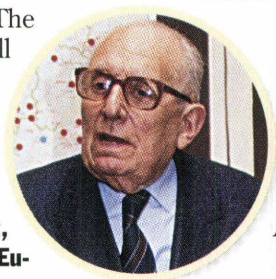
He was absolutely right. We were very pleased to have strong US leadership during this period. In France in 1947, we also were experiencing insurrectional strikes. There were no Europeans at that time, no Europe.

US administrations—from Truman and Eisenhower to Kennedy—argued that the Marshall Plan and what followed (OEEC and the OECD) were aimed at integrating Europe. Do you agree?

We heard a great deal about how we Europeans were going to have to agree among ourselves on the future directions of Europe. But this was but an episode in the cold war.

You mean European integration was not a goal?

It was a consequence. The basic goal of the Marshall Plan, in my view, was providing a strong economic base for resisting communism in Europe.



Did you attend the first, major postwar congress on European integration in the Hague in 1948?

I wasn't there physically because in France we were having elections all the time. But I was there, in spirit.

Winston Churchill addressed that congress. How did you react to his pro-European statements and Britain's role in Europe?

He repeatedly urged Europe to unite, but he never referred to "us," referring to Britain's direct involvement. Why? Because of the "special relationship" with Washington. Decolonization, the end of British India, was part of it, encouraging Britain's close relationship with the United States, which continues today.

What is your reaction to the creation of the OECD in 1961?

It was decisive and was due to the new, international economic order then being established. And without the United States, (the OECD) would not have existed.

Do you believe that Russia can fit into the OECD, NATO, G7, and other bodies as they are now seeking?

I don't believe we (in democratic, industrialized nations) are in the same situation as they. I do not believe that Russia belongs in these bodies as full-fledged members. Integration of Russia would raise a very difficult problem. We are having enough problems trying to accommodate Hungary, the Czechs, and others.

Russian General Aleksandr Lebed, on his recent visit to France, honored de Gaulle whom he greatly admires. Do you see a connection?

Lebed is not just an admirer of de Gaulle, but he is a Gaullist. Look at what he accomplished in Chechnya. (Lebed) did what de Gaulle did (ending the war) in Algeria.

EUROPE INTERVIEW

In light of your comment on Britain and recent French-British military cooperation in Bosnia, how do you see the future of a common EU security and foreign policy?

Although I am convinced (Britain) will never join the EMU, we did create a French-British force in ex-Yugoslavia, because it was needed. But this would not have succeeded without US and NATO support. A European (military) identity within the alliance does not exist, but we are moving in that direction. Ⓔ

OECD Child of the Marshall Plan

On May 26, when ministers from some 30 industrialized countries file into the spacious lobby of the Chateau de la Muette headquarters of the Organization for Economic Cooperation and Development in Paris, they will be greeted by an exhibit of photos, documents, and other memorabilia recalling the organization's direct, and often-forgotten, link with the Marshall Plan.

Initially established in 1948 as the Organization for European Economic Cooperation, the OEEC was to supervise distribution of Marshall Plan funds among 18 war-torn West European economies and to force them to cooperate in such areas as trade liberalization. In 1961, it dropped "European" from its title, substituting "Development." More important, the United States joined OECD as a founding member, along with Canada.

Today, comprising 29 member countries plus the European Commission (with a few others seeking to join, including Russia), the OECD has evolved into the industrialized world's most influential agency for intergovernmental analysis and cooperation.

"This organization was once Keynesian, and there are problems, such as its profile and image, but this is not what the OECD is about," comments David Aaron, US ambassador to the OECD. "The simple essence of what goes on here is in its name—economic cooperation and development," says Aaron, citing key areas in which OECD is currently seeking agreement with strong backing from Washington—enforceable, multilateral rules on investment and on reducing corruption and bribery among member countries.

Both issues and guidelines will be examined for approval at the May ministerial meeting that will draw top Clinton administration officials, probably including Secretary of State Madeleine Albright. President Bill Clinton, who is expected to meet with French President Jacques Chirac on May 27, may also help lead Marshall Plan celebrations in Paris.

Even knowledgeable observers have trouble keeping up with the OECD's myriad meetings and activities at the chateau and in nearby office buildings. On a daily basis, government officials from member countries come to discuss cooperative action on everything from tax enforcement, money laundering, cryptography, and labor rights, to environment, development aid, tourism, monetary policy, and upcoming analytical reports on national economies.

"The OECD is a think tank...right on the border between thinking and action," said Jean-Claude Paye, a reserved and dapper French diplomat, who stepped down as secretary general last May 31, after serving two, five-year terms. All such decisions are made based on consensus among members, usually through their Paris-based ambassadors, which reinforces the OECD's cozy, club-like image.

On rare occasions, they take on a fellow member in public.

Thus, in January, a month after joining the OECD as its twenty-ninth member, South Korea was criticized for new labor legislation that severely limited freedom of collective bargaining and triggered Korea's first postwar, general strike. Praise for the move by the Trade Union Advisory Committee to the OECD, which represents 68 million workers in member countries and has been a longtime critic of the organization's austerity policies, drew media attention around the world. The OECD showed that economic globalization must be "also good for working people," commented John Evans, secretary general of TUAC, which has a consultative role.

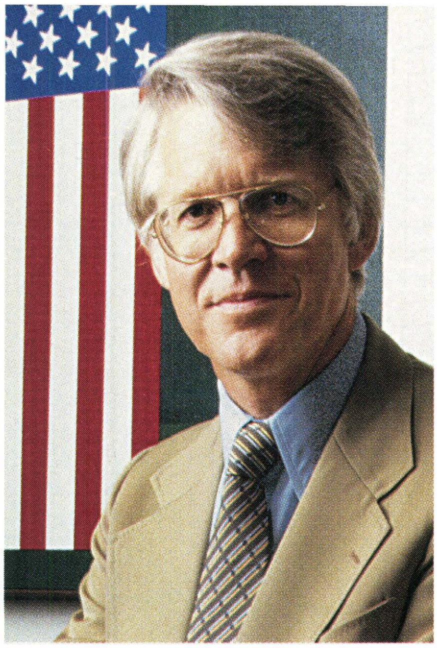
"We are still better off having South Korea in, than out," added Donald Johnston, the OECD's new secretary general, a Canadian who is committed to making the organiation more active, more cost-efficient, and better known, particularly in the United States, which has traditionally paid 25 percent of the OECD's annual budget and thus remains its largest contributor.

Although Paye has already started trimming the $252 million annual budget, Johnston says he faces the more difficult task of doing even "more with less." This will result in an overall 10 percent budget cut starting this year, affecting, for example, the salaries and fees paid to some 1,800 employees and 600 consultants. Critics claim the payments are "bloated."

Johnston, a lawyer and professor, who previously served in the Canadian Parliament as a Liberal Party member, and several times as a senior minister, last October took the unusual step of creating a new post of executive director to implement the streamlining. "Not everything is resolved, and we have a long way to go," said Aaron, reflecting the strident demands for more efficiency by the US Congress, which controls the administration's funding for international organizations. "Basically, we are still very much supporting what (Johnston) is trying to accomplish," Aaron said.

Amid the Marshall Plan celebrations planned on both sides of the Atlantic, say officials, a vital, historical point could slip by unnoticed—its contribution to European integration. France's Robert Marjolin, who became a European Commission vice president after serving as OEEC's secretary general, recalls in his memoirs how throughout his tenure Americans repeatedly asked, "Why don't you go ahead and unite?" The response came in 1957 with the signing of the Rome Treaty, in parallel with the OEEC's transformation. But, notes Marjolin, "without these first attempts (of the OEEC) gradually to create a European market, it is unlikely that the Common Market would have seen the light of day." Ⓔ

By Axel Krause



Albert Beveridge

President and CEO of the George Marshall Foundation

Albert Beveridge, president and CEO of the George Marshall Foundation was interviewed in Washington, DC recently by *EUROPE* Editor-in-Chief Robert J. Guttman. Beveridge discusses the Marshall Plan's massive effort on jump-starting the devastated European economies after World War II.

Why was the Marshall Plan so important to Europe's economic recovery?

It was so important, first of all, of course, to rescue Europe, which was virtually prostrate right after the war. The problem, as Marshall realized, was that on the one hand there was very little trade between various countries of Europe, and even worse, there was very little trade between the countryside and the cities. And he had to unlock those two key components of a healthy economy. That was one of the important reasons for the Marshall Plan. The other one, which has become a little more controversial because some people think it was the principal reason, was that the United States needed both a market and a trading partner and that historically had been Europe.

Therefore people like Will Clayton, who was one of the early proponents of some kind of a plan, thought it was absolutely essential to get Europe back on its feet again.

There were both reasons of self-interest and humanitarian interest behind the plan. It became extremely important, not only because it resurrected Europe as an important economic power, but because of the way the plan was set up, it forced European nations to get together.

One of the requirements that helped was breaking down some of the trade barriers. It's generally considered that [the Marshall Plan] was the first important initiative that led to the Coal and Steel Community, eventually the Common Market, and what is now the European Union. As an organizing principle centering around cooperation, it has turned into an extraordinarily American foreign policy initiative. Indeed, it could be said it is the most important initiative of the 20th century, and possibly in the history of the United States.

How much of the Marshall Plan was self-interest? And how much of it was altruistic?

It depends on who you were talking to. General Marshall, who was a soldier, saw what the war had done and the terrible destruction. He became convinced of the need for it after the Potsdam Conference, when he wandered through Berlin and saw the absolute extraordinary devastation. For Marshall, it would have been principally a humanitarian impulse. For some of the other individuals who were very important in the State Department, as I mentioned Will Clayton, it would probably be a combination of enlightened self-interest and humanitarism. So it was mixed, and it depends who you talk to.

Could anything like this happen today?

That's an interesting question. First of all, you've got to remember there's no condition today, that I know of at least, that's anywhere comparable to what Europe was like. Europe had an absolutely trained work force; it had a highly sophisticated, well-educated managerial class; it had the basis of an infrastructure, even if it had been terribly destroyed during the war.

The amount of money the United States put into Europe—and it was [more than] $13 billion at the time—was much smaller than the amount of money that Europe generated itself and reinvested in its own economy.

It is quite a different situation now in Eastern Europe and the former Soviet Union; conditions are not the same. But the concept of the Marshall Plan has become almost mythology, so people say, "let's have a 'Marshall Plan' for the drug war, let's have a Marshall Plan for the environment, let's have a Marshall Plan for this and that." It doesn't fit. This was an economic plan, but an extraordinarily successful one. Its success has sort of bred this feeling that we can have a Marshall Plan for virtually any problem which troubles us now, and I don't think that exists. It would be very difficult now.

Was Europe literally saved by the United States?

Well, that depends on one's view of history. There's no question Europe would eventually have found its economic basis and returned to prosperity. But, without the Marshall Plan, it might well have been predominantly communist, if not totally communist. As you probably recall, there were strong communist parties in Italy and France at the time; Scandinavia, some of the Benelux countries had significant communist parties; and of course you had East Germany there. So we might well have had a very different map of Europe. Eventually Europe, because Europe has been around for thousands of years, would have found itself, so I don't know if anybody ever "saves Europe." But it clearly was a faster recovery and prevented what for the United States and for Europe would have been a very serious problem if Europe had become communist, which it very well might have.

When Secretary of State Marshall gave his famous speech at Harvard on June 5, 1947, did President Truman think that this would become such a foreign policy initiative?

Well, it's interesting. I hope somebody might interview the gentleman on the BBC who picked it up. This was an unusual example of the State Department warning people in advance of a significant statement. Because as you know, Marshall's speech was barely 10 minutes, and it was not trumpeted at all. He just got up and gave it in the afternoon at Harvard. But a BBC correspondent had been forewarned. He picked it up and broadcast it directly to Ernest Bevin, who was the foreign minister in the Attlee government in Britain at the time, who immediately seized upon it and called his counterpart in France, who was Georges Bidault, and said, "We must respond to this."

So the State Department and Marshall didn't think it would be picked up quite as rapidly as it was. But it was only six weeks after Marshall's speech, in July, when the European countries met and decided to embrace the concept of cooperation and request assistance. You tell me a comparable initiative that has gotten 17 countries involved in six weeks.

That's how many countries it was, 17 countries?

Sixteen countries eventually received aid. Czechoslovakia and Poland wanted to get in, but Stalin forced them to rescind their initial application.

What happened with the Russians not coming in? Did that save the Marshall Plan do you think?

It probably did, because as you also recall, Truman, a Democrat, was unpopular at the time and very low in the polls. There was a solid Republican Congress. And even though there were some very enlightened figures, especially in foreign policy, like Senator Vandenberg, it was a partisan Congress, and they thought they had Harry Truman on the ropes. Given the structure of Congress, it would have been very hard to sell—it was a hard sell anyway—but to sell it with the Russians in there would have been very difficult. So it's sort of comparable to the Russians walking out of the Security Council during the Korean War. We were very lucky in a couple of instances that this happened.

Do you consider George Marshall a great American?

He is undoubtedly a great person in history and undoubtedly a great American, certainly. George Marshall, whom I

It is generally considered that important initiative that led to the Coal and the Common Market, and what is now would claim, at least in the United States, is the great soldier-statesman of the 20th century, graduated from VMI. There's no question he's a great soldier-statesman.

It's difficult to sort of capture why Marshall was so respected by everybody who came in contact [with him]. Franklin Roosevelt, an aristocrat of the old school, Groton and Harvard; Harry Truman, who then succeeded Roosevelt, who never went to college; Winston Churchill, aristocratic, a highly voluble person. We don't know what Stalin thought of him. But virtually all of the people who came in contact with him held him in great awe. And it was best described in a sentence I read in a recent biography of Robert E. Lee that said "he was a presence." What Marshall did far exceeded anything he ever wrote or ever said. And there was something about Marshall and what he did that made him a true presence.

ward and said, "Mr. President, you know, I think you ought to call this the Truman Plan." And Truman looked at him and said, "Clark, if they called it the Truman Plan, we'd get only two votes in Congress."

So that's why he kept "the Marshall Plan."

That's why he kept "the Marshall Plan." Marshall was held in such high respect by members of Congress because he was always straight with them, told them the truth. Now the slight difference between the Congress then and the present-day Congress is the Congress then didn't always ask questions. They knew better sometimes not to ask a question. But Marshall didn't lie to them.

What's being planned for the fiftieth anniversary of the Marshall Plan in the US and in Europe?

ences and other things going on. But the big event will be this celebratory dinner in Washington, DC, at the Building Museum with more than 700 people. Colin Powell will be the master of ceremonies. We hope the president will be there. Former President Gerald Ford, definitely. We have invited a number of European leaders, including Giscard d'Estaing, Helmut Schmidt, and Lord Callahan.

What are you doing to strengthen the relations between the US and Europe in the future?

We are trying to start a summer exchange public service internship program where we bring over, initially at least, to the United States, young men and women, seniors in high school or just starting university, to spend a summer with American counterparts on a public service internship here in

> [the Marshall Plan] was the first Steel Community, eventually the European Union.

EUROPE INTERVIEW

Specifically about the Marshall Plan, when he came in as secretary of state, he brought in a military type organization, which included a section that would look forward on plans. As you know, the military are always planning, and they're always planning the next war and the next battle. The State Department did not have a significant planning organization, so he brought in George Kennan and said, "you're heading up our planning organization," which Kennan did. And there's no doubt that Kennan and his group, which included Charles Bohlen and Paul Nitze, had a great deal to do with the development of the plan. So he did it partially with his own personality and by the way he organized State.

I don't know if you know the story, but Clark Clifford came to Harry Truman after the legislation had gone for-

I hope everybody realizes that the Marshall Plan started with a speech on June 5, and we are commemorating that with a major evening here in Washington, DC. There will be, just preceding it, something in Cambridge, Massachusetts, at Harvard. But the plan wasn't finally passed by Congress until April of 1948. So it was a process of almost a year in getting it through Congress. During that period, there are going to be a number of conferences; we hope to have one in the Netherlands and something in Kansas City.

Is the dinner in Washington, DC, on June 5 the major event?

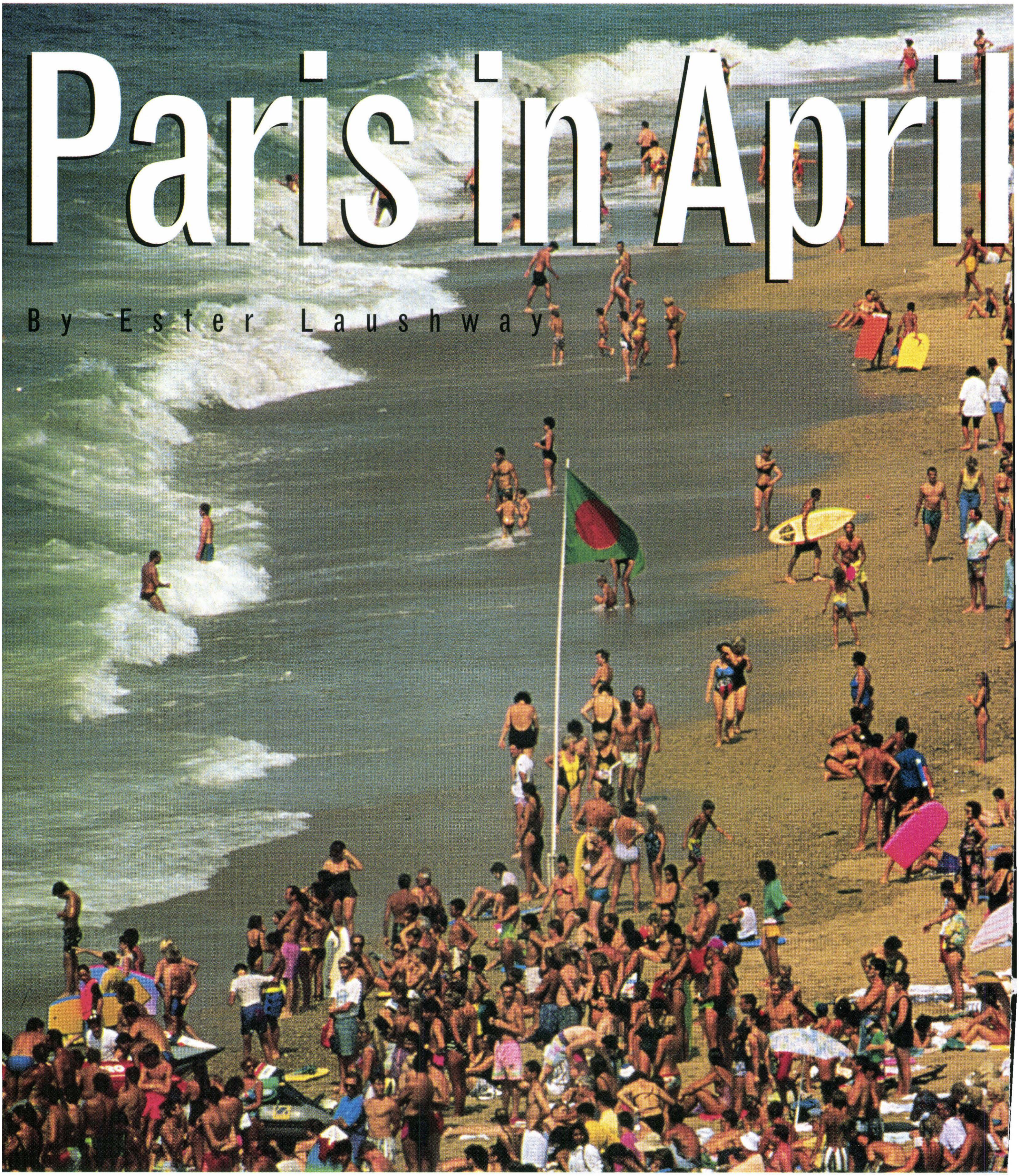
It is going to be the major commemorative event, yes. There will be confer-

Washington. After a couple of years, we hope we'll take the program to Europe and find similar internships in Europe. We think that while the Atlantic alliance remains strong, it must be constantly nourished and nurtured.... We're hopeful that this particular program can, in a small way, start again.

We've asked the European nations to prime the pump, as it were, and give us a little bit of seed money to start the demonstration program. Then we will go out and raise money here and elsewhere to put it on a permanent basis. These events, just like the fiftieth anniversary of D-Day and some of these other celebrations, do remind us of our common heritage and what we have been through together, and I do believe help bring us closer together. ⓔ

Paris in April

By Ester Laushway



Spring in Biarritz might yield warm days at the beach or chilling gusts of wind blowing off the sea.

...or Not

Clichés exist for a reason. Not for nothing have "April" and "Paris" been paired so often that the two words are forever wedded, and together conjure up romantic visions of springtime blossoms and lovers gazing deeply into each other's eyes.

Clichés are very often true. It is a fact that if you are in France in springtime, the capital city is a very good place to be. You will indeed see chestnut trees in bloom and stumble across amorous couples wherever you go. And if "April in Paris" should deteriorate from sunshine and romance to showers and a runny nose, you have a vast choice of shops, museums, theaters, and restaurants to take your mind off the weather.

To ignore clichés and try for originality is asking for trouble. Believe me, I speak from experience. A couple of springs ago, when the children were still small and happy to go wherever we took them, we decided to be different and not stay in Paris in April. We headed south, in search of warmth and sunshine, to the seaside resort of Arcachon on the French Atlantic coast, near the city of Bordeaux. Arcachon is a town known for its marine sports, its gracious villas, the oyster farms that surround it, and its clement climate.

That April, it never stopped raining in Arcachon. It came at you from all sides, sometimes driving down in blinding sheets, sometimes lashed sideways and upwards by chilling gusts of wind blowing off the sea. It was so wet that there were snails out for a happy stroll all over town. We sought refuge in restaurants, consuming meals that were long and copious even by French standards. We visited the local aquarium, along with every other sodden family around.

A special section of the aquarium is devoted to the cultivation of oysters, which has been one of the main industries of the region for 140 years. Arcachon's oyster farmers produce some 12,000 tons of oysters a year, one-fifth of the entire French oyster harvest. We learned so many fascinating details about the various beds a cultivated oyster lives in—from the flat, smooth *billiard* where it spends the first two years of its life to the final refining bed where it is fattened up for market when it is four years old—that we decided to go see for ourselves.

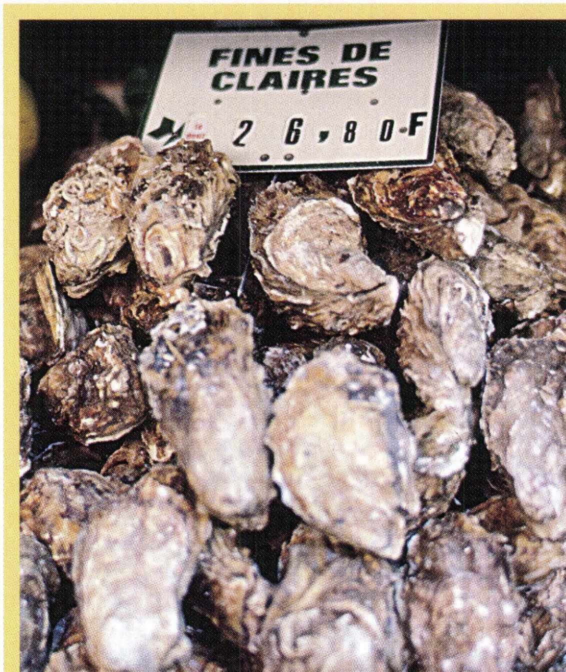
Gujan Mestras is the main oyster breeding village in Arcachon Bay—a picturesque, ramshackle port, with rows of tile-roofed oyster shacks and narrow channels full of flat-bottomed boats. Its oyster farmers were dressed for the weather. They spend a lot of their time sloshing around the seaweed beds in giant gumboots, turning the growing oysters with long-handled rakes to give them an even, round shape.

After the oyster outing, we set our sights bravely on the biggest attraction of Arcachon: the Dune du Pilat. Rising to 374 feet and more than a mile and a half long, this colossal sand hill is the highest dune in Europe. It is continuously being sculpted by the wind and the waves and growing and changing all the time. On the day we struggled up its flank, bent almost double against the gale, the rain and sand together blasted all exposed flesh to a glowing vermilion. K-Ways, it turns out, are not waterproof, and when drenched give you the unpleasant sensation of being swaddled in Saran wrap. But even in the driving rain, the dune was the longest, most glorious sand slide imaginable, and once soaking wet, you might as well be done with it, roll down the slope, and arrive at the bottom looking like a breaded cutlet.

Arcachon left us with such unique memories that we tempted fate a second time the following April and traveled even further south along the Atlantic coast, to the Basque town of Saint-Jean-de-Luz. Just north of the Spanish border, this old whaling station is now both a popular resort and a busy tuna and anchovy fishing port, renowned for its many sandy beaches and its "exceptionally favorable climate."

The rain began as our overnight train pulled into the station. On the hills surrounding Saint-Jean-de-Luz, it started to snow. We hit the restaurants again, choosing those not with the best menus but with the biggest fireplace, lingering shamelessly over our meals just to warm up and dry off. We found the local movie theater, sitting through *Honey, I Shrunk the Kids* in French—twice. We almost saw it a third time, but then decided that since we had enjoyed oysters so much in Arcachon, we might as well get acquainted with anchovies here.

The fleet was in, unloading glistening heaps of silver. The downpour on the dockside was so steady that the anchovies hardly noticed they had left the water. They are much bigger than you might expect from the pitiful little fillets you find in cans, either stretched out or rolled around a caper. Anchovies fresh from the sea are plump, sardine-sized fish, which must undergo some mysterious shrinking process in the cannery (possibly a topic for a French family movie, *Chérie, I Have Shrunk the Anchois*).



One delight associated with a spring trip to the coast: oysters freshly picked from their beds.

In desperation, we rented a car and drove north to the fashionable resort of Biarritz, where we found refuge in food again, eating fresh grilled sardines and calamari on the beach. On a hot summer night, sitting at the wooden benches, listening to the waves and watching the local fire-eater who comes by every evening, is wonderful; on a freezing day in April, huddled under a dripping wet, flapping plastic windbreaker, it was less enchanting, but the fish still tasted as divine. Luckily, Biarritz has an aquarium, just like Arcachon, with the added attraction of a reptilian petting zoo, giving you the rare opportunity to wear a friendly boa constrictor around your neck.

We drove south—with a bit of a delay at the Spanish border because it was being blockaded by striking truck drivers—and found out that not all clichés are true. The rain in Spain does not just stay mainly on the plain. It poured down on the town of San Sebastian, which looks gracious and elegant in all the tourist brochures but was locked up tight, without even a church open, on the soggy day we tried to see it.

We drove east to the Pyrennes, to a selection of caves which had the major advantage of being protected from the elements, with only occasional drops of water dripping off the ceiling. The guide who pointed out the fascinating rock formations shaped like cathedrals, church organs, and lurking medieval monks gave his commentary in two languages: French and Basque.

Finally, we would probably have driven west, too, had it not been for the ocean. Instead, a couple of friends from Toulouse and their two children came by car to see us in Saint-Jean-de-Luz. Yet another enormous meal was planned as dry entertainment for us all. On the rain-slick sidewalk outside the restaurant, the husband slipped and fell. We poo-pooed the fuss he made over his sore arm, gave him an aspirin, and concentrated on our fish soup. When he got back home, he found out that he had broken his elbow. It is a lunch he has never forgotten.

That is the peculiar thing about holidays. Storms and near-disasters make far better material for stories to tell afterward than a vacation where everything, including the weather, behaves as it should. So while April in Paris is undeniably charming and a sure thing, April outside Paris is likely to bring more surprises and provide the kind of vivid memories that only come from the unexpected.

It also made me want to go back to Arcachon and Saint-Jean-de-Luz and see if they are as memorable when they are picture-postcard dry and sunny as when they were both trying to beat the biblical record for relentless rain. Ⓔ

La Rochelle
A Wealth of Attractions

Many travelers in France make that long motor trip from Paris for the Loire Valley down to Bordeaux or even further south in a single, exhausting drive, missing out on one of the country's most delightful small cities, La Rochelle.

Indeed, the *Michelin Guide* describes La Rochelle as "the most attractive town on the coast between Nantes and Bordeaux" and justifiably so. It enjoys a rich history, fine beaches, wonderful cuisine based on the readily available seafood and is just the right size for a two-day break from the road.

La Vieux Port (the Old Port) is where most visitors will begin their tour of the town and where yachts have now replaced the corsairs, trading vessels, and fishing trawlers which moored here for centuries.

It was also the seafront that witnessed some of the La Rochelle's most dramatic moments, such as the 15-month long siege under the command of Cardinal Richelieu in the 17th century. His royalist forces built a huge dike across the harbor to ensure the town's English allies, ensconced on the nearby Ile de Re, could not come to the rescue.

It worked, and before the town finally surrendered, 23,000 of its 28,000 inhabitants had perished. Also key to the city's defenses through the ages are the trio of towers built in the 14th and 15th centuries and open for the visitors.

Located on the south side of the port is the Tour St. Nicolas, which has displays explaining the city's maritime history. Of the two other towers, the furthest from the port, the Tour de la Lanterne, is perhaps the most interesting as it served as a prison for captured foreign pirates in the 1700s.

Today, the graffiti and etchings of three-masted tall ships carved into the stone walls by these desperadoes are protected under glass. "Richard Douglas of Whitby taken in *The Triumph of New York,* the 19th of January, 1782" is one inscription in a surprisingly elegant hand. Another poignantly reads: "Sacred to the memory of William Freethy, gunner of the lively privateer attempting to escape from this prison was unfortunately shot dead in the night of 15th October, 1778."

Back beyond the Cours de Dames and Quai Duperre fronting the port (both lined with seafood restaurants offering immense platters of the local oysters, crabs, mussels, clams, and other fresh shellfish) is the town proper, perfect for exploring by foot.

The Old Port at La Rochelle is now a gathering place for yachts and other pleasure craft.

By Benjamin Jones

Through the gateway of the Porte de la Grosse-Horloge (which contains a museum tracing La Rochelle's archeological past) are a network of cobbled streets for pedestrians taking in the town's main shopping district.

The art galleries, gourmet wine and food shops, and chic stores provide hours of browsing, and tiny restaurants and outdoor cafes are everywhere for the peckish or foot weary. If you fancy a picnic lunch, follow the Rue St. Yon to the Place du Marche and the bustling market for patés, cheeses, fruits, bread, wine, and other goodies for a memorable French repast.

It is in this district that one can see La Rochelle's wonderful old half-timbered houses and between the market and the Place de Verdun are the city's famous arcaded streets providing welcome cover in inclement weather. On the place itself, don't miss the Cafe de la Paix, the last of the city's watering holes of mirrored glass, carved wood, and *fin-de-siècle* opulence.

In this neighborhood, also can be found three notable museums—the Museé du Nouveau Monde with its artifacts and art works related to France's American colonies, the Museé d'Historia Naturelle with a stuffed example of almost every living creature under the sun plus fascinating ethnological displays, and the Museé des Beaux-Arts with its paintings by local artists.

The art galleries, gourmet wine and food shops, and chic stores provide hours of browsing, and tiny restaurants and outdoor cafes are everywhere for the peckish or foot weary.

Besides its own wealth of attractions, La Rochelle also makes for a good base from which to explore further afield throughout the Charente Maritime region, to the beaches and oyster bars of Ile de Re, inland to the distilleries of Cognac or north to the "wild Venice" wetlands of the Marais Poitevin.

Benjamin Jones is EUROPE*'s Madrid correspondent.*

WHAT TO DO WITH THE LITTLE BEACHCOMBERS?

After days of touring the wineries of Bordeaux and the distilleries of Cognac by car, with side trips to seek out noted restaurants, the children along for the trip will be amply rewarded for their patience by a visit to La Rochelle.

A walking tour for the kids properly begins in the La Vieux Part area with its ornate and gaily painted merry-go-round, which is more than 100 years old and still costs 10 francs a ride.

Once the small fry get a good look at those three ancient towers with their pirate doodlings, stroll along the bay to the Paro de La Pergola. At the entrance near La Concurrence beach is the Boobaloo bicycle rental shop, which besides the usual, rents bicycles built-for-two, in-line skates, and even pedal cars for a family of six, all of which can be used to cruise the nearby promenade or explore the park. (English spoken)

For the small beachcomber in the family, La Concurrence is a paradise. The wide and well-protected bay ensures almost no wave action, and the tides go out forever and come back in slowly, providing children with hours of safe hunting across the broad sand flats for shells, tiny crabs, and other marine treasures.

From the quay at La Vieux Port small ferries leave several times an hour for the 20-minute trip to Les Menimes, the new marina and leisure complex across the harbor where the city aquarium is located.

Its small size prevents visitor burnout, tanks are labeled in English, and a number of displays had our six year old daughter entranced.

A moray eel tank and the mandatory shark tunnel elicited the expected squeals and shrieks. But the favorite was a display of some of the sea's simplest creatures, gossamer and translucent jellyfish spinning through a drum-shaped tank against a dark-blue background.

From the natural world to the mechanical is a short walk back toward La Vieux Port and a visit to the charming Museé de Automates on Rue de la Desiree. "Automates" are early robots powered by electricity and were widely used in advertising displays after the turn of the century.

A milk maid squeezing at a cow, a fortune teller, clown acrobats, and a performing magician introduce the collection. But the showpiece is a model of a Paris street (complete with a cop and the neighborhood drunk) with automates in shop windows carrying out the proper activity.

Smaller children will delight in the dioramas featuring dozens of cuddly stuffed animals working a farm and raising a ruckus in the jungle. Older kids will love the model museum next-door, which boasts an extensive collection of replicas of historical ships, classic cars, and electric trains.

—Benjamin Jones

CAPITALS

AN OVERVIEW OF CURRENT AFFAIRS IN EUROPE'S CAPITALS

TAXES IN EUROPE

As the dreaded April 15 deadline approaches for Americans to file their 1996 tax returns, *EUROPE* thought it might be interesting to take a look at taxes in the EU. Following our article on the EU budget, our correspondents look at taxes in their respective countries.

THE EU

EU BOASTS TAX SURPLUS

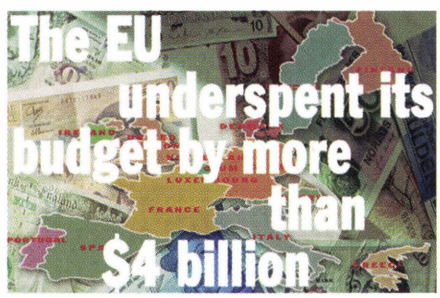
The European Union deserves a Good Housekeeping seal of approval. While its 15 member states struggle to cut public spending to qualify for the single European currency, the EU is keeping within its annual budget of nearly $100 billion. Moreover, it managed to produce a significant surplus last year and has finally capped spending on farm subsidies, the biggest drain on the Brussels purse.

There was a time when the budget stirred strong emotions. British Prime Minister Margaret Thatcher famously demanded "our money back" when she successfully negotiated a cut in the United Kingdom's contributions in the 1980s. Today, apart from the occasional grumbling by Germany, the EU's paymaster, and the Netherlands, that they are paying too much, the budget doesn't stir much controversy.

While some countries, including Germany, the United Kingdom, France, and Italy are net contributors to the budget, others, particularly less well off member states like Greece, Spain, Portugal, and Ireland, get back much more than they put in. The biggest overall beneficiaries are Greece and Spain, although the EU's two richest countries Denmark and Luxembourg are also net beneficiaries on a per capita basis.

EU leaders removed the budget from the political agenda at a 1992 summit in Edinburgh, Scotland, when they set a series of legally binding annual limits on EU spending, with only gradual increases up to the end of 1999.

The EU has four distinct ways of raising revenues. First, from common exter-



nal tariff duties on imports and levies from domestic coal and steel production; agricultural levies on trade with non-EU countries, plus duties on sugar and isoglucose produced in member states; a 1.4 percent cut of each member state's Value Added Tax (sales tax) revenues; and fourthly, a percentage of member states' gross national product (GNP) rising from 1.20 percent in 1993 to a maximum 1.27 percent by 1999.

The resulting $100 billion take looks big, but it translates to only $270 for each of the EU's 373 million inhabitants. It's equal to what the UK spends on its social welfare programs each year. Nevertheless, the myth of a profligate Brussels wasting taxpayers' money on grandiose white elephants or being duped by fraudsters is hard to dislodge. To be sure, there is waste and fraud but not on the scale claimed by the tabloid newspapers.

Last year, the EU underspent its budget by more than $4 billion and was poised to return half the windfall to member states and half to transport projects and research and development. In the end some of the funds were used to compensate farmers hit by the "mad cow" crisis.

The bulk of the EU's budget goes to fund the Common Agriculture Policy (CAP), to finance infrastructure projects, and to prime pump depressed areas of the EU. Much less is spent on running the European Commission, the EU's executive wing and its missions abroad, education and training programs, and aid and humanitarian projects for developing countries.

While the CAP remains the most expensive single item in the budget, EU governments finally brought spending under control in 1992 with a radical reform of the controversial regime that decoupled subsidies from production that resulted in surplus food being stored at great cost and focused spending on maintaining farmers' incomes.

Ten years ago, the CAP accounted for more than 60 percent of the budget and in 1973 it took 77 percent. Last year, it absorbed only 48 percent and expenditure this year has been frozen at the 1996 level of $46.9 billion.

Franz Fischler, the EU's farm commissioner, says the CAP must be reformed again. The EU will come under intense pressure to slash farm handouts when the new round of trade liberalization talks gets under way in the WTO (World Trade Organization) at the turn of the century. The enlargement of the EU to Central and Eastern Europe will increase farm subsidies by at least $15 billion a year unless the CAP is modified.

Franz Fischler, the EU's farm commissioner, says CAP reforms are needed.

Moreover, EU governments will demand cuts in farm spending when they negotiate a new budget ceiling for 2000–2005.

The accountants will also pore over the so-called "structural funds," which absorb around a third of the budget and are used to prime pump economies in the EU's least-developed regions, combat long-term unemployment, and help workers in smokestack industries adapt to technological change.

These funds have been a major factor in pushing the GNP of Ireland, Greece, Spain, and Portugal toward the EU average. While the budget has a negligible impact on the richer EU states, it accounts for around 4 percent of Ireland's GNP.

The negotiations to set a budget ceiling for 2000–2005 will prove tricky because EU governments have to take into account the entry of countries like Poland, Hungary, and the Czech Republic with per capita incomes well below the EU average. Some, like Poland, have large agricultural sectors.

European Commission President Jacques Santer says EU governments should not be expected to pay more than the current 1.27 percent of GDP, but there is no clear idea yet of how to raise the additional funds. There have been suggestions for a tax on hydrocarbons and for partial funding of the budget directly by the EU taxpayer.

Whatever is decided the EU is certain to stick to its good housekeeping rules.

—Bruce Barnard

LONDON

BIGGEST TAX REFORM IN 50 YEARS

The biggest reform of the tax system in half a century begins to bite this year, and plenty of people are protesting that it's too tough and that the authorities aren't prepared.

What's it all about? Self assessment is the answer. For the citizens of the United States long accustomed to this system, these protests may seem odd indeed, but the fact of the matter is that until now the UK taxpayer had the luxury of conducting a personal dialogue with the tax officer.

The change has been brought about by the government's drive to cut costs and reduce state bureaucracy. A study of how other countries operate their tax systems, first and foremost the US system, revealed that the answer was to make the taxpayers work to pay their taxes.

Not surprisingly, the taxpayers complained that not only do they have to suffer a top tax rate of 40 percent for anyone earning more than a modest income, but now the government wants them to do all the work involved in paying this tax to the state.

Almost 9 million of the nation's 25 million taxpayers are going to experience self assessment for the first time this year. If April 15 is an ominous day in the United States, imagine what it means for the taxpayer here who not only has to face the bill, but also has to face a whole new way of calculating the bill—and has to do it himself or herself.

The old tax system dealt with each taxpayer on an individual basis. The Inland Revenue worked out each person's tax liability and informed them of the amount they had to pay. No more. Now the idea is that each taxpayer will work out their own tax liability (does that sound familiar to American ears?), and if they get it wrong, they will be penalized.

The government is hoping that the staffing time freed up from the old system will be used to conduct random or spot checks on the self assessments submitted. Critics say they will be too busy for years to come just trying to guide the confused through the new tax maze.

To add to the misery for many, the new regime will bring tax payments onto a current-year basis, instead of the former system which worked on a previous-year basis.

Oh, and by the way, the new tax forms go out in April, and the general election is due at the beginning of May.

Some people wonder about the chances of survival for a government that times the introduction of a stressful change in the tax system just as the voters are due to go to the polls to choose a government for the next four years.

—David Lennon

ROME

DEATH BY FORMS

Is it acceptable to become a tax evader "by necessity"? Is it possible to politically, historically, and socially justify a citizen who tries to cheat the revenue office? The answer, of course, is no. But, as a serious study by the OECD has shown recently, in Italy a taxpayer is tempted to answer, "well...." To say the least, one is tempted to give a psychological explanation to the deplorable propensity of the Italian taxpayer to forget to notify the Italian tax authorities about the exact income he has earned during the year. A bad habit, indeed, and one that allows a good 15 percent of all economic activity to escape taxation. In comparison, the OECD survey maintains that in the United States tax evasion totals 4.5 percent and in the United Kingdom it is barely 3.5 percent.

No one on this planet—and probably elsewhere—likes to pay taxes. But why are Italians so attached to this often dangerous battle against tax inspectors?

There are two main reasons, according to Andrea Monorchio, paymaster general, who has put great emphasis on the OECD survey. The first reason is excessive taxation. In theory, Italians aren't even the world's most taxed people. With an average tax of 46.3 percent, Italy is in seventh place among OECD countries, following Sweden (53.3), Denmark (51.3), Finland, the Netherlands, Norway, and Belgium. But, keeping in mind that 15 percent of all economic activity avoids fiscal control, the result is that the remaining 85 percent is overtaxed. Because of a minority of tax evaders, the overwhelming majority of honest Italians find themselves overburdened by a heavy fiscal pressure of 54.5 percent, well more than the Swedes.

Italy's most glamorous tax evader, Sophia Loren.

The second reason for tax evasion is government bureaucracy. State, regional, and city officials all seem to sadistically enjoy inventing new taxes and rendering rules and tax forms excessively complex for the average Italian, who, during the year, is faced with many tax deadlines not just one.

May and November are the two "hot" months when everyone has to pay his or her income taxes. But there are other equally "painful" months. In June and December, real estate owners—from the wealthy companies or individuals owning entire buildings to the simple family owning just the apartment they live in—have to pay real estate taxes. The ordeal becomes a real nightmare for medium and small business entrepreneurs. It's a known fact that the Italian economy is successfully based on small and very small businesses: Of the more than 5 million companies officially registered in Italy—a European record—only 20 percent have more than 100 employees. But small entrepreneurs, often a one-person business or a family business, grumble that they have to fill out forms and keep in mind a lot of tax deadlines "like we were Fiat."

In fact, for Italian companies, no single month passes without some tax form to fill out and pay. Overall, believe it or not, there are *51* tax and mandatory insurance forms to be completed and submitted with payment every year. April, with six payments due, is the month with the most fiscal obligations, followed by May, June, and November, each with five. The tax office gives a small break in December and January, the two months when "only" three fiscal or insurance payments are due.

Obviously, in such a tax abundance, paradoxes abound. For example, decades ago the government instituted a tax to create a special fund for a low-income public housing project. A small tax was to be taken directly from every employee's paycheck, but when the project was abandoned ages ago, the tax remained and continues to cut a little portion of every paycheck.

But, what most enrages Italian taxpayers are tax refunds. If one pays more than what he owes, he has to wait at least five *years* to get his money back, without interest.

The only good thing is that, in a nation of happy tax evaders or would-be tax evaders, very few people end up in jail for this bad habit. Probably the most famous convict is the actress Sophia Loren. Years ago she was found guilty of not having paid taxes that she said she didn't know about. The famous diva was living in France. She could have peacefully stayed there since Paris wouldn't grant Italy her extradition. Instead, Sofia decided to go back to Italy. She was greeted not only by embarrassed policemen but by a crowd of media and fans. She was allowed to choose her prison, Caserta, near her hometown in Naples. She stayed in for just one week. And nobody had anything to say. After all, such a correct and respectful tax evader deserved to be rewarded.

—Niccolò d'Aquino

VIENNA

TAXED TO THE TOP

Go to just about any country and ask the locals about taxes, and you will invariably get the same answer: "In this country," they will sigh, "taxes are much too high." So if you want impartial information, you will have to benchmark the figures you get. In Austria, after such an exercise, you might come to the conclusion that maybe the locals have a point. With a tax quota of 42.9 percent of GDP—up from 35.9 percent in 1970, the burden is more than 2 percent higher than the EU average.

Those figures include social security contributions, which European economists see as tax-like payments since they redistribute wealth. In the case of Austria, they make up an impressive 13 percent of GDP, up from 8.5 in 1970.

Two categories of taxes in particular are responsible for Austria's above-average-rank. The value added tax (VAT) adds 20 percent to all sales transactions except for essentials like food, residential rents, books, and passenger transportation, which incur a 10 percent VAT. The other category is payroll taxes of 7.83 percent to be paid by employers on top of gross remuneration. Payroll taxes make up only half a percent of the EU's GDP, but they amount to 3 percent in Austria. Increasingly they come under attack here, as they are seen as a major reason for bloated labor costs, hurting global competitiveness and killing jobs. With regard to income taxes, however, Austria lags behind. Corporate income tax is only a flat 34 percent. Most dividends and interest earnings attract a withholding tax of only 25 percent—a final tax relieving private investors from further income taxation. Private capital gains are not taxed at all, if the asset has been held at least one year and a day.

Personal income tax is progressive and rates climb to a maximum of 50 percent—at least for the self-employed who file income tax declarations. Things are different with employees, whose income taxes are withheld monthly by the employer on a pay-as-you-earn system. But since the employed receive 14 monthly salaries in Austria, and the two extra salaries, which are like bonuses for vacation and Christmas, are taxed only 6 percent (regardless of how much you earn), the maximum income tax rate for employees is rather in the region of 42 percent.

This isn't the only oddity of this country's tax regime. Everyday, Austrians are confronted with a wild and colorful bunch of special taxes, many levied by provinces or municipalities, some on top of each other. Stamp duties abound, and there are special taxes on real estate purchases, advertising, sparkling wines, loans, liquor, stock exchange turnover, new cars, and ice cream. Surprisingly, property tax was abolished in 1994.

While taxes might be too high to stay competitive globally, Austria at present can't do much about it as the country is under pressure to meet debt and budget criteria set by the Maastricht Treaty for countries wishing to join the European Monetary Union.

Austria's next tax reform has been scheduled for 1999. Rudolf Edlinger, the new finance minister, has already declared that he would like to lower the maximum income tax rate, better to accommodate families with children and harmonize the country's tax system within the EU. His key target, though, is to relieve the tax burden on labor and to increase taxes on resources.

But Austrians are realists and don't expect too much. Whatever reform will take place, the new system will still make life miserable and tax consultants rich.

—Reginald H. Benisch

BRUSSELS

BELGIANS PAY HEFTY WITHHOLDING TAX

In recent years, Belgium has acquired the reputation of being one of the heaviest-taxed countries in Europe. This is somewhat misleading because, even though income taxes are high and the payroll tax paid by employers is a severe disincentive to recruitment and a contributory factor to the country's high unemployment rate, some other taxes are either low or nonexistent. There is, for instance, no capital gains tax in Belgium.

Belgians receive their income tax forms during the months of April and May and are required to report their total earnings for the previous calendar year by the end of June. Tax demands follow about four months later and normally have to be paid by the following January. A lot of taxpayers prefer to pay in advance of their assessment, on a quarterly basis, as this entitles them to a considerable discount. If they happen to pay too much, they receive a refund with interest on the excess payment.

Tax allowances are hardly generous, and a single person becomes liable for tax at the low annual income level of 156,000 Belgian francs ($4,500). The tax rate starts at 25 percent but is steeply graduated, reaching 30 percent after the first $7,250 of taxable income, 40 percent after $10,000, and 50 percent after $32,000. The maximum rate of 55 percent is reached after $70,000 of taxable income.

In addition to these rates, a temporary crisis surcharge of 3 percent is added to all income tax bills. Local government taxes—usually around 6 percent of taxable income—are also added to the tax bills. Local authorities are permitted to levy additional taxes of their own, but few do so, and these are usually for trivial amounts. An exception is the tax levied in Brussels on secondary residences owned by people living elsewhere, which amounts to $600 a year.

Value added tax—at 21 percent—is levied on most goods and services, but basic necessities—including food and transport—are taxed at 6 percent. Unusually, Belgium levies VAT on house sales, adding more than one-fifth to the price, which makes buying a house an unattractive proposition for foreign residents unless they plan to stay in the country for many years. Conversely, no tax is paid on income from residential property—so the market for rented housing is flourishing.

There is a withholding tax on investment income: 15 percent on bank account interest and bond dividends and 25 percent on share dividends. This has undoubtedly led to massive tax avoidance, and large numbers of Belgians keep their money in bank accounts in Luxembourg, where there is no withholding tax, despite efforts in the EU to encourage member states to adopt a harmonized approach.

Tax fraud is believed to be widespread, and finance ministers are forever complaining that revenue targets are seldom met. Few people get caught, the best known being former Prime Minister Paul Vanden Boeynants. He received a three-year prison sentence, but this was suspended in recognition of his past services to the state.

—Dick Leonard

THE HAGUE

SIMPLER DUTCH TAXES STILL NO FUN

"We can't make it more fun, but we can make it easier." With this slogan the tax authorities of the Netherlands advertise their services on Dutch radio. The arrival of the feared "blue envelope" in the mail with the income and wealth tax forms marks the beginning of the annual struggle for many citizens with their personal taxes. It is arduous work, even though Dutch taxes have been simplified considerably, and it is possible to file the form by computer modem or on a computer disk. The government is currently studying further simplifications.

Compared to other European Union countries, the overall tax burden on income in the Netherlands is high. Tariff hikes kick in at a relatively low level of income and the highest tariff is 60 percent (starting from a taxable annual income of about $50,000), the highest in Europe. The majority of the taxpayers belongs to the 50 percent bracket. The lowest rate, which includes all social levies as well, is 37 percent.

Compensating for these high rates, there are some large tax-deductions allowed. Although many deductions were scrapped in 1990, the largest of all, the deduction of interest payments on home mortgages, is politically untouchable. Another large deduction is allowed for pension plans. The present government has put a limit on the deduction of interest for consumer credits, however, and rumors abound that a future government may also decide to limit the mortgage interest deduction in exchange for lower rates.

A peculiarity about the Dutch personal tax system is that in addition to income (from work, but also from dividends and interest from financial assets), private ownership of assets (house, securities, etc.) is taxed. Capital gains, however, are not subject to taxation.

Taxation does not stop with national levies. In the last decade, local taxes (municipal and provincial) have gone up much more than national taxes have been lowered. In part this trend reflects a shift of financial responsibilities from the national government to local authorities, and in part it is due to the increased cost of waste treatment, utilities, and ecological levies.

The forms on income tax are due on April 1, and it's no fools' day. Unless postponement has been requested, very quickly afterward the tax authorities send their preliminary bills, automatically payable in monthly installments. Within a year, the final settlement is made. If there are disputes, the taxpayers can complain but usually to no avail. Admittedly, the tax authorities are rather efficient. There are special phone numbers for questions, and the processing of tax forms is speedy, as is the billing.

The present government has started a major program to lower taxation, primarily oriented to businesses that pay the 35 percent corporate tax, but also to individuals. When the next government takes power, in 1998, most probably there will be agreement on a general lowering of tax levels, scrapping the 60 percent tariff and the individual wealth tax, in order to bring Dutch taxes closer in line with those in surrounding EU countries.

Meanwhile, numerous loopholes are being closed. The present deputy minister for taxes has annoyed businessmen who own their own companies by cutting possibilities for tax evasion. For some years, there has been a steady flow of wealthy Dutchmen who escaped taxes by moving across the border to Belgium. This is now less attractive, and presumably, the tax migration will stop. On the other hand, ever since banks have had to start reporting to tax authorities income on interest-bearing accounts, there has been a steady transfer of savings accounts to Belgium and particularly to Luxembourg.

—Roel Janssen

HELSINKI

FROM VODKA TO CARS, THE TAX MAN AWAITS

The Nordic countries have become a new home for refugees and dissidents in great numbers from all over the world. That is with one exception—Finland. Certainly strict immigration rules are a major reason, but one can imagine another factor that effectively limits the interest among the potential immigrants—the taxes.

A recent publication by the Finland's finance ministry, *Taxation in Finland*, is interesting reading that proves at least one thing about the Finnish authorities—when it comes to taxes their imagination seems to be limitless.

The Finnish state tax is progressive. The more you earn, the more you pay. It is far from uncommon for a Finnish family to pay more than 30 percent state tax. Added to this, the community you happen to live in takes its share, which averages between 15 to 20 percent. On top of that a certain percentage for unemployment insurance, pension, and social security is deducted from the salary. So even before you get your wage packet in hand, close to half of the money has disappeared.

One would imagine that this would be enough, but no. Not in a country where there is even a special tax for dogs! Without a trace of agony the Finns pay an extra 22 percent VAT on close to everything they buy. On top of that there is a specially designed tax for alcohol—the stronger the drink, the more the tax, which is lucrative in a country where vodka is very popular. The same goes for gasoline. Every mile you drive in this scarcely populated but rather wide country creates extra income for the government. Not to mention the vehicle you need for the drive. That mobile status symbol is really the Finnish tax man's favorite. Finn's pay close to 150 percent on the value of their cars in taxes, duties, and other charges. The most stripped down Chrysler Voyager, the best-selling multi-purpose car in Finland, costs a minimum investment of $37,000.

With some of the highest taxes in the world, it is only natural that the Finnish authorities are equipped with one of the most sophisticated computerized systems to collect the money as efficiently as possible. Delegations of tax officials from all over the world visit Finland's National Board of Taxes, whose officials proudly demonstrate their electronic divesting machinery.

Once a year, every earning citizen and enterprise has to produce their tax return by a certain date. The ordinary wage earner has to mail the forms at the latest by midnight on January 31, and companies must file within four months after balancing their accounts. As Finns are no different from other people, there is a growing crowd at the post office the closer you come to midnight. In order to make the queuing more enjoyable, there is free coffee, cookies, candy, and in some cases even cheerful music.

Finland taxes liquor at a rate commensurate with the amount of its alcohol content.

It is a generally accepted view that the taxes in Finland have reached the summit. Even the government, which faces no real threat from the opposition, has understood that enough is enough and has begun to reduce the pressure. As a matter of fact the direct taxes declined by some 1 to 2 percent during 1995–96.

On the other hand, the money does not disappear into thin air. The Finns get something in return. Medical care is more or less free for everybody. Pensions are guaranteed. Comprehensive and secondary school is completely free, and even university studies are heavily subsidized, as is public transport, opera, theater, and even farming. The last-mentioned will, however, lose most of its subsidy in the near future as a result of Finland joining the European Union, which does not see the benefits of throwing away money on Arctic agriculture.

—Thomas Romantschuk

MADRID

LOW BASQUE TAXES ATTRACT JOBS

Spain's 17 autonomous regions compete hotly for foreign investment, each one touting their infrastructure, incentives, and easy access to markets beyond the country's borders, desperate to snag some multinational's next big project.

And when weighing where to build a new multi-million-dollar factory, foreign businesses must also consider the local government's fiscal policy, which can make such a difference to profits.

Politicians in northern Spain's Basque region know this and, hoping to steal a march on the other regions, have lowered the corporate tax rate on profits from 35 percent to 32.5 percent.

The plan appears to be working. Companies from as far afield as the United States and South Korea have recently announced mega projects in the three Basque provinces, a region hit hard over the past two decades by job losses in the old rust belt industries of steel making and ship building.

Joblessness among the region's youth helps fuel the radical Basque nationalism, which plagues the three provinces, and in turn causes the political unrest that scares off many potential investors.

But the Basques' corporate tax incentive is not viewed well at all by the central government in Madrid headed by center-right Prime Minister José Maria Aznar, and the other regions, jealous at the Basque success, are also crying foul.

The Basques argue that they have the right to do what they want regarding taxes. In an accord unique among the country's regional governments worked out with Madrid, local Basque authorities collect their own taxes, then pass on around 6 percent to the central government for collective expenditures like defense.

Basque tax authorities also have greater leeway in raising or lowering income taxes by as much as 20 percent if they so wish, compared with 3 percent for the other regions.

Aznar governs with a minority in the national parliament, supported by five Basque deputies along with a bunch of equally proud and independent-minded Catalans. If he wants his government to survive, the prime minister will have to tread carefully on regional issues like tax rights.

—Benjamin Jones

LISBON

CRACKING DOWN ON EVASION

The month of May may be "full of promises" as the song goes, but it is also the time for tax returns, and in Portugal that means creative ruses and widespread evasion.

Rather, it used to. Portugal's determination to be among the first group of countries joining the European Union's single currency means times are changing for errant taxpayers. The Socialist government, which must reduce the country's budget deficit to join the euro, has promised not to raise taxes, but it is deadly serious about collecting what is owed.

The government has declared war on companies and individuals who together owe billions of dollars in back taxes and social security payments. The approach is carrot and stick; while unrepentant tax-dodgers are increasingly likely to find themselves in prison, those who come forward and confess may benefit from special schemes to help them pay their debts.

Taxpayers recently queued for hours in pouring rain to take advantage of a "last chance" amnesty, which reduced fines and interest payments and allowed the culprits to pay in installments. The government said it received pledges of $1.1 billion under the program.

An earlier plan to help soccer clubs reduce their considerable debts to the tax man using lottery money was less popular and was defeated in parliament. Opponents said the government was treating the powerful soccer lobby, which is well represented in politics, more favorably than the ordinary tax debtor in the street.

Portuguese tax dodges include holding two jobs but declaring only the income from one and opening offshore accounts in Madeira and the Azores islands. Such accounts are generally held in the name of a financial institution instead of an individual, making them difficult for the tax authorities to trace.

Compared with neighboring Spain, income tax rates are moderate, going from 15 percent up to a top rate of 40 percent. But since income is generally low in Portugal, the 25 percent band kicks in at what seems like a relatively low level of $6,000 per annum. For income between $15,000 and $37,000 the rate is 35 percent, and anything in excess of $37,000 is taxed at 40 percent.

Portuguese home buyers are also burdened with a hefty real estate purchase tax, which can run to more than 12 percent on the value of a house. This tax is widely evaded and is expected to be abolished soon.

—Samantha McArthur

BERLIN

FINDING 'FOSSIL' TAXES

In order to stimulate investment and to create badly needed jobs, the German government has proposed a system of sharply lower and simplified taxes that amount to the country's most sweeping tax reforms in 50 years. "We must get rid of everything that hollows out the tax base and makes fools of those who pay their taxes honestly," declared German Finance Minister Theo Waigel. The eventual plan is to cut the top and bottom rates of income tax from 53 and 25.9 percent at present to 39 and 15 percent starting January 1999. The reform is designed to improve the country's global competitiveness and to form an important centerpiece of the ruling coalition's campaign for re-election in the fall of 1998.

Germany's direct taxes are the world's highest: 53 percent of taxable income of $72,000 for a single person and $142,000 for a couple. Earnings are tax-free up to a level of $7,200 for an individual or twice that for a married couple. Similar to the US system, employers automatically deduct the taxes from workers' paychecks. The rates start at 29 percent. The substantial social security levies take about 20 percent of average pay. There is also a "solidarity surcharge" of 7.5 percent of income tax liabilities to help finance the rebuilding of eastern Germany. Some fear that it may stay forever like the *sektsteuer* (sparkling wine tax), which was introduced 100 years ago by the German emperor to finance the imperial navy. The ships have long since vanished, but the tax is still collected. Those who are members of the Catholic or Protestant churches pay ***kirchensteuer*** (church tax), which amounts to 9 percent of a person's income tax.

An average single, skilled worker with an annual income of $31,000 collects only $18,500 for his annual performance. In 1996 he was levied $12,527 or 40.38 percent on taxes and social security. A married couple (without children) was obliged to pay $8,971 or 28.92 percent for the same income.

Everybody acknowledges that the burden of taxes and other levies is too high, that the tax system is too complicated, and that it contains "fossils" such as the local business capital tax, which imposes a levy on companies even when they are losing money. Klaus Offerhaus, president of the federal finance court, says that the tax system is so complex that judges have as much difficulty understanding it as the average citizen.

There are many breaks that benefit ordinary taxpayers. Parents, commuters, life insurance policy savers, wage earners who work overtime or on weekends, and people who make donations to political parties or charitable institutions get exemptions. But many tax exemptions benefit only the wealthy. The affluent self-employed have profited legally and successfully from special depreciation provisions to escape income tax payments. Henning Voscherau, mayor of Hamburg, has said that half the millionaires in Hamburg pay no tax because they cleverly exploit the legal loopholes. Waigel wants to "put an end to the waste of intellectual and economic resources currently engaged in tax avoidance," but his proposal also includes sharply reduced tax breaks for many ordinary citizens.

Trade unions, pensioners, opposition politicians, and even some members of Chancellor Helmut Kohl's Christian Democratic Union and the Bavarian CSU have protested against the government's plans to reduce tax rates and cut tax breaks. The real drawback may turn out to be not the defects of the reform but their failure to enact it.

Waigel announced his plans to reform Germany's complex tax system on January 23 and singled out tax evaders as the main losers in his plan. Coincidentally, the next day Peter Graf, father of the tennis star Steffi Graf, was given a 45-month jail sentence for tax evasion of $7.2 million and attempted tax evasion of $1.8 million.

To avoid high taxes in Germany, many well-heeled football players and television personalities have taken residence in Belgium, Monaco, or Austria, all of which offer special tax treatment to non-residents. When in 1993 Germany introduced the unpopular 30 percent withholding tax on savings, many Germans transferred their savings to German bank branches in Luxembourg where no withholding tax applies. The frequent raids on banks in Germany to trace the culprits have damaged the country's reputation as an attractive investment location.

—Wanda Menke-Glückert

DUBLIN

ARTISTS AVOID TAXES

A former finance minister once told me, in a rare moment of candor, that taking tax from an Irish person was as easy, and roughly as rewarding, as attempting to extract teeth from hens.

And perhaps observing his personal scar tissue and relating to his own Irish experience, he was also fond of quoting Will Rogers' observation that "income tax has made more liars out of the American people than golf has."

In other words, the attitude of Irish people toward taxes can be placed on a par with most other countries: They don't like paying 'em.

But pay them they do and in rapidly increasing numbers. Most people don't have a choice. If you're in regular employment, tax is deducted from your wages on a PAYE (pay as you earn) schedule. For others, including the self-employed, payment can be made through self-assessment. Taxes can be paid between November and the end of March, but the final income tax deadline falls on the same day for all—April 30.

Taxation varies, depending on income and personal circumstances—from 26 percent standard rate to 48 percent at the upper end. Why so high? The government says they are necessary to fund fairly generous social welfare and other allowances for the less-well-off.

But others—small firms, farmers, trade unionists, builders, and the Institute of Taxation—say income tax is still far too high. The Small Firms Association says cuts could be achieved by first getting rid of the reams of red tape surrounding the collection of PAYE—including 13 separate pieces of legislation with which employers have to comply.

The level of taxation is decided in the annual budget, generally in January but always at the start of the year—annual, that is, unless fiscal rectitude isn't closely observed and spending gets out of hand or, as in the present year, the government announces a second budget (in October) to bring the Irish Republic in line with budget day in other EU countries.

Finance Minister Ruairi Quinn, who isn't planning any major changes in the present system, says that the second budget will be at the end of October. But that plan might go askew if there's a general election in the interim (parliamentary elections must be held before the end of November but may take place earlier).

In the homeland of Edmund Burke, there's no question of taxation without representation, but it still doesn't make the Irish rush out to pay their taxes. Not that the Irish revenue commissioners are about to tell on those who cheat or how they might get away with tax evasion.

"We couldn't give out information on tax fraudsters or how to evade paying tax," says spokeswoman Christine MacMahon in an appropriately discreet voice.

But the revenue commissioners do make generous tax concessions for a range of items, including patents and greyhounds and stallions fees. And, if you are an artist or writer with three works of artistic or literary merit under your belt, you can also live tax-free.

Bring out that smock or battered typewriter now!

—Mike Burns

COPENHAGEN

MIDDLE CLASS BLUES

With general government outlay at close to 60 percent of GDP, second only to its Scandinavian neighbor Sweden, it is no wonder that Denmark imposes some of the highest taxes in the world, both on income and on consumption. The average Swedish tax level may be similar, by some counts even slightly higher, but the marginal taxes on middle-class families in Denmark have no parallel.

Almost all Danish families have two bread-winners, and a typical middle-class family will pay a marginal rate of 62 percent, and easily an average of close to 50 percent on total income. Of what remains, a tax of 25 percent must be paid on all consumption (VAT), and the tax on a car adds up to twice the original import price. This last item reflects the fact that Denmark produces no cars and is a major difference between the Danish and Swedish tax systems.

The ordinary taxpayer has few legal tax shelters. The most popular is pension savings, which allows most wage earners to deduct up to $5,000 of income that is invested in a pension plan. However, the 8 percent labor market tax must still be paid, and the pensions are fully taxable when they are paid out, albeit, for some, at lower marginal rates. Interest payments on mortgages as well as on personal loans and credit cards are also deductible.

Tax evasion is not easy in Denmark. Taxes are collected at the source of the income, making the return of the tax forms in February a formality for most Danes. The most popular form of evading taxes is buying or bartering services on the black market. But the strength of the Danish economy in recent years has reduced the supply of those most in demand—building workers, plumbers, and electricians.

The Danes were among the first in Europe to rebel politically against high taxation. In 1973, a tax lawyer with strong academic credentials, Mogens Glistrup, shocked the traditional Danish political parties by winning 28 seats of the 179 in the Danish parliament, the Folketing. His party, the Progressive Party, was completely new and promised a number of novel policies to reduce public expenditure, including dismantling all military defenses and replacing them by an answering machine saying "I surrender" in Russian.

The party is still represented in the Folketing, though with a different defense policy and a very strong anti-EU platform. Glistrup is no longer with the party after being prosecuted and serving time in jail during the 1980s for tax fraud. The issue of high taxes is still on the political agenda, though only a few make promises of lightening the burden in the short run.

The liberal and conservative parties make no secret of their desire to lower taxes as soon as possible. But this necessitates a major overhaul of the welfare state, cutting or eliminating a vast range of social payments and subsidies. Unless the two parties are able to form a government alone, it is also a policy that may be difficult to implement. The non-Socialist opposition is fully committed to uphold fiscal discipline and prepare for the earliest possible membership of EMU.

The government, especially the Social Democratic Party of Poul Nyrup Rasmussen, is determined to defend the welfare state and, by implication, the present tax system. In fact, it is planning to market the Danish welfare state as a model for everyone else. Some Danes would dearly love to export the welfare state lock, stock, and barrel. And they are still in a majority. So it is no major gamble to bet that the Danes will have the dubious honor of being the most highly taxed middle class anywhere.

—Leif Beck Fallesen

PARIS

TAXED BEYOND MEASURE

To the average person in France, the tax system is one of life's unfathomable mysteries, as unavoidable as death, certainly, and even harder to understand. Politicians occasionally try to explain, and sometimes claim, they are reducing taxes; the media make periodic attempts at understanding and analyzing them; but for the most part, taxes have the French completely stymied.

Thankfully, no one in France has to calculate his own taxes. Filling out a tax declaration is really very simple, simply because taxes in France are so amazingly complicated. The French just fill in the personal information, send the forms in by the end of February, and let the government work out what they are supposed to pay.

And pay they do. France has more different types of taxes than practically any other country on earth. A mere sampling of them, by no means exhaustive, includes a corporate tax on gross sales; lessor and lessee taxes; wealth tax; VAT; numerous social security taxes; CSG, a general contribution to social security, and RDS, which is a tax to help repay France's staggering social security deficit, currently at $10 billion a year; transfer taxes on property; registration fees; three different levels of local taxes; and even tax on taxes—VAT, for example is charged on some local taxes; and employers' social security contributions are also taxed.

The tax system in France is so complex and convoluted that a typical pay slip is virtually incomprehensible, listing as it does well more than a dozen different deductions before even considering personal income tax. Income tax in France, as a matter of fact, is, along with Greece, the lowest in Europe. At 6 percent of the GDP, it compares favorably with other EU countries where the average rate varies from 8 percent to 26 percent of the GDP. And since the threshold of non-taxability is more than twice as high in France than anywhere else in the EU, half of French households do not pay any income tax at all. Those that do are wholly responsible for their own income tax—nothing is deducted by their employer—and everyone pays it with a year's delay (i.e. 1996 income tax is not due until 1997).

What makes the French tax system such a terrifying snarl, is the monstrous hydra of social security contributions, which have not stopped growing and multiplying no matter how earnestly successive governments have vowed to control them. Social payments, which represented 19 percent of wage costs in 1959, have now climbed to 36 percent and are among the highest in the EU.

For French employers, paying a living wage is a killingly expensive proposition. If you take, for example, the minimum monthly wage of $910 and add all the mandatory contributions for social services like medical care, unemployment, and pensions, it ends up amounting to around $1,475.

With labor so horrendously taxed, it is not surprising that unemployment in France has swelled to 12.7 percent of the population, more than double the rate in the US. Those who are lucky enough to have a job, pay on average more than 40 percent of their salary back to the government. Major tax reforms are both needed and expected in France, but, paradoxically, the French still want to hang on to their comforting social security blanket even though its cost is crippling the economy.

The government has promised to find solutions. Last September hard-pressed Prime Minister Alain Juppé went on national television and proudly announced that he was reducing income taxes. He illustrated all the permutations of his reform plan with the help of numerous charts and graphs. But so mystifying and inscrutable are French taxes that, in spite of Juppé's convincing performance, there was total confusion in the press afterward as to what his announcement actually meant. Veteran journalists were left scratching their heads and debating whether Juppé's plan meant that the total amount of taxes paid by an individual would go up or down. Until everyone has paid their 1997 taxes, no one really knows.

—Ester Laushway

ATHENS

TAX SYSTEM FAVORS FARMERS AND OLYMPIANS

Finance ministry officials in Athens describe tax evasion as "a Greek national pastime." Greece's underground economy is estimated as equal to some 40 percent of GDP—the largest in the European Union—with some $1.5 billion in income slipping through the tax net every year.

One reason for persistently high levels of tax evasion is the delays in improving the computerization of the tax collection systems. Cross-checking of returns, says one official, is so inefficient that the same company or individual can have several different tax identification numbers simultaneously.

Another is that Greece has a high proportion of self-employed earners in the work force who try to outwit the tax man by accepting payment in cash. The self-employed, from surgeons and architects to plumbers and gardeners, offer a discount on their services if their clients come up with cash.

And farmers traditionally were exempt from income tax, although their incomes soared after Greece joined the then-European Community. Moreover the definition of a farmer was so flexible that countryside dwellers with additional incomes from jobs in local government or from operating a small hotel still qualified for exemption.

This situation is set to change as the Socialist government launches a fresh effort to boost revenue collection. Farmers now have to submit income tax declarations, and a new property tax is being introduced this year.

A newly established fiscal police force is preparing to take to the streets with powers to seize company books and arrest suspected tax evaders. With grants from EU structural funds, the finance ministry is gradually installing an upgraded computer system at its main regional offices.

Yet income tax in Greece is not particularly onerous by European standards. The top rate is 45 percent on annual incomes that surpass around $51,000. Companies are taxed at a standard corporate rate of 35 percent of profits. Most Greek taxpayers try to ensure their declared income falls into the below-$28,000 yearly income so that they need pay only 20 percent.

As yet Greece has no capital gains tax, while income on government bonds is taxed at just 7.5 percent in order to attract funds from the underground economy into the government's coffers.

However, the government's efforts to streamline the tax system have brought furious taxpayers onto the streets in protest. Greek seamen, asked to pay income tax for the first time—at the modest rate of 5 percent for ratings and 7 percent for officers—went on strike. Sailings to the islands and to Italy, the main route for Greek exports, were shut down until the government agreed to negotiations on a package of benefits for the shipping industry.

A study by Kepe, a government research institute, revealed that some 800 categories of taxpayers enjoyed special privileges. One researcher said, "Special interest groups acquired these privileges in return for offering blocks of votes to the politicians. They were tacked on to the end of unrelated pieces of legislation over the years and even the finance ministry isn't sure how many there are."

Privileged groups receiving income tax breaks included judges, journalists, mothers of large families, artists, and even Olympic medal winners—a reflection of the ancient Greek cities' practice of offering Olympic victors lifelong benefits.

—Kerin Hope

LUXEMBOURG

LOW TAX HAVEN

Driving along the Luxembourg bank of the Moselle River you might wonder at the remarkable number of gas stations you see. "Does everybody in the country own one?" a recent visitor joked.

Of course there's a special reason for this concentration of gasoline outlets, and to a lesser extent supermarkets, at Luxembourg's borders. This anomaly can be summed up in two words—low taxes.

More specifically, the low rates of indirect taxation imposed by the Luxembourg government make gas, alcohol, tobacco, and many grocery items substantially cheaper than in the neighboring countries. German motorists, making the short trip across the Moselle to fill up at prices some 25-30 percent below those in their own country, keep the Luxembourg pumps busy.

To talk of personal taxation in Luxembourg is to talk of the trade-off between direct and indirect taxes. More than any other country in the EU, Luxembourg has opted for relatively high income taxes with correspondingly low rates for value added tax (VAT), gas, tobacco, and other levies.

Ironically, the tax system is German in concept, imposed by the Axis powers during the war and standing today as the only constitutional relic of the occupation of Luxembourg. In legal disputes over tax, German case law is still applicable.

The top income tax rate of 50 percent in Luxembourg, with an additional 2.5 percent surcharge to fund employment relief, is not the highest in the EU, but it kicks in at an unusually low threshold-applying to incomes of just 40,000 or more. But given the generous deductions for married couples, children, mortgage payments, certain pension and savings contributions, overtime and holiday pay, and even in some cases the costs of traveling to work—the starting point for tax liability is relatively high: somebody with maximum allowances would escape income tax altogether on earnings up to $30,000 a year.

This unusual tax structure has a distinctively egalitarian effect: compared to other EU countries, Luxembourg has few poor people and not that many "fat cats." There is a broad social consensus in the country that this is the right approach. It follows that there is relatively little public or political agitation for lower taxes, while tax evasion is not the problem it is elsewhere.

Yet the government has been reducing the personal tax rates for three years now and is likely to go on doing so for some time yet. Two factors are at work here.

Like many EU countries, but more acutely than most, Luxembourg is facing a massive long-term problem in funding its state pension plan. Widely accepted calculations suggest that within 20 years the present system could bankrupt the treasury. The government has moved to encourage private pension plans, but these may only take off if personal taxes are reduced sufficiently to allow for the outlays involved.

Secondly, Luxembourg needs to import highly paid money specialists to secure the future of its vital banking and financial services industry. Under the present tax regime, employers are finding it hard to offer sufficiently attractive packages to woo the necessary expertise from abroad. In this sense, a cut in personal taxes might be seen as an investment in the future of Luxembourg as a European financial center.

—Alan Osborn

STOCKHOLM

HIGH TAXES WITH A PURPOSE

When planning a trip to Sweden a tourist is likely to hear the Scandinavian country described as "the Land of the Midnight Sun." Certainly, "Sweden—the Land of the High Taxes" is not the marketing motto for Swedish tourist board brochures. But for many, the latter phrase is a more important characterization of one of the EU's newest member countries. In fact, Sweden ranks among the highest taxed EU countries.

The Swedish system, as far as how taxpayers pay their taxes, works much like the US system. When the average middle-class "Mr. Svensson" gets his paycheck, his income taxes have already been deducted. Local income tax varies between 27 and 34 percent, and if he has a yearly income of more than $27,500, Mr. Svensson also pays a 25 percent national tax. His income tax bill could end up at a maximum of 59 percent.

In addition to Mr. Svensson's contribution, his employer pays the government 33 percent of his salary to finance social insurance programs, such as pension and sick pay.

Similar to the US taxpayers, Mr. Svensson files a tax return for the previous year. If he owns a business or has extensive assets, his return is due on March 31, otherwise, the simplest returns must be paid by May 2. If he paid too much throughout the year, he'll get a refund, or if he underpaid, he'll receive a bill for the balance in the fall. Tax refunds—formerly disbursed just before Christmas in order to increase holiday shopping—are also sent out in the fall.

On most goods and services Mr.

NEWSMAKERS

A plan by finance minister **Theo Waigel** for the most sweeping tax reforms in Germany in the past 50 years has unleashed a storm of controversy and criticism and even calls for his resignation. Waigel intends to cut the top rate of income tax from 53 percent to 39 percent.

What is causing all the outrage, even within the ranks of Chancellor **Helmut Kohl's** Christian Democrat Party, are not the cuts, but the various ways the government wants to recuperate the revenue it will lose. The money lost will have to be made up by abolishing a mass of loopholes and exemptions, such as lower taxes for working overtime.

Chancellor Kohl gave Waigel's reforms his complete support, but the outcry was enough to convince the finance minister to drop the idea of a 2 percent increase in VAT. "Based on the concept that I am following," assured Waigel, "we will manage with an increase of one point."

The news is not all bad, though. Germany's top politicians could personally benefit quite a bit from the intended tax cuts. Chancellor Helmut Kohl, for example, would save a substantial $13,988 on his annual salary of $191,522, and the federal president, **Roman Herzog** would get an even larger rebate of $16,884.

• • •

Michel Noir, the former Gaullist mayor of France's second biggest city, Lyon, has announced that he is quitting politics after the country's highest court upheld his conviction for "receiving the benefit" of misappropriated funds.

In 1987, French businessman **Serge Crasnianski** paid Noir's son-in-law, **Pierre Botton**, $150,000 for non-existent services. In return, Botton had Noir, who was minister for overseas trade at the time, arrange to reduce the tax bill owed by Crasnianski's photographic equipment company, Kis, from $3 million to $1 million.

While the citizens of Lyon have not forgiven Noir for the *affaire*, they are surprised, and even a little sorry, to see the end of his political career. Before he was caught with his fingers in the till, Noir had been a charismatic and effective mayor who did a tremendous amount for Lyon. Among his achievements were the rebuilding of its showpiece opera house and the transformation of the downtown area with underground parking lots and a system of low-cost but highly effective lighting that has been emulated by several cities, including Montreal.

But Noir will not vanish from the public eye entirely. He has traded the political stage for another, and—just like the fallen French business idol, **Bernard Tapie**—has become an actor.

• • •

Last October, seven judges—a Belgian, a Frenchman, a Swiss, two Italians, and two Spaniards—signed a manifesto demanding the creation of a single, Europe-wide judicial area to fight cross-border corruption and international money laundering.

Known as the Geneva Appeal, it was formulated by **Denis Robert**, 38, a French journalist who created a Paris-based association called Egalit Devant La Justice (whose name means "Equality before Justice") to campaign for it. The idea for the appeal developed from a series of interviews Robert conducted with the seven judges for his book *La justice ou le chaos* (Justice or Chaos), which was published last summer.

Edmondo Bruti Liberati of Milan, one of the seven, explained that the current system of judicial exchanges within Europe "collapses when we encounter the need for bank investigations, which are necessary to follow the movements of money from organized crime, drug peddling, or profits linked to corruption." Investigations through official channels can take months, sometimes years, to be processed, whereas illicit money can quickly circulate from one bank to another.

In the manifesto Bruti Liberati and his six colleagues demanded "an effective application of the (EU's) Schengen agreements, allowing direct transmission between judges of the international requests for assistance and an investigation's results."

The campaign has received an unexpected amount of support throughout Europe. At last count the appeal had the signed support of 500 judges and magistrates in France alone and several hundred more from other EU countries. The seven crusaders for justice have attracted so much public attention that they are being allowed to plead their case at a plenary session of the European Parliament this month.

Besides Bruti Liberati, the judges leading the appeal are **Bernard Bertossa**, Geneva's attorney general; **Renaud Van Ryymbeke**, the councilor who first investigated the French Socialist Party's illegal funding; **Gherardo Colombo**, a Milan judge prominent in the Mani Pulite (Clean Hands) cases; **Carlos Jimenez Villarejo**, head of the Spanish anti-corruption judiciary in Madrid; the popular Spanish judge **Baltasar Garzón**; and the king's procurator in Brussels, **Benoît Dejemeppe**.

—Ester Laushway

Svensson pays a 25 percent VAT (12 percent on food, accommodation, and public transportation and 6 percent on newspapers). For any assets worth more than $118,400 (including real estate, bank balances, bonds, and shares), he is required to pay an annual 1.5 percent "net wealth tax." The tax on capital gains is 30 percent.

So with these taxes (plus a few others), surely Sweden must be maintaining its reputation as a welfare state. Supporters of Sweden's tax system would say yes, quickly pointing out that a major portion of the tax revenue that Mr. Svensson pays comes back to him and his fellow taxpayers in the form of free education (kindergarten through university), heavily subsidized health care, and other government-paid benefits. Yet, Sweden has fallen from third to seventeenth place in the international welfare standings in recent years. Unemployment is currently at a record high rate of 13 percent, and consensus appears to be growing for changes in the system.

One hundred and one Swedish business executives led by Peter Wallenberg, head of Sweden's most powerful industrial group, Investor, and including leaders from Volvo, Electrolux, Ericsson, and ABB, recently joined forces to launch an attack on the Social Democratic administration of Göran Persson. The group claimed in an article published in the newspaper *Dagens Nyheter* that the government has failed "to tackle structural economic problems [that] are responsible for Sweden falling behind." Especially upsetting to the businessmen are the government's decision to start closing nuclear power plants and its proposals to tax energy production and carbon monoxide emission.

Responding to the criticism, Prime Minister Persson was quoted by the Swedish Institute saying, "The Swedish people have in practice paid for industry's good years through tough economic policies."

—Frida Kasteng

ARTS & LEISURE

ART

THE VICTORIANS

British Painting in the Reign of Queen Victoria, 1837–1901

Through May 11; National Gallery of Art; Washington, DC

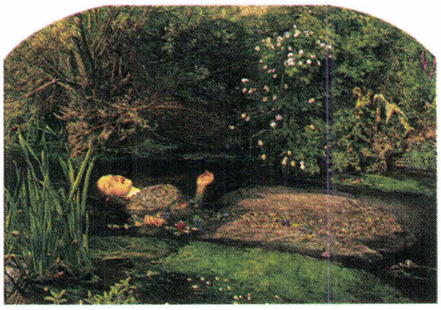
In 1837 Princess Victoria ascended the British throne, succeeding her uncle, William IV as ruler of the world's wealthiest and most powerful nation. The same year, Charles Dickens began writing *Oliver Twist*, and construction began on the neo-Gothic style Houses of Parliament. It was the beginning of what has become known as the Victorian Era, which lasted until the queen's death in 1901. During this time British society underwent historic changes as the country's advanced industry and dominance of world trade created a large upper class as well as a burgeoning middle class. British city populations equaled those of rural areas for the first time; commerce was liberalized; the women's movement began to take shape; and London's streets were lit with electric lights.

It was also an era that yielded dramatic new philosophies. Darwin published his theory of natural selection, and Marx published his *Communist Manifesto*. The British literary world was abuzz with the works of Dickens, Alfred Tennyson, William Thackeray, George Eliot, Robert Louis Stevenson, Oscar Wilde, and Louis Carroll.

Perhaps less celebrated than the period's literature, British painting was equally prodigious during the Victorian Era. It is in this spirit that the National Gallery of Art presents *The Victorians: British Painting 1837–1901*, the first major US exhibition of the works of this period. As National Gallery Director Earl Powell writes in the exhibition's introduction, the Victorian period for many Americans remains "a misunderstood era."

"Victorianism, for many, still connotes prudery, hypocrisy, sentimentality, and...a tendency toward ornamental excess," writes Powell. "Yet the Victorian painters directly and intensely experienced the fruits of modernity—the unprecedented achievements of the industrial revolution as well as its profound social changes and moral and intellectual changes. No country responded artistically to those changes and challenges, in visual and literary form, earlier or more compellingly than Britain."

The Victorians comprises 70 paintings by 34 artists. It opens with four works that appear to counter the dainty, clichéd image of Victorianism, focusing instead on the power and ominousness of nature. The dusky browns and grays of Joseph Turner's *Keelmen Heaving in Coals by Night* and the violent seas and sky of *Slavers Throwing Overboard the Dead and Dying* offer a naturalistic, forbidding image of sailing. These are followed by works by Queen Victoria's court painter, Edwin Landseer, including *Coming Events Cast Their Shadow Before Them*, which depicts a stag preparing to defend its territory in the desolate Scottish highlands, and *Man Proposes, God Disposes*, an apocalyptic scene of a failed Arctic expedition ravaged by polar bears.



Pre-Raphaelite painter John Everett Millais paid careful attention to even the smallest details in his painting, *Ophelia*.

From there the exhibit visits more familiar Victorian territory with works by John Everett Millais, the first of several Pre-Raphaelite painters represented in the exhibit.

In 1848, the Pre-Raphaelite Brotherhood was formed by Millais, Dante Gabriel Rossetti, and William Holman Hunt, who believed that artists should focus on depicting subjects authentically, through detailed observation of nature, rather than enhancing subjects in the way that the Renaissance masters had.

Malcolm Warner, curator of *The Victorians,* notes that the Pre-Raphaelites actually knew little about art before Raphael and that "Anti-Raphaelites" might have better conveyed their intention. The "PRB," as the group sometimes referred to themselves, generally imbued their paintings with bright colors and chose subject matter that held historical, religious, or literary significance.

The Millais paintings in the exhibition closely adhere to this philosophy, with the painter depicting scenes from a Keats poem (*Isabella*), an adolescent Jesus (*Christ in the Carpenter's Shop*), and a scene from Shakespeare's *Hamlet* (*Ophelia*), among others. In each of the paintings, Millais' painstaking attention to detail conveys a vivid sense of realism, from the texture of the woodshavings on the floor of the carpenter's shop to the flora surrounding Ophelia's body floating in the stream.

Not all of the Victorian art world embraced the Pre-Raphaelites, and the latter part of the century saw Victorian artists employing a broad variety of styles. The aesthetic movement emerged during this time. Many of its adherents, which included James Whistler among others, strove to render beautiful compositions unencumbered by symbolism or moral lessons. *Flaming June*, by Frederic Leighton, is such a painting, portraying a sleeping woman curled in languid repose and draped in a flaming orange silk.

Other Victorians were moved to express social commentary in their paintings. Inspired by contemporary writers such as Dickens, some of the artists felt a moral responsibility to show the conditions of an emerging working class. Paintings like Ford Madox Brown's *Work*, Samuel Luke Fildes's *Applicants for Admission to a Casual Ward*, and, later, Hubert von Herkomer's *Hard Times*, depicted and often editorialized the plight of common laborers and the underclass.

Elizabeth Thompson expressed the outrage felt by much of Britain for the lives lost during the Crimean War. In *Balaclava*, she renders an unsentimental view of the surviving cavalrymen of the elite Light Brigade after their infamous charge into the heart of a fortified Russian position. The men's faces reflect startled, horrified expressions that confound traditional heroic images of battle.

Of course, the lives of the rich were also favorite subjects among Victorian painters. French expatriate James Tissot portrays a gathering of the upper class in *The Ball on Shipboard*. Brightly colored flags hang from the rigging and the sun is shining. The men and women are dressed for a festive summer occasion, but no one appears to be talking; rather, a slight aura of boredom pervades. It is not surprising to see how works like this, when taken out of context (Tissot purportedly intended the painting as a gentle poke at the rich), could aid the rise of the clichés about the daintiness of Victorianism.

Whether depicting lounging aristocrats or literary characters or the ills of modern society, *The Victorians* offers students of art, as well as of history, a wide-ranging view of a complex and misunderstood time.

—Peter Gwin

BOOKS

GLADSTONE

By Roy Jenkins; Random House; 698 pages; $35

William Gladstone was the quintessential Victorian politician whose "inherent star quality" helped make him prime minister a record four times. "He was the most remarkable specimen of humanity of all of the 49 men and one woman who have so far held the office," says Roy Jenkins in his new biography, *Gladstone*.

Jenkins is not just a skilled biographer, he is an experienced parliamentarian who has himself held high cabinet office. His experience enables him to bring special insights to his task, which he performs with sympathy for his subject. Occasionally the writing becomes a bit flowery, but it is appropriate for the period about which he was writing.

Gladstone entered parliament in 1833 at age 23, assumed the first of his four premierships in 1880 at 71 years old, and finally left office at 86 in 1895. In total, he spent some 63 years in politics, 12 of them as prime minister. He began as a High Tory conservative but gradually shifted his position and ended up a liberal reformer.

Gladstone was a "compelling orator who could hold audiences transfixed for hours." Though his speeches were often convoluted and obscure, he captivated his supporters and overwhelmed his opponents largely because of "his physical magnetism, his flashing eyes, and the eagle swoop of his cadences."

His longest speech lasted nearly five hours. (Three hours was commonplace.) Despite this, he had a taste for mass audiences and was one of the first politicians to take politics to the people. Working men gathered in the tens of thousands to hear him speak.

Hugely energetic both physically (he thought nothing of a 40-mile hike) and mentally (he read 20,000 books and wrote 15), Gladstone was a able to grind down his opponents both in and out of the House of Commons. He was curiously less successful with the House of Lords, where he was defeated on the issue of Irish home rule.

Self-righteous, difficult, and domineering, he may have been, but there were many sides to this complex character. He was impetuous, unrestrainable, uncontrollable, while at the same time he had iron self-mastery.

That alleged self-discipline broke down completely, though, when it came to prostitutes, or as they are coyly referred to in the book, "fallen women." Gladstone would take to the darkened streets of the West End on a mission to save fallen women. There is little doubt, however, that along the way he did more than a little falling himself.

Though a man who had to rule through the parliament, he was no democrat. He told a friend that he was "a firm believer in the aristocratic principle—the rule of the best. I am an out-and-out inegalitarian."

Queen Victoria grew to dislike him so much that on hearing of the possibility that he might be forming a government in 1880, she wrote to her secretary that she would sooner abdicate than have any communication with "that half-mad firebrand." In the end she gritted her teeth and did her duty. The dislike was mutual. He found her extremely difficult and told a colleague that she was "enough to kill a man." He clearly treated the monarch with his usual insensitivity.

On Irish home rule, Gladstone was a visionary, ahead of his time, but he displayed tactical ineptness in his attempts to introduce change. He believed that a discontented Ireland poisoned British public life. His hope was that home rule would keep Ireland as part of the United Kingdom, a questionable assumption, but who knows what might have happened if there had been a settlement of the Irish problem in the 1880s, some 30 years before the Easter Rising. People in Northern Ireland suffer the consequences of that failure to this day.

How good a politician was Gladstone? He may have held office a record four times, but what did he do with that power? History does not assess him too kindly. He accomplished good work during the first premiership (1868–74), the second (1880–85) was disastrous. His last two terms, (1886 and 1892–94) were overshadowed by his visionary fight for Irish home rule and his failure to carry the day.

Gladstone was an avid traveler, able to argue in German, lecture in Italian, and correspond in French. He was "an instinctive European," says Jenkins. "I think he would be in favor of a pro-European policy." He was a great believer in the concert of European states. He felt that Britain's destiny lay in Europe and was a great believer in accepting the judgment of Europe.

—David Lennon

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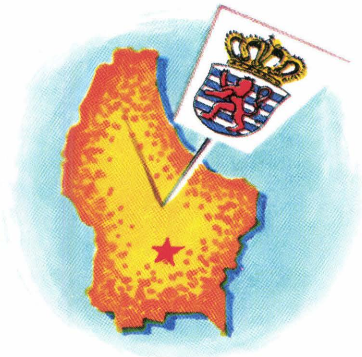

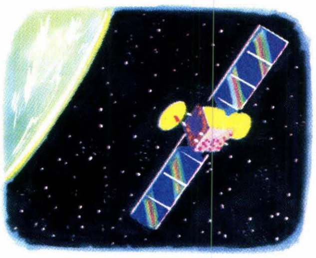

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