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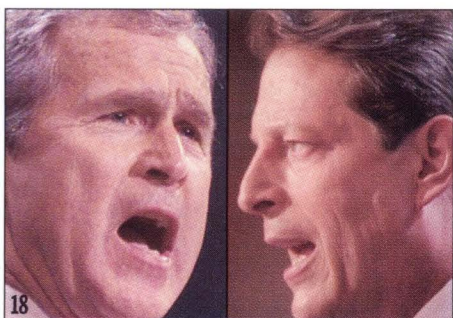
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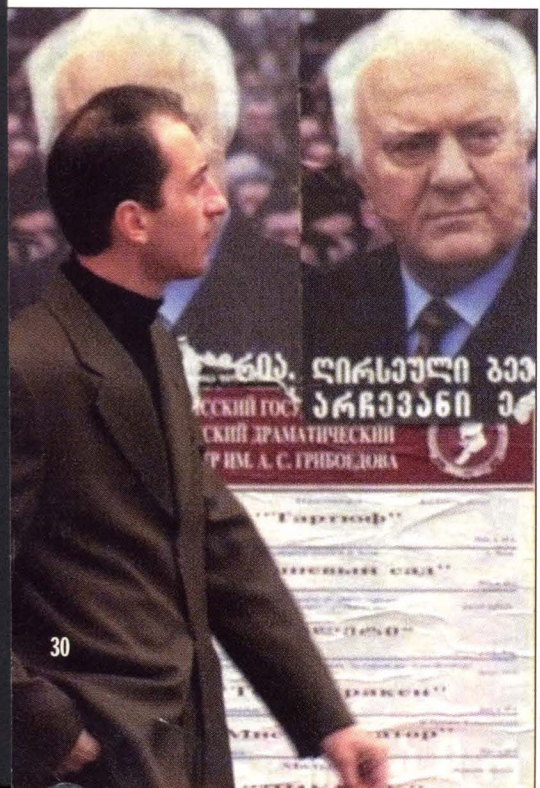


# EUROPE

MAGAZINE OF THE EUROPEAN UNION



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# LETTER FROM THE EDITOR

**O**ur special issue on politics presents a who's who of the leaders in each of the fifteen EU countries and presents a comprehensive look at the types of government, legislatures, and the dates for the next presidential elections across the European Union.

John Andrews, writing from Paris, describes the tremendous political challenges facing Europe and the European Union in the next decade. As he states, "What the EU is attempting has no precedent in its half-century history: it is trying simultaneously to reform its organization, define its future identity, and double its membership."

Veteran political analyst Martin Walker attempts to define "the third way" and detail how it has helped cement a more personal transatlantic relationship between President Clinton, the United Kingdom's Tony Blair, and Germany's Gerhard Schröder, among other European political and intellectual leaders.

Writing from Luxembourg, Alan Osborn profiles the current members of the European Parliament and predicts that Pat Cox, an Irishman who leads the Liberals, and Heidi Hautala, the Finnish head of the Greens, are the two MEPs to watch in the next few years.

The political scene is heating up in the United Kingdom, and Labor's commanding lead is declining partly due to the recent oil/gas problems and the ongoing dilemma of when the UK should join Euroland. David Lennon, reporting from London, discusses how popular Prime Minister Tony Blair "is under pressure today." Lennon also profiles two up-and-coming politicians, Gordon Brown, chancellor of the exchequer, and Michael Portillo, the shadow chancellor, who are waiting in the wings should their respective leaders take a political tumble.

*EUROPE* presents the views of Vice-President Al Gore and Governor George W. Bush on issues relating to Europe, including their views on EU-US relations, the Balkans, NATO, and Russia. Their answers show a foreign policy side to the American presidential campaign that has so far not been discussed much by the candidates.

Will London remain Europe's premiere financial center if the United Kingdom does not join Euroland in the near future? Bruce Barnard reports that, while financial leadership remains in the cards for London, some foreign investors would like to see a quick decision on adopting the euro.

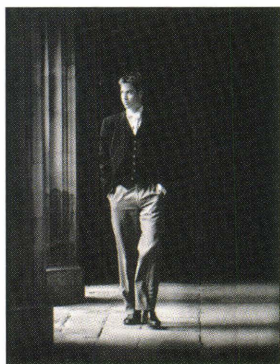
Elizabeth Pond journeyed from her home in Germany to Georgia to interview Georgian President Eduard Shevardnadze and find out his views on the European Union, NATO, and Russia. She also presents a travel guide to the Georgian capital of Tbilisi, which she calls a "jewel."

Ester Laushway takes a shorter journey from her home in Paris to Avignon to give us another look at one of the European Cultural Capitals in 2000.

Does royalty have a role in Europe in the twenty-first century? Each of our fifteen EU capital writers discusses the role of royalty or in some cases the lack of royalty in their respective countries. From the tabloids in London providing seemingly every personal detail of the royal family to the quiet respect displayed in Spain for the king who many credit with saving democracy to the anticipation of an upcoming royal wedding in the Hague, royalty continues to prevail in many EU countries.



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



**On the cover: the United Kingdom's Prince William.**

## EUROPE

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# EYE ON THE EU

Profiling personalities  
and developments  
within the European  
Union



## EU-RUSSIA SUMMIT

Vladimir Putin and his foreign minister, Ivan Ivanov, will be in Paris on October 30 for the next EU-Russian summit. As France is currently presiding over the EU's Council of Ministers, they will be met by French President Jacques Chirac and Foreign Minister Hubert Vedrine as well as Commission President Romano Prodi.

On the EU side, there is an evident wish to resume a constructive dialogue after a year in which—largely because of the war in Chechnya and Russian resentment at Western criticisms of their human rights violations—virtually no progress has been made. A year ago, when Boris Yeltsin met EU leaders in Helsinki in one of his last encounters as Russian president, the two sides had exchanged strategic papers in which each set out their own ideas of how the relationship should deepen. The EU paper said, in effect, and as politely as possible, that serious progress depended on Russia transforming itself into a more civilized society in which the rule of law was paramount. The Russian paper included a list of demands for its status as a great power in Europe to be adequately recognized. It was, noted an informed observer, as if two ships were passing during the night without making any contact.

These periodic meetings are held as a consequence of the partnership and cooperation agreement signed with Russia in 1994. So far, the de-

gree of cooperation has hardly lived up to the rhetoric of the agreement. The Finnish government had hoped to move things forward with its "Northern Dimension" proposals, which it had planned to make the centerpiece of its EU presidency in the first months of this year, but this course was largely aborted by the Chechnya conflict.

One particular topic for discussion was the future position of Kaliningrad (the former East Prussian city of Königsberg), which will become a Russian enclave entirely surrounded by EU territory if and when Poland and Lithuania become EU members.

The Russians did attend an international conference in Copenhagen on the Kaliningrad question, but no agreements were reached. Russia would like Kaliningrad to become a free economic zone, with easy access for its citizens to enter and cross EU territory, and hopes that the city would be included in the transport and communication links that the EU is planning under its Trans-European Networks program. The EU's unofficial position is that this would depend on a cleanup of the Russian mafia-ridden regime that currently controls the enclave.

Nevertheless, though little has so far been achieved on the "northern dimension," the atmosphere between the two sides is good, and nobody seems eager to stir up trouble. This is hardly the situation on Russia's southern flank, which could scarcely be more turbulent, with war still

waging in Chechnya and territorial disputes involving Georgia, Armenia, and Azerbaijan, in several of which Russian forces are involved. There is a growing feeling that peace and security can only be restored to the region through some sort of international mediation, in which both Russia and the European Union are directly involved.

A group led by Michael Emerson, former head of the European Commission delegation to Moscow, has undertaken an important initiative in this area. Emerson was the brains behind the Southeast Europe Stability Pact, which has become the focus of EU activity in the Balkans since the end of the Kosovo war. Together with a team put together by the Brussels-based think-tank, the Center for European Policy Studies, he has now produced a far-reaching plan entitled *A Stability Pact for the Caucasus*.

The new Emerson initiative came as a response to an appeal from the leaders of four countries in the Caucasus area—Armenia, Azerbaijan, Georgia, and Turkey for a concerted multilateral initiative to break the deadlock. It proposes a trilateral response from the EU, Russia, and the US to provide incentives to settle the regional conflicts and what Emerson describes as a "road map for future cooperation." Only strong and united outside pressure, he believes, will enable the terri-

torial disputes in Nagorno-Karabakh, South Ossetia, and Abkhazia to be resolved, and perhaps in the long run produce a more acceptable resolution of the conflict in Chechnya than the current



Romano Prodi and Vladimir Putin will meet in Paris on October 30.

application of brute force.

In Paris, the EU leaders may well take the opportunity to sound out President Putin to see whether there is any Russian interest in such an approach. One encouraging sign is that a research institute in Moscow, close to the Russian foreign ministry, has taken the initiative in producing its own Russian translation of the CEPS document.

The talks in Paris will be in private, and it may not be immediately clear what, if any, is the Russian response to the plan. This could, however, come a little later at the meeting in November of all the foreign ministers of the Organization for Security and Cooperation in Europe, which is the international body that takes the lead over the conflicts in the Caucasus. If Russia does want to seriously engage in a dialogue, the first signal may be given at this meeting.

—Dick Leonard



# EURO NOTES

Reporting news,  
notes, and numbers  
from Europe's  
financial centers



## TAX CUTS IN FASHION THIS FALL

**T**ax cuts are back in fashion in Europe. With France and Germany leading the way, euro-zone economies are edging toward the supply-side economic revolution that the US experienced in the first years of the Reagan administration almost twenty years ago.

Though policies vary from country to country, the common aim is to shed Europe's image as an overregulated, overtaxed economic area that discriminates against labor flexibility and fails to reward innovation. Strikingly, governments on the right and the left are seeking to reduce tax rates, especially for lower-paid employees and small companies, and to broaden and simplify national tax bases.

To a degree, the tentative embrace of supply-side remedies comes down to the stronger performance of the euro zone, where average growth this year is likely to be well in excess of 3 percent. Governments have more margin for maneuver in tinkering with the tax system. But it also reflects a broader recognition that the tax burden in the euro zone is too high relative to its global competitors.

By 1999, the euro-zone tax burden—that is the ratio of government tax receipts as a proportion of gross domestic product—had risen to 44 percent compared to 33 percent in 1970. The equivalent figures in the US and Japan are 30 percent and 28 percent, respectively.

Another factor is that West European governments are increasingly aware that they need to reconfigure their tax systems, which are skewed toward social security contributions. The policy response is three-fold: lower direct tax rates, pensions reform, and a shift from direct to indirect tax.

Tax cuts have been unveiled this year in the United Kingdom, the Netherlands, Portugal, and Spain. But the most important shift occurred this summer in Germany. Contrary to expectations, Chancellor Gerhard Schröder pulled off a famous victory in the upper house of parliament on corporate tax reform. He secured significant reductions in capital gains tax on the sale of shareholdings, starting next year.

Schröder's reforms are widely seen as the best means of accelerating restructuring in Germany because it will allow banks and other financial services companies to "unwind" their shareholdings in industrial conglomerates. These cross shareholdings, a relic of Germany's industrial revolution, have protected companies from takeovers and made it more difficult for them to shed unwanted assets.

Many believe the French government's own tax package—unveiled by Laurent Fabius, finance minister, in September—was partly inspired by the German example. Fabius pledged the most far-reaching cuts in fifty years, but on closer examination, the package looks less radical than first claimed.

First, the reductions in corporate taxation and tax on lower paid workers only bring the total tax burden down from 45 percent to 44 percent of GDP. That is still four points higher than Germany, and ten points higher than the United Kingdom. Some suspect that Fabius's bold claims have more to do with bolstering his own standing ahead of the presidential election in 2002 where he still has an outside chance of standing as the Socialist candidate—should anything happen to Prime Minister Lionel Jospin.

On the other hand, Fabius was acting under the constraints of a coalition that includes Communists and Greens, neither of whom are enamored with tax cuts. If proof were needed, France was brought to a standstill soon afterward when truckers blocked the roads in protest against high fuel prices, triggering a continent-wide protest.

Jospin quickly caved in to the protestors, promising fuel tax reductions on hard-hit hauliers and farmers. As a result, the protests escalated bringing the UK to a halt and leading to a blockade of capitals, ports, and highways across Europe. Governments are still grappling with the consequences, struggling to maintain the earlier line that tax coordination is vital in order to ensure a level playing field in the euro zone but under pressure to "buy off" protestors.

There is also some concern at the European Central Bank that tax cuts in the euro

zone will harm the overall fiscal position. For most of the 1990s, governments pursued extremely tight fiscal policies in order to ensure that they met the Maastricht criteria on budget discipline required



**French Finance Minister Laurent Fabius has proposed major tax cuts.**

for membership in monetary union. Under the Stability and Growth Pact, euro zone members are required to bring their budgets into balance or surplus over the medium-term.

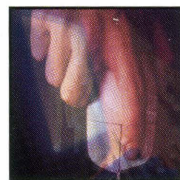
The question, therefore, is whether governments will be able to pursue their tax-cutting experiment over the long run. At the very least, the ECB argues that governments need to pursue additional measures to promote structural reform and labor market flexibility to match the supply-side experiment. That was, after all, the chief lesson of Reaganomics and the prerequisite of the turnaround in the US economy over the past few years.

—Lionel Barber



# e-EUROPE

Tracking the news  
and trends shaping  
Europe's technology  
sector



## WIRED SET LOOKS TO HABERDASHER-E

Are you one of those people who *has* to be constantly connected to technology? Mobile phone plugged into one ear, music in the other—if so, you'll be glad to know that e-clothes and accessories are on the way. Once the exclusive domain of the James Bond set, wearable technology is gaining enthusiastic endorsements—and investments—from some notable companies.

After three years intensively researching how to combine the wired with the wearable, Europe's largest electronics maker Philips, American jean couturier Levi Strauss & Co, and Italian designer Massimo Osti will introduce a line of e-outerwear. The venture, which is named ICD+, will sell jackets that feature a built-in mobile phone and an MP3 player connected by wires integrated into the garments.

Levi Strauss, which began making durable clothes for California gold miners, is touting the line as a return to its roots. "The company was founded in the 1850s to provide work wear for the entrepreneurs of the day," said Peter Ingwersen, Levi's director of premium brands, "and in exactly the same way, we have de-

signed this line for the modern worker."

Instead of climbing in and out of mine shafts, today's modern worker is forever climbing in and out of taxicabs and hustling through airports. "We identified a group we call nomads," said Ingwersen, "who are constantly on the move and need to be wired."

To meet the needs of the nomads, Levis turned to Philips and Italian designer Massimo Osti, a "technical wear" pioneer who has been experimenting with ultra-durable hybrid fabrics since the 1970s. He specializes in combining elements used in protective clothing. His creations include Thermo-

ment. Nevertheless, he notes, the clothes still must look good.

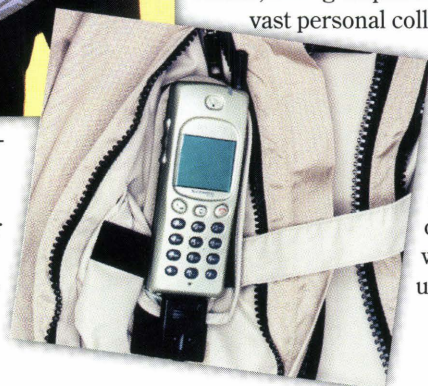
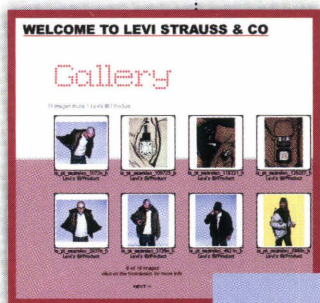
For ICD+, Osti designed four jackets, ranging in price from \$600 to \$900, that are durable, machine washable, and allow the wearer to listen to music or talk on the phone. A microphone is concealed in the collar, and depending on the model, mini speakers are incorporated into a hood or earplugs are stored in a waterproof housing under the collar. Phillips' new 3.3 ounce Xenium phone connects inside a front pocket cradle and can be operated by voice command. The Rush digital audio player weighs less than 2 ounces and, like the phone, is removable. The wearer/user can switch between the two devices using a keypad tucked under a protective flap on the

pocket. Since the Xenium operates on Europe's GSM system, the jackets are only available in Europe. So far, there's no word on a US version.

Osti sees this line as just the beginning for ICD+. He says future products could include tiny cameras or global positioning devices to help the wearer find destinations.

ICD+ is not the only firm interested in e-wear. Swatch, Casio, and Citizen are all working on projects to incorporate mobile phones, pagers, translators, and personal digital assistants into bracelets and necklaces. Two years ago at Germany's CeBIT technology exhibition, Swatch CEO Nicolas G. Hayek demonstrated a prototype of his company's Swatch Talk, a watch that switches to mobile phone mode with the flick of a wrist.

This fall, a Los Angeles-based startup, Charmed Technology is sponsoring a world tour of technology fashion shows to tout its wares. Models will show off more than sixty wearable devices, including the company's three-piece Charm



joint, a fabric said to protect the wearer from nuclear radiation, and a "slashproof" fabric that incorporates steel fibers.

Based in Bologna, Osti belongs to the 'form follows function' school, taking inspiration from his vast personal collection of military uni-

forms. He says he begins the designing process focused on how the wearer will use the gar-



Communicator. Comprised of a single eyeglass headset that acts like a computer screen, a small handheld wireless mouse, and a mobile phone-size micro-processor/hard drive unit that clips on a belt, the Communicator gives the wearer wireless Web access virtually anywhere. The company, which counts MIT's Media Lab, Motorola, and Red Herring among its partners, plans four stops in Milan, Stockholm, and Paris as well as New Delhi, New York, Tokyo, and Taipei, with products expected to go to market later this year.

## FANS AND OFFICIALS MONITOR OLYMPICS ON-LINE

**S**tep aside Michael Johnson and Marion Jones, the official Olympic Web site for the Sydney Summer Games set its own world record. The site, operated by IBM, recorded 683 million hits in a single day, on Monday September 18. The one-day tally eclipsed the 634 million total hits received by the official site of the 1998 Nagano Winter Olympics during the entire sixteen days of those games.

Meanwhile, Olympic officials rolled out unprecedented efforts to police the Internet around the clock for unauthorized postings of video and sound clips of the Olympic events. Copyright Control Services, a London-based anti-piracy firm, was hired by the International Olympic Committee to search for violators, who were threatened with copyright infringement lawsuits if they didn't pull the clips from their sites.

"There are very, very few examples of groups broadcasting in direct flagrant abuse," Copyright Control's president Dan Powell told Reuters during the Sydney Games.

The IOC says that the measures were necessary to protect its sale of exclusive broadcast rights. NBC bought exclusive rights to show Olympic video on the Web but delayed posting the clips until after their television broadcasts, which because of the time difference were tape delayed and usually several hours after the events had occurred.

## BUSINESS BYTES

**O**ne2One, a subsidiary of Deutsche Telekom mobile phone group, is spending \$25 million to introduce U-Boot, a next generation text messaging service in the UK. The service,

which allows users to quickly send and receive text messages, news, weather, and sports updates, has been popular in Austria, especially among users in their teens and twenties and will be launched in the UK by **Universal Communication Platform**, a startup founded by two Barcelona business school graduates. Analysts see such services as a major growth area in the mobile phone sector.... Meanwhile, Deutsche Telekom saw its share price dip on news that Wolfgang Keuntje resigned as head of the company's Internet arm, **T-Online**. Keuntje's departure comes amid rumors of a disagreement between Deutsche Telekom chairman Ron Sommer and T-Online executives over the Internet firm's marketing approach.... **Nokia** announced the introduction of a new entry-level mobile phone that will include text-messaging functions, including a chat room-like function. Available in Africa, Europe, and the Asia-Pacific region later this year, the new phone, the 3310, will be marketed to first time mobile phone

buyers, especially young people.... **Intel** warned investors that slower than expected European sales of its computer chips had dampened third quarter revenues. Analysts attributed the decline in sales to the combined effect of Europe's especially high oil prices and the euro's record low value, which drove the cost for personal computers 15 to 20 percent higher. Intel's announcement induced a broad sell off in Europe's technology sector, catching investors off guard during a time when technology companies traditionally report gains.... Internet portal **Lycos Europe**, a joint venture between the US-based **Lycos Inc.** (which last month agreed to merge with Spain's **Terra Networks**, the Internet arm of telecom giant **Telefonica**) and German media giant **Bertelsmann**, agreed to pay \$573 million in stock for the Nordic web portal **Spray Network**. Lycos Europe officials expect the deal to more than double its monthly page views to 914 million. A spokesman said the company plans to seek further acquisitions.

—Peter Gwin

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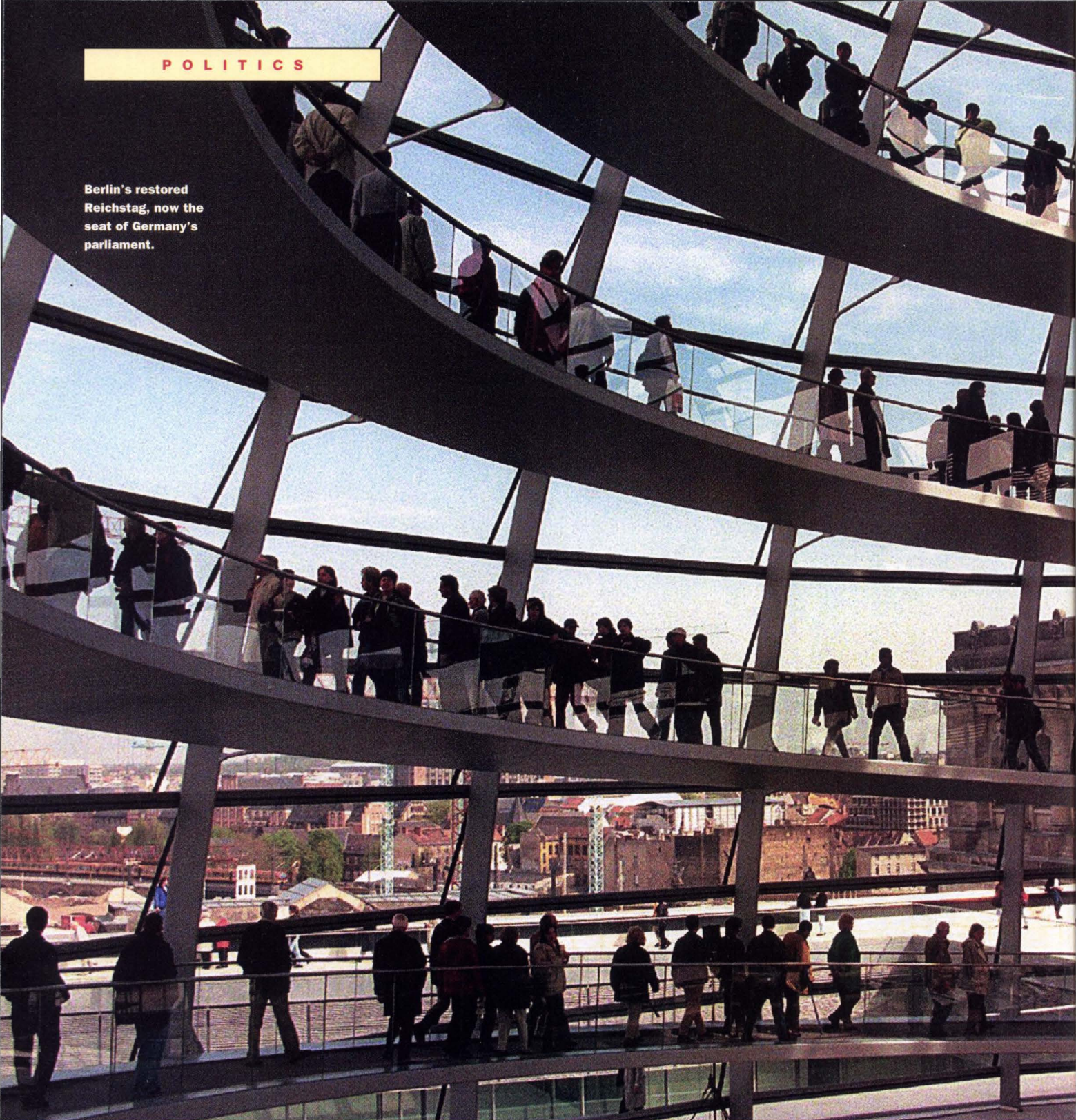
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Berlin's restored Reichstag, now the seat of Germany's parliament.



# Politics in Europe

## Europe's politicians





2000  
making

All politicians love to grandstand and what better opportunity for the leaders of the European Union than their summit in

December 7? For the benefit of the photographers, they can stroll along the Promenade des Anglais, with the winter sun glinting off the Mediterranean; for the benefit of the political analysts and policy wonks, they can announce far-reaching reforms for the EU's institutions; and for the benefit of their voters, they can proclaim that Europe is enjoying its most favorable economic circumstances in decades. The only question is whether the politicians' fine words can translate into worthwhile facts—and on what time-scale.

One obvious problem is the electoral calendar, that oft-disturbing necessity of democracy. Just as policymakers in the United States find themselves hamstrung by a constant cycle of elections—the House of Representatives and part of the Senate every two years and the presidency every four—so too with the European Union.

Indeed, with fifteen members, each with their own election cycle, the EU's tendency to paralysis is arguably even worse than America's. Can the EU, where any treaty change now requires unanimity, collectively forge ahead with institutional reform and the enlargement of its membership if individual member states are distracted by the immediate exigencies of domestic politics? Skeptics will point to the fact that the three EU economic and political heavyweights—France, Germany, and the United Kingdom—will all have to hold parliamentary elections within the next two years. That means their governments are already concentrating on the short-term goal of getting re-elected. In France, for example, the municipal elec-

tions due next March are being hailed as a trial run for the parliamentary and presidential elections due the following spring. In the United Kingdom, it seems more likely than not that Tony Blair, agonizing like his predecessors over the UK's potential acceptance of the euro, will call an early election next year, rather than wait until the spring of 2002.

A second problem is the risk that the unexpected (“events, dear boy, events,” as Harold Macmillan, a British prime minister in the 1960s, once said), will blow the EU off-course. How would the EU react if, for example, Wall Street stocks were to plummet and the American economy were to shudder into recession, with damaging repercussions for the whole world? Or if the Balkans were to explode again? Or if Russia were to become an unnervingly bad neighbor, especially to those former Warsaw Pact countries now waiting in line for EU membership?

One such “event” this year was the inclusion in February of Jörg Haider's far-right Freedom Party in Austria's governing coalition—provoking an unprecedented breaking by the other fourteen EU member states of their bilateral relations with Austria. By the start of the French presidency in July, some of the heat was going out of the dispute. It was not, however, just the Austrians who had reacted with dismay and anger (e.g. mutterings that Austria, if pushed too far, will block treaty amendments), so too, at least in private, did some of the applicant countries from ex-communist Eastern Europe. To them, the boycott of a democratically elected government smacked of an undemocratic heavy hand, with the thought that one day they, too, might feel it if the rest of the EU took exception, for example, to their treatment of ethnic minorities.

The third problem is one of scale. What the EU is attempting has no precedent in its half-century history: it is trying simultaneously to reform its or-

By John Andrews

haste slowly



# Tony Blair enthuses about a “third way” of politics with an evangelism that sometimes irritates his continental counterparts. But the fact remains that they are practicing this brand of capitalism with a social conscience.

ganization; define its future identity; and double its membership. Since there can be no doubling of the membership without a reform of the rulebook, and since the reform of the rulebook raises the electorally sensitive question of where the Union is headed, all three tasks are connected. In other words, the leaders at Nice face a tall order.

But at least the challenge is not impossible. One reason is that the EU's economy is in good health. In 1993, when the Union launched its single market, with the free movement of goods, capital, services, and people, its economy was in the doldrums and its unemployment rate was climbing to shameful heights. One year after the launch of the euro as the single currency to complete the single market, the collective economy is growing strongly (in some cases, such as Ireland's, rather too strongly for inflationary comfort) and unemployment is falling. True, the figures are a lot better on the other side of the Atlantic—which is why the euro has lost a quarter of its value against the dollar—but the comparison is irrelevant to most Europeans: what matters is that the figures have moved in the right direction. In essence, this is why ordinary Germans, who were reluctant to give up their

strong deutschemark, have worried so little about the decline of the euro that has replaced it.

The second reason is that the old ideological fault lines within the European Union (think back to the 1980s when privatizing, Thatcherite UK was so much at odds with nationalizing Mitterrandist France) have blurred almost into insignificance. Tony Blair, who has rebranded the UK's socialist party as “New Labor,” enthuses about a “third way” of politics, as advocated also by his friend Bill Clinton's New Democrats. True, he does this with an evangelism that sometimes irritates his continental counterparts, in particular France's Lionel Jospin. But the fact is that in a European Union dominated by center-left governments they, too, are practicing this brand of capitalism with a social conscience. Basically, they have no alternative: to qualify for the single currency meant cutting back on government spending; meanwhile, the rules of the single market forbid government protectionism. (The European Commission has recently taken action against France, for example, for its tardiness in opening its energy market.) Indeed, at a special Lisbon summit in March this year to prepare for the “knowledge-based economy,” the

British and Portuguese pushed through a collective commitment to free markets and deregulation—along with a commitment to “modernize the European social model”—that would have been inconceivable in the days of Thatcher.

But while the economy may be performing well and government leaders may be singing more or less in harmony, there is an important caveat to bear in mind. Throughout its history, from the days of Jean Monnet onward, the EU has always needed the impetus of two things to advance: the coordinated will of France and Germany and the drive of the Brussels-based Commission. The Maastricht Treaty, for instance, could not have been achieved without the determination of François Mitterrand and Helmut Kohl—nor without the intellectual energy and force of the Frenchman Jacques Delors, for ten years president of the Commission.

Despite a shaky start, when Gerhard Schröder warmed to Tony Blair more than to Lionel Jospin, the Franco-German engine is running smoothly again. The problem is the Commission. Its reputation sank in the second half of the 1990s with the lackluster, scandal-tainted era of Jacques Santer, a former prime minister of Luxembourg, and under his successor, Romano Prodi, the former Italian prime minister, it has yet to recover the dynamism of the Delors era.

Arguably, that may not be such a bad thing. One of the continuing problems for the EU, regularly revealed in opinion polls, is that it is too distant from its citizens, and one explanation for this is the so-called “democratic deficit,” in which national parliaments have lost some of their strength to an unelected Commission that has the power not just to execute EU policy but also to propose it. Since politics abhors a vacuum, where the Commission has lost ground, the Council of Ministers, representing the elected national governments, and the directly elected European Parliament in Strasbourg have gained ground.

The question is to what effect. While national governments remain mostly in the center-left of the political spectrum, the current European Parliament, elected in June 1999, is dominated (for the first time since direct elections were introduced in 1979) by the center-right. This circumstance points to an implicit



ideological tension that only worsens the institutional tension as national parliaments see their power ebbing toward Strasbourg. Is this a sound foundation for a debate on the EU's future?

Maybe not. But the debate is inevitable. The application process for Poland, Hungary, the Czech Republic, Slovenia, Estonia, and Cyprus is already underway, and in the pipeline are the candidatures of Malta, Lithuania, Latvia, Bulgaria, Romania, Slovakia, and Turkey. Given that the EU's institutional framework can barely cope with its current membership, significant changes are needed if the EU is to double in size (within a decade or so it could have nearly thirty members and 500 million people) and not come apart—a plausible risk since the applicant countries are all much poorer than the present members.

But what has to be changed? In May, Germany's foreign minister, Joschka Fischer, a member of the Green Party, threw down the gauntlet with some "thoughts on the finality of European integration." What he has in mind is a federal Europe based on the German model, with its own constitution, government, and directly elected president. Those, of course, are notions that instinctively alarm believers in the na-

tion-state, especially the French and the British.

Yet, if Fischer went too far for all but the federalist-minded Italians and Benelux countries, he did at least spark a flurry of ideas—especially from France. Center-right French politicians such as Alain Juppé (a former prime minister) and Jacques Toubon proposed a confederation of nation-states in which there would be no place for the Commission; President Jacques Chirac declared there should be a European constitution and that a group of "pioneering" countries—led by France and Germany—should be allowed to go farther and faster in the cause of European integration.

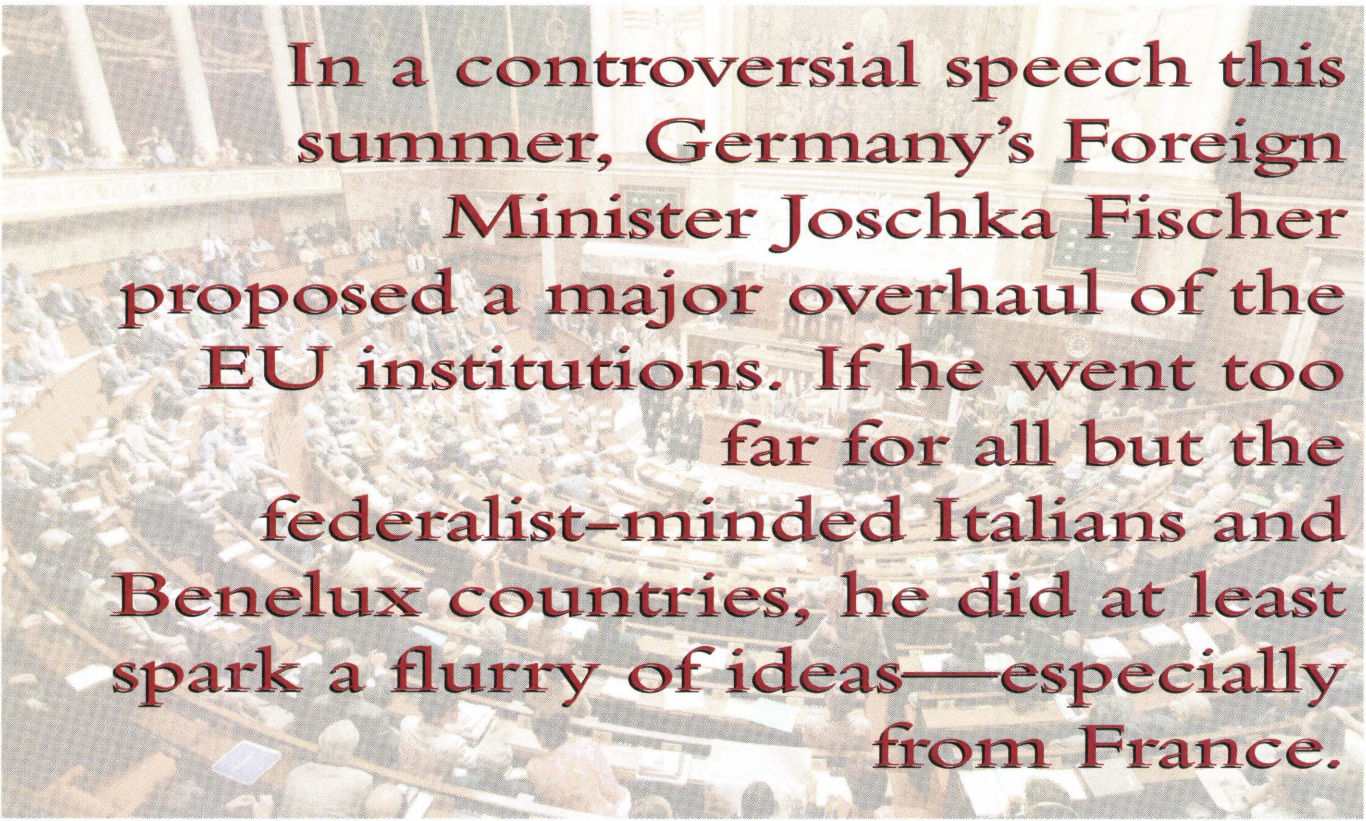
All of which makes for good headlines, but not necessarily for prompt action. Just as it takes the American political system a painfully long time to achieve fundamental change (think first of welfare reform and now of social security and health care reform), so too with Europe. In America, it is the separation of powers that prevents rapid action; in the EU, it is the separation of the nation-states, jealously guarding their national rights and mistrustful of Brussels in much the same way as an American state—Wyoming,

for example, or Texas—is suspicious of Washington, DC.

In other words, when the leaders gather in Nice, they will be fighting first and foremost for national, rather than European, self-interest. When it comes to allocating voting weights for a larger union, the big countries (led by France) will make sure they cannot be outvoted by the smaller countries. When it comes to economic issues, the British (with the approval, tacit or otherwise, of Luxembourg and Austria) will make sure the national veto remains for taxation and that the idea of fiscal harmonization—successfully rebuffed at the end of the Portuguese presidency—remains remote. Meanwhile, the small countries will do their best to boost the Commission as an unbiased referee, protecting them from the bullying big countries. When all that is added up, the result will surely be criticized—especially by the increasingly impatient candidate countries—as too little, too late. To which the sensible answer is the old adage that Rome was not built in a day and life has become a lot more complicated over the intervening centuries. ☹

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*John Andrews is the Paris bureau chief for the Economist and a frequent EUROPE contributor.*



**In a controversial speech this summer, Germany's Foreign Minister Joschka Fischer proposed a major overhaul of the EU institutions. If he went too far for all but the federalist-minded Italians and Benelux countries, he did at least spark a flurry of ideas—especially from France.**



# Who's Who in

By John Andrews



## AUSTRIA

Republic, with President Thomas Klestil, of center-right Austrian People's Party, as head of state. Bicameral legislature of the Bundesrat, which is elected by proportional representation, and the Nationalrat, which is directly elected by popular vote and is controlled by a coalition headed by Chancellor **Wolfgang Schüssel**, also of the People's Party. Last election was in October 1999. Protracted negotiations led to inclusion of far-right Freedom Party in government formed in February 2000. Next election due by October 2003.



## BELGIUM

Constitutional monarchy with King Albert II as head of state. Constitutional changes in 1993 made Belgium a federation of Brussels, francophone Wallonia, and Dutch-speaking Flanders. Bicameral federal legislature of Chamber of Deputies and Senate is controlled by a coalition led by Prime Minister **Guy Verhofstadt** of center-right Liberal Party. Last election was in June 1999; next is due in June 2003.



## DENMARK

Constitutional monarchy with Queen Margrethe II as head of state. The Folketing is a unicameral parliament elected by proportional representation from multimember constituencies. Prime Minister **Poul Nyrup Rasmussen** heads a Social Democrat minority government elected in March 1998. Next election is due in March 2002.



## FINLAND

Republic with Social Democratic Party's Tarja Halonen as president since March 2000. Social Democratic Prime Minister **Paavo Lipponen** heads a "rainbow coalition" government drawn from a unicameral legislature, the Eduskunta, which is elected by proportional representation. Last election was in March 1999; next is due in March 2003.



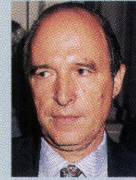
## FRANCE

Republic, with center-right President Jacques Chirac as head of state. National Assembly and Senate form bicameral legislature, with current government headed by left-wing coalition led by Socialist Prime Minister **Lionel Jospin**. Last parliamentary election, for single-member constituencies, was in June 1997; next is due in March 2002. The president is chosen by direct election in a two-round runoff. The last presidential election was in May 1995; next is due in May 2002.



## GERMANY

Federal republic with President Johannes Rau, from the Social Democratic Party, as head of state. Bicameral parliament is formed by the Bundestag (the lower house, elected by a combination of direct and proportional representation) and the Bundesrat (drawn from the various *länder*, or states). Chancellor **Gerhard Schröder**, of the Social Democratic Party, heads the present government in a center-left coalition with the Greens. The last election was in September 1998; the next is due in September 2002.



## GREECE

Republic with President Konstantinos Stephanopoulos as head of state. The unicameral legislature is the Vouli, elected by proportional representation. The current government is formed by the socialist PASOK party and led by Prime Minister **Costas Simitis**. The last election was in April 2000; the next must be by April 2004.

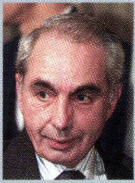


## IRELAND

Republic with President Mary McAleese as head of state. Bicameral legislature consists of the Dail and the Senate, with the present government being a center-right coalition led by Taoiseach (Prime Minister) **Bertie Ahern** of the Fianna Fail party. Elections are by proportional representation. The last was in June 1997; the next is due in June 2002.



# the EU A guide to the member governments



## ITALY

Republic with President Carlo Azeglio Ciampi, elected in May 1999 for a seven-year term, as head of state. Bicameral parliament of Chamber of Deputies and Senate is chosen by a mix of proportional representation and first-past-the-post contests. Governments change frequently: the current center-left coalition is led by Socialist Prime Minister **Giuliano Amato**. Last general election was in April 1996; next must be by April 2001.



## LUXEMBOURG

Constitutional monarchy (Grand Duchy), with Grand Duke Jean stepping down this year after thirty-one years as head of state in favor of his son, Henri. The center-right prime minister, **Jean-Claude Juncker**, heads a coalition government with the center-left Democratic Party. The unicameral Chamber of Deputies is elected by direct popular vote. Last election was in June 1999 with the next due in June 2004.



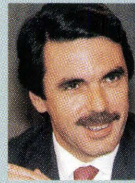
## NETHERLANDS

Constitutional monarchy with Queen Beatrix as head of state. Bicameral parliament, with Upper Chamber indirectly elected for four years and Lower Chamber directly elected by proportional representation for four years. Government is formed by largest party in the Lower Chamber and is currently a center-left and center-right coalition led by Prime Minister **Wim Kok** of the center-left PvdA party. Last general election was in May 1998; next is due in May 2002.



## PORTUGAL

Republic with as head of state Socialist Party's Jorge Sampaio, elected president for five years in January 1996. Unicameral Assembly of the Republic is elected by proportional representation. Current government, elected in October 1999, is led by Prime Minister **Antonio Guterres** of the center-left Socialist Party. Next parliamentary election is due in October 2003.



## SPAIN

Constitutional monarchy with King Juan Carlos as head of state. Congress of Deputies and Senate form bicameral legislature. Current center-right Popular Party government is led by Prime Minister **Jose Maria Aznar**. Elections are by proportional representation. Last election was in March 2000; next is due in March 2004.



## SWEDEN

Constitutional monarchy with King Carl XVI Gustaf as head of state. The unicameral Riksdag, or parliament, is chosen by proportional representation. The current government is a center-left coalition, led by Prime Minister **Göran Persson** of the Social Democratic Party. The last election was in September 1998; the next is due in September 2002.



## UNITED KINGDOM

Constitutional monarchy with Queen Elizabeth II as head of state. House of Commons and House of Lords form bicameral legislature. The government is formed by majority party in the House of Commons, currently the Labor Party (social democratic), led by Prime Minister **Tony Blair**. Last general election was in May 1997; next must be held by May 2002. Elections, won on a first-past-the-post system, are for single-member constituencies. Since 1999, Scotland has also had a separate parliament, and Wales its own assembly.

In 1998, elections were held for a Northern Ireland Parliament, which took office in 1999 but was suspended because of disputes among existing parties. It officially returned to office earlier this year.



# The Third Way

Politicians on both sides of the Atlantic are seeking a new middle ground.

By Martin Walker

Residents and prime ministers are busy people, who rarely get the chance to relax together, to chat informally about the deeper social tides and economic currents that influence all that they do. Their time is severely rationed, their days governed by a strict agenda, and even a long bilateral meeting between old colleagues tends to become a brisk negotiating session on urgent issues. So whatever else “the third way” has achieved, it has transformed the personal relationships between a critical mass of American and European leaders.

The process began in September 1997, when the newly elected British Prime Minister Tony Blair spent a day in New York with President Clinton and Vice-President Gore talking about what they had in common. They were leaders of traditionally center-left parties who had come to power insisting that their parties had to change, that the old ideologies of left and right had little meaning in the post-cold war era. They had both embraced free markets and free trade and believed that the role and budgets of their governments had become too big, and too inefficient. But they also felt that the classic free enterprise theories of the Reagan-Thatcher years of conservative political dominance lacked something essential, perhaps a sense of community, perhaps a sense of compassion for those citizens who had not done well from stock market booms.

Since that first meeting between Clinton and Blair, the British prime minister has hosted a similar session with top aides and ministers. President Clinton organized another meeting, with Tony Blair and Italian premier Romano Prodi (now president of the Euro-

pean Commission) in September 1998, and another immediately after the 1999 NATO summit in Washington; this time the new German chancellor, Gerhard Schröder, and Canada’s premier, Jean Chretien, joined the group. In Florence, Italy’s former Communist prime minister Massimo D’Alema, who had perhaps made the longest ideological journey to this new politics of what Bill Clinton called “the dynamic center,” organized a similar session, which was attended by French Socialist Prime Minister Lionel Jospin. And in Berlin last June, Chancellor Schröder ran another meeting, this time attended by Chile’s newly elected moderate Socialist leader Ricardo Lopez.

These sessions have been loose conversations and dialogues, rather than readings of prepared texts. They have looked at the problems of reforming welfare states, of combining social security for all with the freedom that allows individual creativity and entrepreneurship to thrive. They have talked about pensions and free trade and about deregulating government without giving up the state’s role in enforcing labor standards and environmental controls. It is becoming an almost ideology-free group of leaders, now including Spain’s conservative premier Jose-Maria Aznar.

They have not so much solved problems as pointed to the ways in which modern societies all confront broadly similar challenges, and their sessions have come to be based on the loose principle that everybody can learn from everybody else. As a pioneer in giving up the state’s role in providing old-age pensions to individually held investment accounts, for example, Chile’s experience has been useful to the US, Germany, Italy, and France as they con-

front their own demographic challenge of fewer and fewer people of working age being available to finance the pensions of ever more retirees. The sessions are so loosely structured and so lacking in the usual political attributes of formal communiqués and agreed decisions that the modern media has been at a loss to know how to report top-level meetings of this kind where the importance lies in the process rather than the product.

“Summits have traditionally been supposed to decide something, but these meetings are different. They explore ideas, share experiences, try to reach understandings,” says President Clinton’s aide Sidney Blumenthal, who organized the first such session and has been the White House “sherpa” preparing subsequent summits of what has come to be known as the third way. “They are seminars more than summits, opportunities for people who spend most of their time taking decisions to think about the broader context in which problems get to the point at which decisions have to be taken. The fact that these incredibly busy and overworked leaders keep coming back to these meetings—and the way their popularity has spread—shows that they find the process useful.”

In fact, “the third way” is an unsatisfactory title, suggesting that there is some new centrist ideology that splits the difference between traditional conservatism and traditional socialism, a bloodless compromise that can be all things to all voters. Some political scientists, most prominently Professor Anthony Giddens of the London School of Economics, have tried to define it. But Giddens, in his book *The Third Way* (Polity Press, London, 1998), while stressing that there is “a very funda-





In April 1999, President Clinton hosted a “third way” discussion in Washington with (from left) then Italian Prime Minister Massimo D’Alema, Dutch Prime Minister Wim Kok, UK Prime Minister Tony Blair, and German Chancellor Gerhard Schröder.

mental paradigm shift in politics,” poses the issue more as a series of political dilemmas than as answers. Tony Blair’s own pamphlet for the Fabian Society, the century-old Labor Party think tank, talks loosely of “a new politics for a new era...it’s about traditional values in a changed world.” For Blair and Clinton, the key to the third way could be summed up in Blair’s campaign slogan—“education, education, education—equipping our people with the skills and confidence to face the challenges of a new time.”

The impact of globalization—its opportunities and its costs—has weighed heavily on all the politicians involved. In an interview last year, Romano Prodi has suggested that it is the political version of the post-modernist phenomenon. “Just as post-modernist architecture feels free to draw on classical and modern and other styles and traditions, so post-modern politics cannot afford to be a prisoner of old ideologies,” he said.

Sweden’s Göran Persson and Finland’s Paavo Lipponen made a similar but broader point in separate interviews, suggesting that the social class system of old industrial societies no longer operated. “Traditional socialist

politics depended on a mass working class, but most advanced countries these days have a mass middle class, with different concerns and ambitions,” said Lipponen.

But if the third way is an attempt to come to grips with a world defined by aftershocks, after the cold war, after globalization, and after class politics, it is also deeply concerned with one age-old problem of politicians: getting elected. There is no doubt that Bill Clinton, Tony Blair, and Gerhard Schröder have all found the rhetoric of ‘new thinking’ hugely useful in their political campaigns. Clinton was the pioneer, stressing in his 1992 manifesto, *Putting People First*, that what he offered was “not the old brain-dead politics of the past, neither conservative nor liberal. It’s new and it’s different.” Tony Blair even renamed his party “New Labor,” and Gerhard Schröder campaigned as the voice of the *Neue Mitte*, the new center. They were thus able to persuade the voters that they were not the old “tax-and-spend” Democrats and Social Democrats of the discredited 1960s and 1970s and that they were not in thrall to the labor unions.

Beyond this community of political appeal, important differences remain.

France’s Lionel Jospin, while busily privatizing state-owned corporations faster than his conservative predecessor, emphasizes that while he accepts the market economy, his socialists “say no to the market society.” He has tried to preserve rather more of the traditional welfare state, which Clinton, Blair, and Schröder have been busily reforming. No other Western government has tried to follow Jospin’s policy of a thirty-five-hour working week. It is also important to distinguish between different aspects of the third way. Most of the seminar participants accept the economic transformations of free market and free trade. However, not all accept Clinton’s argument that government should no longer be seen as the dominant force in society but as “enabler and catalyst, a partner with private sector and community groups.” All the Europeans (whose governments tend to spend around 40 percent of gross domestic product compared to around 30 percent in the US) see the role of government as more important than that.

Conservatives, who enjoyed the political benefits of a thrusting new free-market ideology in the 1980s, when Ronald Reagan, Margaret Thatcher, and Helmut Kohl were in power, are skeptical



# The Intellectuals of the Third Way

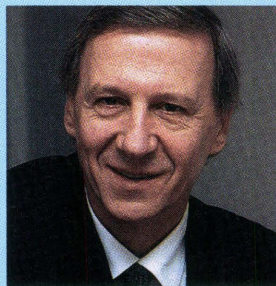
The academic most identified with the third way and author of an eponymous book on the theme is the director of the London School of Economics, Professor Anthony Giddens. He regularly joins the Blair-Clinton seminars and has been the most outspoken protagonist of the third way as “an integrated political program covering each of the major sectors of society.”

His book suggests that the third way is a coherent and flexible response to the five dilemmas that confront modern government. The first is that traditional definitions of national sovereignty are being eroded, not only by the new phase of globalization, but also by its more traditional forms like the collective defense through NATO and international financial institutions like the World Bank and IMF. The second is that the old left-right dichotomy of politics no longer explains very much, although the “left” generally tends to prefer social justice while the “right” stresses economic opportunity. The point is, Giddens argues, that voters and citizens are being empowered by “a new individualism,” in which the traditional one-size-fits-all social policies of state pensions and education systems are less and less suited to more and more people. Rather than imposing common solutions, the new third way state should seek to facilitate choice. Third, a new category of political issues has emerged, such as devolving power to regions, tackling environmental problems and global warming, or in the United Kingdom’s case the degree to which it should commit its future to Europe, where

left-right divisions are irrelevant. Fourth, governments still have unique and crucial roles, in passing laws and assuring national security, even while they have to accept the participation of interest groups and non-governmental organizations into the policy-forming debate. Finally, politics must retain its crucial role because technocrats are not enough. Witness the way scientists differ over global warming and experts disagree over the precise origins and policy responses to events like the outbreak of mad cow disease in the United Kingdom. Despite scientific differences, somebody has to make decisions, and elected governments who are answerable to the voters should do so.

Other important thinkers in the third way mix include pioneers like Al From and Elaine Kamarck. They established the Democratic Leadership Conference in the US in the 1980s, when Ronald Reagan and the free market theories of Milton Friedman were sweeping all before them, and the old Democratic party ideas seemed outdated and hollow. At the Progressive Policy Institute, Kamarck explored ideas for welfare reform, for bringing the work ethic back to a class of poor and undereducated people who were becoming increasingly dependent on a welfare culture. The new politics, she stressed, should emphasize and reward work, and from this came the argument that citizens had responsibilities, to themselves, their families, and society as a whole, as well as rights.

Professor Amitai Etzioni of George Washington University has focused on this



**Third Way author Anthony Giddens**

crucial relationship between rights and responsibilities. His pioneering work has centered on the nature of communities and the need to reassert it in an America where every year one household in seven moves home and where the old structures of social cohesion, like churches and stable marriages and parent-teacher associations, are losing their grip. Tony Blair has hailed Etzioni’s work, particularly for its assertion that law and order are not gifts to be handed down from police and government but the direct responsibilities of communities to take responsibility for themselves.

A crucial feature of the third way and its relationship to academic thinkers is that the modern political leader is, almost without exception, a college graduate, and in the cases of Bill Clinton and Romano Prodi, they also have post-graduate degrees. They are people at home with intellectual debate and move easily between university and government. This commonality helps explain why they all stress education is the real key to the third way, including the prospect of lifetime education in which ordinary voters can expect to return to training sessions, diploma programs, and other courses long after their conventional education is finished.

—Martin Walker

of third way rhetoric. “It sounds to me like a clever way to cover a long political retreat from all those disastrous years when the liberal-left was defending big government, big taxes, and big welfare,” says conservative Senator Phil Gramm. “They know Reagan and Thatcher were right but can’t quite bring themselves to admit it.” The Tory leader in the United Kingdom, William Hague, suggests that the third way is really “an absence of ideology, it’s about the fact that the old left simply has nothing left to believe in except that they will do and say just about anything to get into power.”

One development the third way has very nearly achieved has been to blur, if not to end, that old distinction between the “Anglo-Saxon” and the “Rhineland” (or Franco-German) models of society. The Anglo-Saxons were aggressively in favor of free markets, privatizing state industries, deregulation, and fierce competition, while cutting taxes and paring back the social safety nets for the less fortunate. The Rhineland model preferred a leading strategic role for the state in economic planning, generous social systems, protection for their farming and cultural industries, and far more consultation between labor and management in industry. While distinctions remain, and Blair’s Labor Party and Schröder’s Social Democrats remain far more dependent on the backing of labor unions, the old gap between Anglo-Saxons and Rhinelanders has narrowed dramatically. Nevertheless, Clinton and Blair so far remain alone in their emphasis on the way a smaller government needs more from the citizen; that the individual voter must take more responsibility for his or her education, pension, and other life choices in a world where the average employee can expect to change jobs five or six times in a working lifetime.

The real test for the future will be to see whether the rhetoric and the meetings of the third way leaders survive the retirement next year of President Clinton, although



# Business and the Third Way

It has been commonplace in the US, France, and Italy for top businesspeople to join governments as senior ministers. Therefore, few eyebrows raised when Wall Street financier Robert Rubin joined the Clinton administration as secretary of the Treasury. Neither was there undue notice paid when the American and British-educated economist Romano Prodi, who spent nearly a decade running Italy's giant state conglomerate INI, launched the bus tour campaign that carried him to the prime ministership and subsequently to be president of the European Commission.

But in the United Kingdom, and particularly for the British Labor Party, it has been rare for business leaders to join governments that have traditionally been rooted in the labor unions and whose party constitution until 1996 committed the party to nationalizing industry. Tony Blair has changed all that. One of the clearest symbols of his difference from traditional Labor politics was his energetic recruitment in UK boardrooms. A survey last year by the *Economist* found that twenty-eight out of the UK's top 100 companies, the ones that make up the FTSE-100, which dominates the London Stock Exchange, had been persuaded to lend their chairman or chief executive to the government as a part-

time adviser. Some went full time. Lord Simon gave up the chairmanship of British Petroleum, and Lord Sainsbury gave up his role in his family's giant supermarket chain to become junior ministers under Blair. Others, including GEC chief executive George Simpson and Andrew Stone, managing director of the Marks and Spencer retail chain, accepted peerages to sit with Labor in the House of Lords.

"Nobody now would think it odd for a leading businessman to support the Labor Party," commented Adai Turner, then-head of the Confederation for British Industry, who noted that he often found a more sympathetic ear in Number 10, Downing Street once Blair replaced former Tory leader John Major. One reason for this has been Blair's clear embrace of Europe and his determination to make the United Kingdom into a leading and cooperative member of the European Union, after the long and frustrating years of sniping and semi-detachment under the Conservative governments of Margaret Thatcher and John Major. Another reason has been Labor's determination to keep government in its place, which need not include day-to-day control of the economy. One of the Blair government's first acts was to give the Bank of England its independence, by handing over the power of

setting interest rates.

Inevitably, this unprecedented cooperation between Labor and business has had its problems. Blair's business supporters are now feeling the strain of the debate over whether or not to join the euro, Europe's single currency. Most business leaders want in, along with most of the City of London, but Blair is playing the issue cool, at least until the next election is out of the way. The timetables of politicians are governed by elections and opinion polls; a fact of public life that impatient business leaders are finding out the hard way.

Then business was caajoled and pressured into sponsoring the exhibits at the billion-dollar white elephant of the Millennium Dome, a grandiose exhibition hall whose relative failure in the market has soured the experience for many. Then Blair's enthusiasm for rebranding Olde Englande as Cool Britannia helped persuade British Airways boss Lord Ayling to scrap the Union Jack motif on the tails of his jets and replace them with colorful, indeed almost psychedelic patterns, from all over the world. This change proved unpopular with many customers, and Lord Ayling, bruised by BA's falling profits and by the Millennium Dome's troubles, has now moved on. In addition, Lord Sainsbury suffered the kind of personal attacks that only



Lord Simon left British Petroleum to work in the Labor government.

seem possible in politics, over the government's controversial policy on genetically modified foods, while watching his family firm falter and its share price drop.

As a symbol of his commitment to a third way in which Labor was no longer automatically loyal to the labor unions, his wooing of business has been a striking success. This achievement reflects the ideology-free pragmatism of a politician who claims "what counts is what works." It remains to be seen how long this will last. The way in which top businesspeople have always been available to US governments—from FDR's "dollar-a-year" men brought in to battle the Great Depression to the way William Perry was recruited from the defense industry to run President Clinton's Pentagon—has not yet become a commonplace feature of British public life. If and when it does, that will count as a signal feature of the third way in a country whose politics were so long divided between the workers' party and the Tories, largely composed of their landowners and bosses.

—Martin Walker

the prospect of Clinton founding and helping run a permanent new international institute of the third way is under discussion at the White House. Al Gore, if he wins the presidential election, will doubtless keep it; George W. Bush would probably drop it, although Bush's Republicans have at least copied the third way leaders in pursuing far more vigorously meetings with their British and German conservative colleagues.

The success of the third way so far rests very heavily on the personal chemistry and affinities between Clinton, Blair, Prodi, and Schröder. It has become a unique mechanism for furthering US-European ties beyond the old structures of a common security through NATO. For that reason alone, since the US and EU between them account for fifty percent of global gross domestic output, two-thirds of global trade, and three-

quarters of global investment, if the third way did not exist, it might be necessary to invent it. ☹

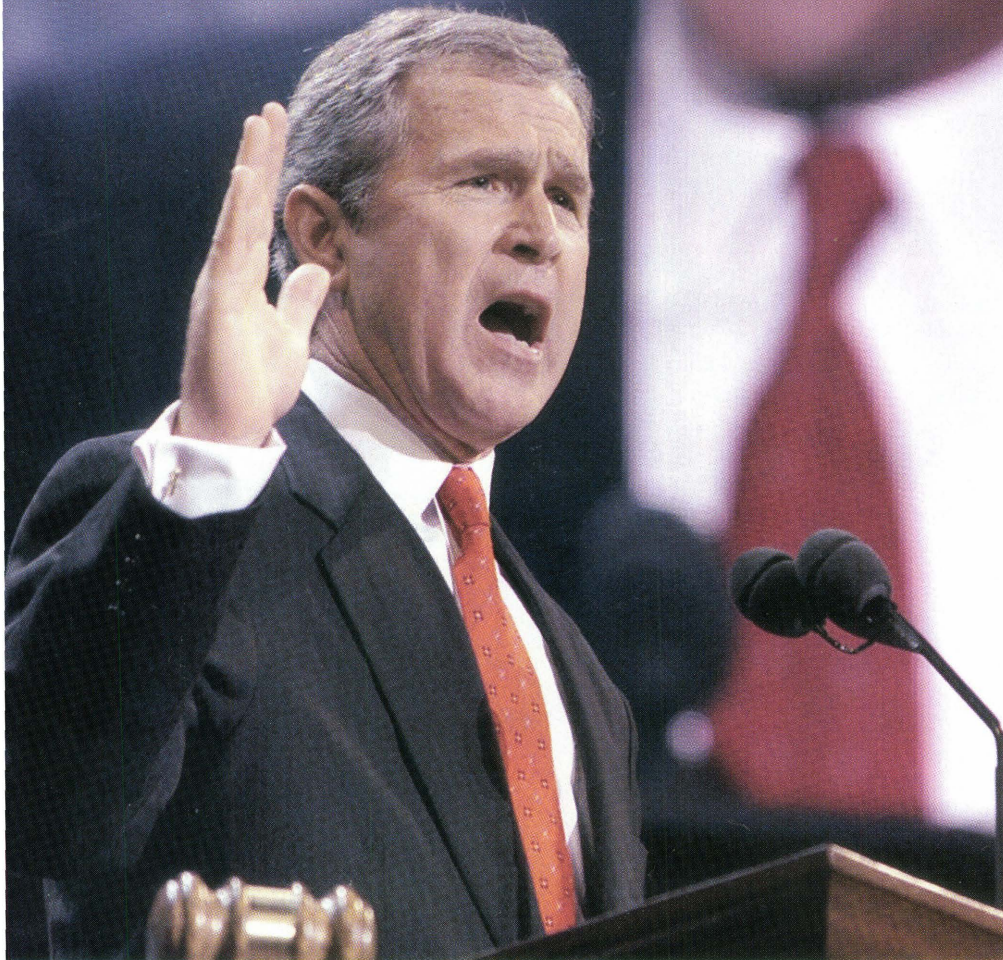
*Martin Walker served stints as head of the Moscow, US, and European bureaus for the UK newspaper the Guardian. Now based in Washington, he is a EUROPE contributing editor and a public policy fellow at the Woodrow Wilson International Center.*



# The Candidates

"The duties of our day are different. But the values of our nation do not change. Let us reject the blinders of isolationism, just as we refuse the crown of empire. Let us not dominate others with our power—or betray them with our indifference. And let us have an American foreign policy that reflects American character. The modesty of true strength. The humility of real greatness."

—Governor George W. Bush



Texas Governor George W. Bush and Vice-President **Al Gore** offer their views on US/European issues facing the next president.

*Earlier this year EUROPE invited the Democratic and Republican presidential candidates to participate in a roundtable discussion on foreign policy issues facing the United States and its next president. Through their respective campaign organizations, both declined our invitation, as well as subsequent requests for one-on-one interviews. Undaunted, we researched both candidates' public comments on several major European issues and present them here.*

## On security in the post-cold war era:

**Gore:** "We are now in a new era. To label this time the 'post-cold war era' belies its uniqueness and its significance. We are now in a Global Age. . . . Today, at the dawn of the twenty-first century, we need a foreign policy that addresses the classic security threats—and understands the new ones as well. We need a new approach for a new century—grounded in our own economic and security interests but uplifted by what is right in the world. We need to pursue a policy of 'forward engagement'—addressing problems early in their development before they become crises; addressing them as close to the source of the problem as possible; and having the forces and resources to deal



# on the Issues

with those threats as soon after their emergence as possible. We need a new security agenda for the Global Age based on forward engagement.”

**Bush:** “America will not retreat from the world. On the contrary, I will replace diffuse commitments with focused ones. I will replace uncertain missions with well-defined objectives. This will preserve the resources of American power and public will. The presence of American forces overseas is one of the most profound symbols of our commitment to allies and friends. And our allies know that if America is committed everywhere, our commitments are everywhere suspect. We must be selective in the use of our military, precisely because America has other great responsibilities that cannot be slighted or compromised. And this

review of our deployments will also reduce the tension on an overstretched military. Nothing would be better for morale than clarity and focus from the commander-in-chief.”

## **On relations with Russia:**

**Gore:** “We have worked hard these past seven years to help Russia make a transition to a market-based democracy. We have helped Russia privatize its economy and build a civil society marked by free elections and an active press. We have brought Russia into a working relationship with NATO through the Permanent Joint Council and the Partnership for Peace program. We have been able to work with Russian forces successfully inside a NATO framework in the Balkans. We have helped safeguard Russian nuclear material against the danger of theft. We

have made it possible for thousands of Russia’s nuclear scientists and weapons experts to find peaceful pursuits. And we have helped Russia to reduce its nuclear arsenal by nearly 5,000 warheads.

The work has not been without difficulty, or controversy. We strongly disagree with Russia’s course in Chechnya. Russia must intensify its own work to stop the flow of dangerous technologies that irresponsible groups and rogue states can use to create weapons of mass destruction. Russia must still take decisive steps to combat corruption and achieve reform. But a new cold war is not the right path to progress. Engaging Russia is the right thing to do....”

**Bush:** “Dealing with Russia on essential issues will be far easier if we are dealing with a democratic and free Russia. Our

“I have always believed that America needs a strong Europe—as an economic partner, helping to shoulder the burdens of global economic leadership in the global economy, and also as a security partner, to work with us in defending freedom and democracy against rogue states and dictators in this post-cold war world.... Only by helping to spread freedom, democracy, and free markets throughout the world can we sustain global peace and prosperity in the twenty-first century.”

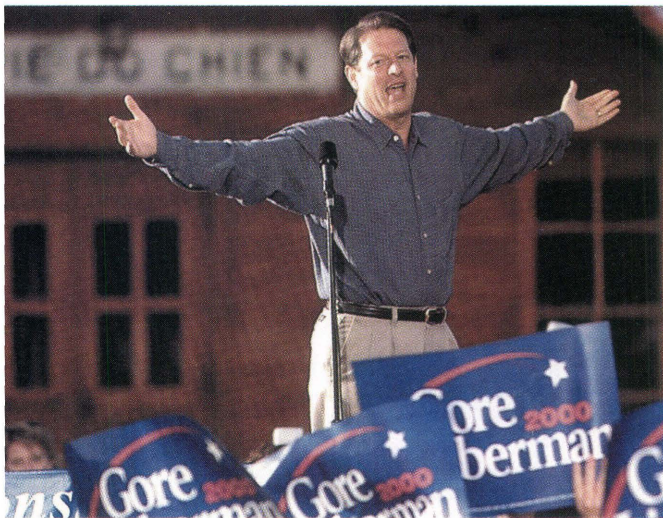
—*Vice-President Al Gore*





goal is to promote, not only the appearance of democracy in Russia, but the structures, spirit, and reality of democracy. This is clearly not done by focusing our aid and attention on a corrupt and favored elite. Real change in Russia will come not from above, but from below, from a rising class of entrepreneurs and business people, from new leaders in Russia's regions who will build a new Russian state, where power is shared, not controlled. Our assistance, investments, and loans should go directly to the Russian people, not to enrich the bank accounts of corrupt officials.

America should reach out to a new generation of Russians through educational exchanges and programs to support the rule of law and a civil society.... We cannot buy reform for Russia, but



we can be Russia's ally in self-reform.

Even as we support Russian reform, we cannot excuse Russian brutality. When the Russian government attacks civilians—it can no longer expect aid from international lending institutions. The Russian government will discover that it cannot build a stable and unified nation on the ruins of human rights. That it cannot learn the lessons of democracy from the textbook of tyranny. We want to cooperate with Russia on its concern with terrorism, but that is impossible unless Moscow operates with civilized self-restraint.”

### On NATO:

**Bush:** “For NATO to be strong, cohesive and active, the president must give it consistent direction: on the alliance’s purpose; on Europe’s need to invest more in defense capabilities; and, when necessary, in military conflict.

To be relied upon when they are needed, our allies must be respected when they are not. We have partners, not satellites. Our goal is a fellowship of strong, not weak, nations. And this requires both more American consultation and more American leadership. The United States needs its European allies, as well as friends in other regions, to help us with security challenges as they arise. For our allies, sharing the enormous opportunities of Eurasia also means sharing the burdens and risks of sustaining the peace. The support of friends allows America to reserve its power and will for the vital interests we share.”

**Gore:** “The Clinton-Gore administration strongly supported the accession of Poland, the Czech Republic, and Hungary as a milestone in building a stronger NATO and a more democratic and unified Europe. [I look] forward to bringing in additional qualified members to NATO in the future who share our values and are willing to take on the responsibilities of membership.... Under US leadership, NATO has therefore re-invented itself to take on the challenges of the twenty-first century. [I] will work with our allies to make sure the alliance has the strength and capabilities to meet those challenges.

As president, [I] will ensure that NATO remains the linchpin of transatlantic security and an anchor of American security engagement in and with Europe. [I] will ensure that NATO, as a military alliance, remains capable of carrying out its core missions in a new Europe. As the leading force for European stability, NATO must also play a leading role in promoting a more integrated and secure Europe and responding to new challenges. The lesson of the twentieth century—the bloodiest in Europe’s history—is that the US and Europe must continue to stand together.... The Clinton-Gore administration has strongly supported a stronger Europe and a more balanced alliance through the creation of a stronger European pillar through a European Security and Defense Initiative (ESDI).

NATO is the institution we turn to when we need to act together with Europe. But there may be situations in which the US opts not to participate in a conflict in Europe. [I support] the creation within the European Union of a European Security and Defense Policy (ESDP) as part of a Common Foreign and Security Policy. Together with our European partners, we must work together to build a stronger NATO-EU link that strengthens and does not weaken the transatlantic link.”

### On the Balkans:

**Bush:** “As president, I will order an immediate review of our overseas deployments—in dozens of countries. The longstanding commitments we have made to our allies are the strong foundation of our current peace. I will keep these pledges to defend friends from aggression. The problem comes with open-ended deployments and unclear military missions. In these cases we will ask, ‘What is our goal, can it be met, and when do we leave?’

As I’ve said before, I will work hard to find political solutions that allow an orderly and timely withdrawal from places like Kosovo and Bosnia. We will encourage our allies to take a broader role. We will not be hasty. But we will not be permanent peacekeepers, dividing warring parties. That is not our strength or our calling.”

**Gore:** “The Clinton-Gore administration’s efforts in Bosnia and Kosovo are essential to our broader vision of a unified Europe. This region requires an integration strategy that promotes regional cooperation and reconciliation. Our vision of a Europe whole and free will not be complete unless and until we succeed in winning the peace in the Balkans and integrating southeastern Europe into the European and transatlantic mainstream.

In Bosnia, NATO-led forces are contributing to that goal by providing a secure environment and essential support for broader progress in implementing the Dayton Accords. The administration brokered the Dayton Accords, which remain the best hope for creating a self-sustaining peace in Bosnia.

In Kosovo, the United States led NATO’s successful air campaign.... NATO won the war and stopped ethnic cleansing. Now the international com-



munity must work together to win the peace.

As president, [I] will continue to support the efforts of the European Union, the Organization for Security and Cooperation in Europe, and the United Nations to promote reconciliation and reconstruction in Kosovo.

While the US bore a major burden of the initial military effort in Bosnia and Kosovo, our European allies have since shouldered the lion's share of the burden by providing an overwhelming majority of the troops needed to provide a secure environment. Similarly, our European allies are also providing the majority of the funds for the reconstruction of the Balkans. As president, Al Gore will continue to ensure that burden-sharing arrangements in the Balkans are equitable."

### On the ABM treaty and missile defense

**Gore:** "I favor—and we are negotiating with the Russians—changes in the ABM treaty that would lead to a responsible and practical defense against a nuclear attack from a rogue state."

**Bush:** "My second goal is to build America's defenses on the troubled frontiers of technology and terror. The protection of America itself will assume a high priority in a new century. Once a strategic afterthought, homeland defense has become an urgent duty. . . . At the earliest possible date, my administration will deploy antiballistic missile systems, both theater and national, to guard against attack and blackmail. To make this possible, we will offer Russia the necessary amendments to the antiballistic missile treaty—an artifact of cold war confrontation. Both sides know that we live in a different world from 1972, when that treaty was signed. If Russia refuses the changes we propose, we will give prompt notice, under the provisions of the treaty, that we can no longer be party to it. I will have a solemn obligation to protect the American people and our allies, not to protect arms control agreements signed almost thirty years ago."

### On trade:

**Bush:** "The next trade round should level the agricultural playing field once and for all by completely eliminating agricultural export subsidies and tariffs

worldwide. [I support] efforts for a so-called 'single undertaking', or a big package in the next round of trade negotiations, in order to ensure maximum negotiating leverage."

**Gore:** "We need not only open trading systems, but systems that work for people around the world—taking into account not only the bottom line, but the well-being of working men and women, the protection of children against sweatshop labor, and the protection of the environment. We have to ratify the Kyoto Agreement while making sure that all nations—developed and developing—do their part to reduce greenhouse gas emissions. In addition, we should take steps to boost the export of environmentally-clean technologies, an area where we have a decisive trade advantage. It is not only good for the environment. It is good for economic growth."

### On genetically modified food:

**Gore:** "As with any new technology, [I believe] we must carefully weigh the risks and benefits of genetically modified organisms, particularly with respect to food safety and potential environmental impacts. [I support] the administration's initiative, announced in May 2000, under which it will work with stakeholders to create reliable testing procedures and quality assurance programs for differentiating non-bioengineered commodities to better meet the needs of the market."

**Bush:** "In 1999, 50 percent of the soybeans, 40 percent of the cotton, and about one-third of the corn produced in the US [was] genetically modified. The European Union, however, imposed a moratorium on the import of new biotech crops. Additionally, despite a ruling at the World Trade Organization, the European Community continues to ban the import of US beef treated with growth hormones. World Trade Organization rules clearly state that health and safety regulations must be based on sound science. As president, [I] will fight to ensure that US products are allowed entry into the European Union

and require them to use accepted scientific principles in enacting their regulations."

### On the United Nations:

**Bush:** "I will never place US troops under UN command—but the UN can help in weapons inspections, peacekeeping, and humanitarian efforts. If I am president, America will pay its dues—but only if the UN's bureaucracy is reformed and our disproportionate share of its costs is reduced."

**Gore:** "Through the United Nations, the US can build critical international support for issues and policies important to our foreign policy goals and also share the financial and resource burden with other countries. We have



made considerable progress on reforming the UN so that it is better able to deliver 'value for money.' The World Food Program, the High Commissioner for Refugees and other agencies of the UN offer the US an effective means of helping to alleviate suffering in some of the most vulnerable corners of the globe."

*Bush's comments were taken from speeches at the Citadel in Charleston, South Carolina, September 23, 1999 and at the Ronald Reagan Presidential Library in Simi Valley, California, November 19, 1999 and his campaign web site, georgewbush.com. Gore's comments were taken from his speech to the International Press Institute in Boston, Massachusetts, April 30, 2000, his remarks at an interactive town hall meeting on March 30, 1999, and his campaign web site, algore2000.com.*





European  
Parliament  
plenary  
session in  
Brussels.

ist judging by her call for social protection for workers. The EPP group was astonished.

Nevertheless, the Socialists, the second-largest party with 180 seats, have not been able to exploit their opponents' difficulties. Socialist numbers and morale have been depleted. The group's leader, Spaniard Enrique Barón Crespo, has not proved able to inspire his members.

All this has helped put an end to the old ways of doing business under which these two big groups would stitch up a deal between themselves and then carry the vote over all others by sheer weight of numbers. Now it is the smaller parties, better organized and more coherent, that have come to the forefront.

*EUROPE* recently conducted an arbitrary poll of members, officials, and observers in the European Parliament to see who was thought to have made the biggest impact over the year. Two names were mentioned by almost everybody: Pat Cox, the Irishman who leads the Liberals, and Heidi Hautala, the Finnish leader of the Greens.

By common consent, Cox has welded his fifty Liberal members into the most disciplined force in the Parliament. Through an unwritten deal with the EPP, Cox has given the center-rightists his support in exchange for their backing for his candidacy as president of the Parliament at the end of next year. The forty-eight-year-old former university lecturer and television presenter, who enjoys quoting Edmund Burke, will be a popular and effective president if his skillful performance over the past year is any guide.

Heidi Hautala, forty-four, is one of a breed of Finns whose influence in Strasbourg far outweighs the size of their remote northern country. She won a high-profile court case against EU member governments over the publication of secret arms export documents, has campaigned effectively to control automobile emissions, and has boldly raised the awkward matter of members' expenses. Like Cox, she is articulate and media friendly. Quite a few observers now see these two as parliamentary heavyweights of the future. ☺

*Alan Osborn is EUROPE's Luxembourg correspondent.*

# Parliament Watch

By Alan Osborn

Looking for future

## heavyweights in the European Parliament

It has been a year since elections to the European Parliament, and *EUROPE* wondered how the new group of MEPs had performed. You may recall that the 1999 vote put an end to the Socialists' twenty-year domination of the Parliament, with the center-rightists—the European People's Party (EPP)—emerging for the first time as the largest single group with 225 of the assembly's 626 members. It looked as if the Parliament was set to become a little more business friendly and less of an activist on the environmental front.

Indeed, this change has occurred, but not in any very striking way. You could not say that the political complexion of the Parliament has altered dramatically. That may be largely due to internal difficulties in the EPP group.

The EPP members agree on many social, environmental, and economic

matters but are split on a number of fundamental questions. These include the unification of Europe (count the British members out please) and the treatment of Austria after the rise of Jörg Haider and the Freedom Party (pitting the pro-Austria German members against the French). Some in the party also say the European Commission should be supported as an engine for strengthening the Union, while others say it is too leftist and should be opposed.

An illustration of how hard the EPP leader, the German Christian Democrat Hans-Gert Pöttering, is having in controlling his disparate flock came when Nicole Fontaine, the president of the Parliament, delivered a provocative address at the EU summit meeting in Lisbon in March. Fontaine is a French EPP member, but you would have thought she was a card-carrying Social-



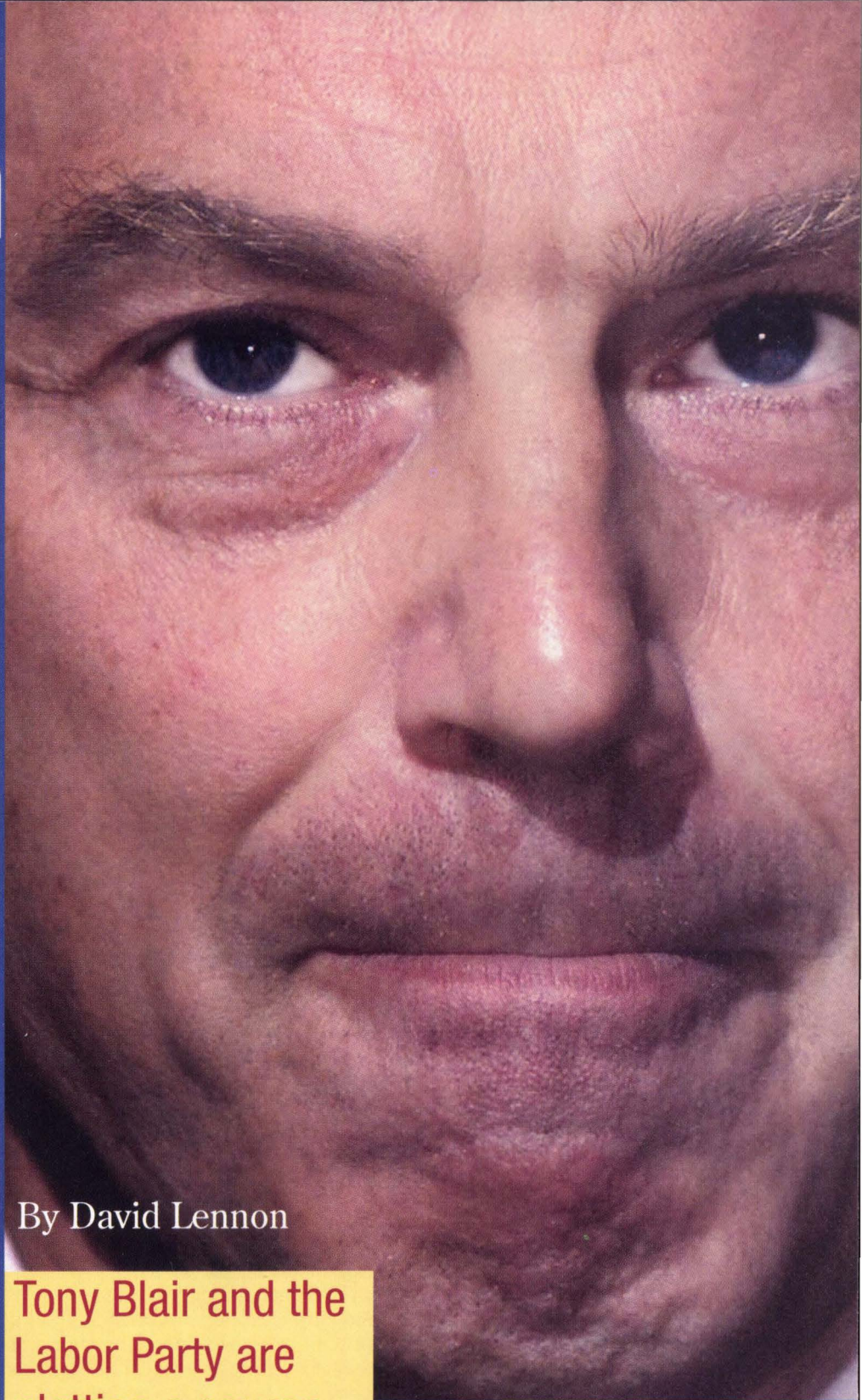
# Election Battle Looms

The United Kingdom is heading for a general election early next year and the political parties are already gearing up for the battle. Prime Minister Tony Blair does not have to call an election so soon, but he and the party believe the timing will be right by May. By then, Labor will have had four years in power, and many of their policies should be bearing visible fruit. No government can please all the people all the time, but it has done some things right. Unemployment is down and still falling; inflation and mortgage rates remain low; the national debt has been cut from \$72 billion to just \$9 billion; and Chancellor Gordon Brown, having got public finances in shape, has announced a \$65 billion spending package to help modernize the UK's ailing public services.

More encouraging for Blair is that Labor is still ahead in the opinion polls, despite a summer of damaging leaks about fears within the leadership that its popularity is fading. Even allowing for this late mid-term wobble, Labor has remained more popular than the opposition throughout its three years in office, something no government has achieved in sixty years of polling.

Many Labor supporters have been irritated or even disappointed by specific government measures, or the absence of them, during the first three years of the Labor government. However, not enough of the middle-ground people who voted Labor in 1997 seem ready to unseat the government by voting Conservative.

Of course, not everything in the Labor garden is rosy. During the summer, the government appeared to be floundering, riven by internal rows, leaks, and splits. Too much spin, too many empty sound bites was the com-



By David Lennon

**Tony Blair and the Labor Party are plotting a course for a second term, and the Conservatives are determined to give them a race.**

plaint. The tight control over his party colleagues that helped Blair win power is beginning to unravel as ideological and personal feuds resurface within a party confident of winning the next election.

The failure of his clumsy efforts to stop Labor left-winger Ken Livingstone from becoming London's new mayor and the forced resignation of Blair's





**William Hague and the Conservatives will continue to hammer away at Labor with a Euroskeptic theme.**

choice for leader of the Welsh Assembly damaged the prime minister's aura of invincibility. A disastrously ill-judged and ill-received political speech to the blue-rinse ladies of the Women's Institute did further harm.

Whatever his problems, Tony Blair is still blessed by having an opposition that has chosen to position itself on the authoritarian, anti-Europe right. Conservative leader William Hague has managed to rattle the premier in parliamentary debates, but his standing with the electorate, if pollsters are to be believed, is still demoralizingly low.

Because Labor has occupied the middle ground, the Tories chose to move right to distinguish themselves, but as yet they have to find a credible and broadly based platform that will convert disappointment with Labor into votes for the Conservatives.

The issue of joining the European single currency club will loom large at the elections. Labor effectively dampened internal opposition by declaring in favor of the euro in principle, while insisting that the economic conditions had to be right before this issue was put to the people in a referendum.

Chancellor Brown set out a list of

five criteria that must be met before he will advocate membership. If a single currency is good for British jobs, business, and prosperity, then "it is right in principle to join," Brown explained, holding out the prospect of joining monetary union early in the next Parliament.

Brown may still have to sell the idea to Blair, who is politically more nervous about the issue. As Charles Kennedy, leader of the Liberal Democratic Party, the third force in UK politics, says, "Blair is sitting on the fence regarding the euro and being ambiguous in his declarations."

The chancellor's five economic tests for euro membership refer to the impact on jobs, investment, the impact on financial services, the convergence of business cycles, and whether there is enough flexibility in the EMU system to deal with problems if they arise.

All polls show that the UK electorate remains very skeptical about closer union with Europe, and Hague and the Conservatives will hammer away at this theme during the election campaign. Opposing ceding any more power to the faceless bureaucrats in Brussels is a popular theme that will win votes.

The opposition can also attack the government over increased indirect taxes, a still ailing National Health Service, poor public transport, slow progress on improving schools, and rising crime statistics. However, Labor will be able to counter by pointing to the long-term benefits that will come thanks to the huge new spending plans announced this summer.

The elections expected next year likely will see Labor's overwhelming 176-seat majority in Parliament sharply reduced, though it should still hold a comfortable double-digit majority. Nonetheless, the loss of seats will put Tony Blair under pressure after the election, and the main beneficiary will be his ally and rival Gordon Brown.

If it loses the election, as expected, the Conservative Party likely will endure a power struggle, and such tumult should play into the hands of "shadow chancellor" Michael Portillo, whose return to the opposition front benches has reinvigorated a Conservative Party that seems increasingly out of touch with mainstream voters. ☹

*David Lennon is EUROPE's London correspondent.*



# EUROPE

## update

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### WHAT THEY SAID: EUROPEAN COMMISSIONER CHRIS PATTEN

*European Commissioner for External Affairs Chris Patten traveled to the US last month for meetings at the State Department in Washington and the United Nations General Assembly in New York. During his stop in Washington, he answered questions for EUROPE on EU-US trade relations, the Balkans, Russia, and China.*



#### **What is the EU doing to keep the peace in the Balkans?**

One area where the credibility of our aspirations is very much on the line is in, of course, the Balkans, where we're providing, as is only right, after the conflict in Kosovo the lion's share of the humanitarian and development assistance to reestablish a decent prosperous community in Kosovo. Last year, we had over \$500 million committed in Kosovo. This year, we've committed about \$360 million, of which we've already contracted 70 percent, so we're well on target to spend what we've promised to spend. Obviously, a point

that I'll be making and have made on Capitol Hill is that, while I think for understandable reasons we got off to a slightly slower start than we would have liked, we're now doing far better. We are now delivering what we've promised, and it would be, I think, extremely difficult for all those who are working so hard to make a success of the reconstruction of Kosovo if at this time there was a message from Congress which suggested that all that work hadn't been as effective as we believe it to have been. I think, first, to have an argument about reconstruction in Kosovo would

send messages which Mr. Milosevic would much like, not least in the run-up to his elections, and which people who are working hard on the ground would find pretty distressing. Overall, in the Balkans we have a strategy in place, a strategy which consists of negotiating stabilization association agreements with individual countries in the Balkans which commit them to a process of political and economic reform in return for more assistance from us and the prospect of eventual membership of the European Union. We've also announced—and hope we'll get agreement from the member

states—a set of autonomous trade measures which would give Balkan countries pretty well duty-free access to Europe's markets for most of their industrial and agricultural products, provided they agree to open up their markets to one another. So we're trying to use access to the European market to increase trade within the Western Balkans among countries there.

**President Clinton quite recently decided not to decide on the deployment of national missile defense system (NMD) at this point in time. Are you satisfied with that or are you still worried that the next administration would revise the idea of NMD or might expand the NMD to space.**

I think European foreign ministers were pretty unanimous in welcoming that statement by President Clinton, which I think took account of wider strategic interests. We very much hope that any administration in Washington will take equal account of the strategic fallout from a decision in this area.

**How would you characterize EU and Russian relations today?**

We want to have a comprehensive mutually beneficial strategic relationship with Russia. Russia is a European country, a hugely important neighbor, and the Russian government under Mr. Putin

says that it wishes to learn from us lessons about civil society, about economic management, and related matters. Russia was the subject of our first common strategy in the European Union, which is an indication of the priority we give to the relationship, but inevitably, Russian behavior in Chechnya cast a shadow over our attempts to improve our relationship. Now we're preparing to resume our economic assistance programs in Russia, which we hope will underpin President Putin's reform efforts. Obviously, it's hugely in Russia's best interest to be as good as its word. Today, there is not very much direct investment into Russia from the European Union. We invest probably five times as much in Poland as in Russia, and that's a situation which can only be changed by the Russians themselves, by reforms in Russia in areas from accountancy standards to the integrity of regulatory authorities. It can only be changed by clear signs that Russia wants an open plural society as well as a market economy. I hope that our relationship will improve. We've got a visit to Brussels by Vice-Premier [Viktor] Khristenko at the end of [September] when we'll be talking principally about our economic relationship. But obviously much will depend on what actually happens on the ground in Russia. I think it's very important for the Russians to recognize that they should be



## WHAT THEY SAID (CONTINUED)

candid with us and that they should be as good as their word, because the more they can demonstrate that they're doing what they say, the more we're likely to believe their promises for the future.

### Given the EU's recent trade deal with China, what effect do you expect this to have on EU-Chinese relations in the future?

The EU-China agreement on the WTO was as important as the one between the United States and China, and we now have to push it in place. It's very important that China should live up to the undertakings which [they've] given both to the United States and the European Union. We have a dialogue on political issues with China as well as on economic and trading issues. It would be nice if that dialogue showed as much progress on issues like human rights, but also on issues like finding ways in which we can cooperate to deal with illegal immigration and related crimes. So I think our relationship is being improved by successful negotiations on WTO entry. We want to provide more eco-

nomie assistance to China to help China live up to its obligations under that agreement. And we hope that we'll make as much progress in the political sphere.

### Could you detail a bit more the concerns you've expressed over the situation in the Balkans?

I think that to calibrate American military contributions to the Balkans to given levels of contribution by the European Union would be profoundly unhelpful for a number of reasons. First of all, because of the impact it would have on European public opinion and in particular on all those from Europe who are working so hard in the Balkans to make a success of our programs there. Secondly, I think that a year, just over a year, after we'd successfully worked together in Kosovo it would be tragic if we now started arguing over how to make a reality of peace in Kosovo. And I think that it would send strong messages to Mr. Milosevic which he would find rather attractive in his election campaign. Thirdly, it invites from some populist Eu-

ropean legislators similar reactions to question every time we provide assistance in a country or in a troubled spot. It invites questions from them about whether we are doing more than this or that other country. I didn't say that in any sense of threatening or minatory way; it's just the nature of politics. And finally, it ties the hands of the administration months ahead, not taking any account of what may actually be happening on the ground in the Balkans. So for all those reasons, I think it's bad politics, it's bad for the relationship between Europe and the United States, it's bad for what we all want to do in the Balkans, and of course it completely overlooks what the [EU] special representative Bernard Kouchner has said recently about the huge improvement in the European contribution in Kosovo and in the region as a whole.

### How are EU-US trade relations at the moment?

We have a continuing dialogue on trade issues with the United States, principally through [EU trade commissioner] Pascal Lamy and

[United States Trade Representative] Charlene Barshefsky. There was a very good exchange on trade issues at the EU-US summit in the summer, and those exchanges have continued, and I think we recognized that American officials like [Deputy Treasury Secretary] Stuart Eizenstat are working as hard as we are to try to resolve those issues wherever possible. I think that Stuart Eizenstat made a very valuable point in an article in the *Financial Times* last week when he pointed out that these disputes should be seen against the backdrop of a relationship which is worth \$350 billion in trade every year and about \$1.1 billion in investment both ways, a relationship which has helped to underpin the global stability and global prosperity of the last few years. So we shouldn't get these disputes out of proportion, and they are sometimes the effect of socioeconomic attitudes and not just of commercial disagreement. I think that's true in relation to hormones. I think it's true in relation to [genetically-modified organisms].

## REPORTER'S NOTEBOOK

### News of Europe's Demise Greatly Exaggerated

Snap image: Europe is in a mess. Reality: it's doing rather well.

Recent US media reports have painted a lurid picture of a continent in crisis. Europe's new currency, the euro, is plummeting like a stone, shedding nearly 30 percent of its value against the greenback since its launch in January 1999. Truckers, farmers, fishermen, cab and bus drivers mount blockades at oil refineries and ports and jam motorways and city centers to protest fuel prices that are three times American levels. The EU is forced to climb down and lift ineffective and

ill-conceived sanctions imposed on fellow member Austria for letting the far-right Freedom Party into government. A European commissioner in Brussels breaks ranks to call for a referendum on the EU's enlargement to Central and Eastern Europe.

It all makes for good newspaper copy and gripping television pictures to tickle the interest of an American public with a limited interest in, and awareness of, foreign affairs. Trouble is, it's not that accurate.

The EU has always overcome political problems that are inevitable in a bloc made up of fifteen sovereign nations. And this applies to the latest Austrian and enlargement

"crises," which are already being overshadowed by new "crises" as the focus shifts to the contorted efforts to rewrite the EU's constitution.

The humbling of the euro, however, takes some explaining. In 1999, it began trading at around \$1.17 with almost every currency strategist and economist forecasting it would be worth at least \$1.25-\$1.30 by the end of 1999. So why did it crash to 85 cents by mid-September, forcing the Federal Reserve, the European Central Bank (ECB), the Bank of Japan, and the Bank of England to intervene on the foreign exchange market to halt its slide? How much does it matter? What does it say about

the state of the eleven-nation euro zone economy?

Analysts who say the "problem" is a strong dollar, not a weak euro, aren't just playing with words. The euro zone economy is growing at well more than 3 percent this year, its fastest rate since 1989, but the euro hasn't benefited because the US is performing even better, clocking up an unprecedented ninth successive year of growth. What's more, interest rates in the US are higher than in the euro zone.

There are other reasons for the euro's weakness, and, paradoxically, they reflect Europe's economic strength. The euro is being driven down by the rising tide of European ac-



## REPORTER'S NOTEBOOK (CONTINUED)

quisitions in the US alongside investments by European fund managers in US stocks and corporate bonds. Capital outflows from Europe reached \$180 billion in the year to the end of June, according to the International Monetary Fund, with foreign direct investment accounting for \$110 billion, the bulk headed for the US. And the trend is continuing: by the end of August, pending acquisitions promised a net inflow of \$51 billion into the dollar and a net outflow of \$58 billion from the euro, according to investment bank J.P. Morgan. European companies have to establish a presence in the US, the world's biggest market to keep pace with globalization, and they are continuing to buy up American companies despite the rise in the dollar and US stock prices.

The euro bulls are still keeping faith with the fledgling currency. "The last 10 percent, maybe 20 percent of

the euro's decline is pure bubble, pure speculation...It has no relation to any economic fundamentals," according to Fred Bergsten, director of the Institute of International Economics, a Washington think tank.

The euro's drop against the dollar shouldn't be exaggerated. It still has some way to go—69 cents—before it plumbs the depths its predecessor national currencies touched in 1985.

To be sure, the ECB is worried about the euro's fall, which is why it finally intervened in the foreign exchange markets. But others are more relaxed saying there is no sign yet that it is stoking inflation, despite the fact that most commodity imports are priced in dollars. Even the cautious ECB says it will take "two to three years, or even longer" for rising commodity and import prices to feed through to higher inflation. German Chancellor Gerhard

Schröder said he wasn't concerned about the euro's slide but welcomed it because it had generated a boom in Germany's exports, especially from the former communist Eastern European states. Other European countries are also enjoying an export bonanza helping them to build up sizeable trade surpluses. The US, by contrast, is running up huge monthly, visible trade deficits—more than \$30 billion in July.

Some observers pin the euro's weakness on Europe's failure to reform its inflexible labor and product markets. Federal Reserve Chairman Alan Greenspan says Europe can't match US productivity gains because tight hire-and-fire rules reduce the incentive for firms to invest in cost-cutting technology.

There's a lot of truth in these claims, but they understate the progress made in privatizing and deregulating Europe in the past ten years.

Continental Europe is becoming accustomed to hostile takeover bids and previously alien concepts such as shareholder value. The arrival of the euro has forced companies to align prices and focus on reducing costs. Governments are freeing up labor markets and have launched an unprecedented round of income and corporate tax cuts. The biggest problem facing booming Ireland and the Netherlands is a shortage of labor. Finland ousted the US from the top position as the world's most competitive economy in the latest rankings compiled by the Geneva-based World Economic Forum and six other European countries made it into the top ten. Europe's venture capital industry raised more than 25 billion euros in 1999 compared with 20 billion in 1998.

In the final analysis, snap statistics give a more balanced view of Europe than snap images.

## EU NEWS

### Europe's Fuel Crisis

Europe's patience in the face of the world's highest gasoline prices finally snapped in September with truckers, fishermen, cab drivers, and farmers blockading oil refineries and ports and jamming highways and city centers in an unprecedented two-week long wave of protests from Dublin to Warsaw.

The impact of the protest was felt far beyond the gas stations. The United Kingdom's ruling Labor Party fell behind the opposition Conservatives in the polls for the first time since 1992 after blockades brought the country to a standstill. French Prime Lionel Jospin's poll ratings plummeted because he caved to the protesters' demands, triggering copycat actions across Europe.

Governments will think twice before slapping taxes

on fuel prices as motorists blamed them, not OPEC, for sky-high prices.

But European motorists and truckers are resigned to paying the world's highest gasoline and diesel prices, with Norway and the United Kingdom, both large oil producers, topping the league. Unleaded gasoline costs more than \$4.35 per gallon in the United Kingdom with taxes making up 75 percent, compared with less than 40 cents in the United States. Diesel fuel, which is used by truckers, is particularly expensive in the United Kingdom, costing 55 percent more than in France and prompting protests by British companies that they are being driven off the roads by more competitive European transport firms.

The surge in oil prices to a ten-year high of \$35 per barrel hit Europe hard as its sin-

gle currency, the euro, has tumbled by more than a quarter against the dollar, the currency in which oil is priced.

European motorists won't benefit from the expected fall in oil prices over the coming months because governments are wedded to high fuel taxes, not just to raise revenues but to curb the consumption of polluting fuels. The US trails way behind Europe in energy efficiency: it uses the equivalent of 330 tons of oil to generate \$1 million of gross domestic product, compared with 190 tons in France and Germany.

But high fuel prices have failed to curb car use, even in countries with good public transport systems like the Netherlands, Germany, and France. Meanwhile, trucks have overcome high prices and a raft of pro-rail legislation, to boost their share of the European Union's freight

market from less than 50 percent in 1970 to more than 75 percent, and growing, today.

### EU Withdraws Sanctions on Austria

The EU member countries lifted their seven-month-old diplomatic sanctions against Austria last month. The sanctions were imposed by the fourteen nations earlier this year when Austria's Socialist party formed a government coalition with the far-right Freedom Party led by Jörg Haider. The return to normal relations was announced September 12 after a specially appointed "Wise Men's" report found the sanctions were counterproductive and encouraged the kind of anti-European and xenophobic attitudes they were designed to punish. Austrian Chancellor Wolfgang Schüssel applauded the decision.



## BUSINESS BRIEFS

Germany's **Deutsche Post** took control of **DHL International**, the global air express company, capping a \$5 billion spending spree that has transformed it in just two years from a lumbering postal monopoly to a global transport and logistics group.

Deutsche Post raised its stake in Brussels-based DHL International from 25 percent to 51 percent in a \$500 million deal that will intensify the competitive pressure on its main rivals **FedEx** and **UPS**, which have been caught off balance by its sudden arrival in markets they have dominated for the past two decades.

The move, which comes on the eve of Deutsche Post's November 20 flotation on seven European stock markets, has created a major new force in the air freight market. **Lufthansa Cargo**, the world's second-largest air freight carrier after FedEx, owns a 25 percent stake in DHL, which it recently put into a joint venture with Deutsche Post, called **Aerologic**. Deutsche Post strengthened its position in the US last year with the \$1.2 billion acquisition of **Air Express International**, the country's largest air freight forwarder.

Deutsche Post plans an initial public offering for DHL, which has a minority stake in its US affiliate **DHL Airways** of Redwood City, California. Before the IPO, it is expected to acquire a 6 percent stake held by **Japan Air Lines**.

**TPG**, the Dutch post office that became a global logistics operator with the \$1.5 billion acquisition of Australia's **TNT Group** in 1996, strengthened its US presence with the recent \$650 million purchase of **CTI Logistx** from the **CSX** rail and shipping company.

FedEx, meanwhile, forged an alliance with **La Poste**, France's postal monopoly, and is being tipped to sign a similar deal with the United Kingdom's Post Office.

British Telecom (BT) and AT&T of the US are ne-

gotiating the merger of two of their largest units, wireless and business services, into stand-alone companies, freeing them to focus on their domestic consumer operations in a move designed to revive their flagging share prices.

The companies launched a jointly owned service, **Concert**, aimed at big multinational clients, two years ago, prompting expectations they would eventually merge their business operations.

Merging their wireless operations would allow the companies to close the gap with more nimble rivals. BT has lost ground in its home market to **Vodafone** and France Telecom's **Orange** subsidiary, and AT&T trails third in the US.

Oxford and Cambridge, renowned the world over as ancient seats of learning, are now making waves in the business world as they parlay

their knowledge into money-making schemes.

**Peptide Therapeutics**, a small Cambridge biotechnology company, has just clinched a US government contract to produce 40 million doses of a vaccine against smallpox. The disease was "eradicated" more than twenty years ago, but the US government placed the order to counter fears of a bio-terrorist attack.

Peptide will make a stockpile of the vaccine for civilian use if the virus is ever released and will prepare a separate batch for the military. It plans to market the vaccine to other governments, including Israel.

Cambridge, which is at the center of a high-tech area known a Silicon Fen, extended its lead over its ancient rival after Bill Gates picked it for the site of **Microsoft's** first facility outside the US.

But Oxford is rapidly gaining a reputation as a "new"

economy hub thanks to companies like **Oxford GlycoSciences**, a biotechnology firm planning to list on Nasdaq whose main product is **Vevesca**, a tablet to treat Gaucher's disease, which leads to a buildup of fat in the vital organs.

**RWE**, the German multi-utility, acquired **Thames Water**, the United Kingdom's biggest water supplier, for \$6.3 billion, signaling the outbreak of long-awaited takeover battles between Europe's top utilities.



Contributor

Bruce Barnard reporting from London

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# Uneasy Lies the Crown

By David Lennon

Political up-and-comers await their chances to lead

**B**oth Prime Minister Tony Blair and Conservative leader William Hague have to keep an eye over their shoulders, for behind the leaders are men waiting for them to falter. They are Gordon Brown, chancellor of the exchequer, and Michael Portillo, the shadow chancellor.

Gordon Brown has never hidden his desire to be prime minister and only stepped aside from running against Blair for the party leadership in 1994 because of fears the contest might split the votes of the party modernizers.

He will not challenge Blair for the leadership now, but if Blair decided to step down at the end of a second term, then on performance to date, Brown would step into his shoes. The forty-nine-year-old chancellor further enhanced his prospects as a future prime minister by acquiring a wife this summer when he married his long-time girlfriend.

Brown is an undisputed success among the Labor government ministers. He is tough, delivers on his

promises, and has demonstrated control of the economy in a way that few previous Labor chancellors ever have, while still aiming to deliver on his vision of creating a fairer society with social justice for all.

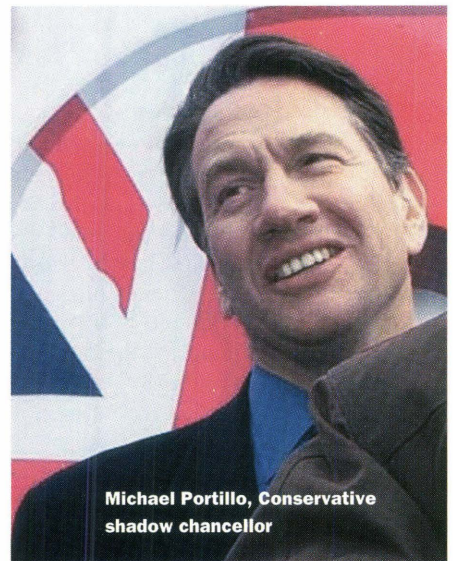
Unfortunately, his dour Scottish public image means that he fails to excite passion among the party faithful. His perceived distant personality and lack of a common touch with people are handicaps. Insiders say that personally he is a pleasant, amiable, and sociable, though reputedly he has a fierce temper.

Brown is pro-Europe and in principle approves of the UK joining the EMU but knows that the euro is a divisive issue in the nation. Cleverly, he stilled party squabbling by declaring that this should only happen when it will be economically beneficial to the United Kingdom.

Across the floor of the House of Commons, Tory leader William Hague does not believe the time will ever be right. This belief could be his undoing, and if he falters, then Michael Portillo is waiting for him.

As the last Conservative government limped into the twilight, Michael Portillo looked like the natural heir to the party leadership, but he lost his parliamentary seat in the Labor landslide of 1997. His defeat was greeted with almost universal rejoicing because his overbearing arrogance had offended great swathes of the British public who saw Portillo as the unacceptable face of conservatism.

However, it was only a matter of time before he was re-elected. It happened in November last year, and within three months, he was appointed shadow chancellor. Portillo immedi-

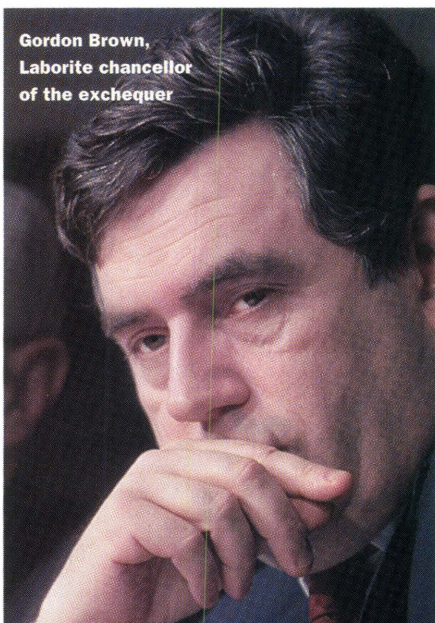


Michael Portillo, Conservative shadow chancellor

ately began to make an impact on the political scene, pouring scorn and ridicule on the economic policies of Brown. He even proclaimed his own vision of a land of tax cuts. Never mind if it is sensible, the job of the opposition is to attack, and this Portillo has done with glee and high-profile, headline-grabbing skill. It put new backbone into a dispirited Tory party.

He first came to attention as an intern at Conservative central office in the late 1970s when he did newspaper briefings for Margaret Thatcher. He became a junior minister in the last Thatcher government and a senior minister under John Major.

The son of a Spanish father and Scottish-raised mother, the London-born Portillo, forty-seven, has considerable assets. Dark good looks, a voice that is instantly recognizable, and boundless self confidence all make him a threat to his party leader who will come under challenge if the Tories do badly at the next election. ☉



Gordon Brown, Laborite chancellor of the exchequer



# The Euro In

By Bruce Barnard

## The United Kingdom wrestles with whether

Corporate United Kingdom is starting to sweat as a flurry of polls shows a growing majority of electors do not want to swap the pound for Europe's single currency, the euro. Furthermore, unless there is a sea change in sentiment, the UK is condemned to remain isolated from Euroland for the foreseeable future. Yet, it remains, by far, the most popular destination in the fifteen-nation European Union for foreign direct investment, particularly from the United States, and there is little evidence that foreign firms are ready to switch their spending to Euroland.

The UK consolidated its position as the EU's most popular investment location in the year to March 2000, with the stock of foreign investment soaring by 23 percent to 252 billion pounds (\$378 billion). The number of projects rose by 16 percent to 757 from thirty countries, and total new jobs increased by 17 percent to 53,000, taking the multinationals' British payroll close to 2 million employees.

The UK boasts around 40 percent of US investment in the EU and 50 percent of Japanese spending. It is also attracting an increasing volume of investment from Euroland: the number of German projects last year surged to a record sixty-three—up by half—and more than 150,000 French entrepreneurs have moved to the UK since 1995.

These stellar statistics suggest the euro simply is not an issue for foreign investors, particularly American firms, which accounted for just more than half the inflow in 1999–2000. The UK's popularity was highlighted by the \$800 million

battle in the summer between Nomura Securites, a Japanese investment bank, and Western Power Distribution, a US power group, for Hyder, a Welsh multi-utility. Nomura is already a big fan of the United Kingdom: it is the country's biggest pub landlord and recently offered nearly \$1.25 billion for its largest ports operator.

The UK is getting even more popular abroad than its euro-zone rivals, especially in the "new" economy sectors—telecommunications, media, and technology. It is the second-most attractive location for inward investment after the US, according to a recent survey of the world's largest companies by AT Kearney, the management consultancy.

Prime Minister Tony Blair says the UK "can become the European hub of the emerging global economy; in Europe, a bridge to America, attracting investment from both as well as from around the world. In effect, Europe's corporate headquarters."

The surge in foreign investment has become a tool in the bitter row over whether the United Kingdom should join the euro. The government has set five economic "tests" for entry, including the impact on foreign investment, and plans to put the issue to a national referendum after the next general election, most probably in mid-2001.

The opposition, a large and growing majority of voters—well more than 70



percent—wants to "keep the pound," ignoring warnings from the pro-euro camp of the high cost of staying on the outside. Andrew Fraser, head of the Invest in Britain Bureau, warned foreign investors have "a growing sense almost of betrayal" over the government's position on the euro, and the UK's ambassador to Japan talked of a "manufacturing meltdown" and inward investments "hanging on a knife edge."

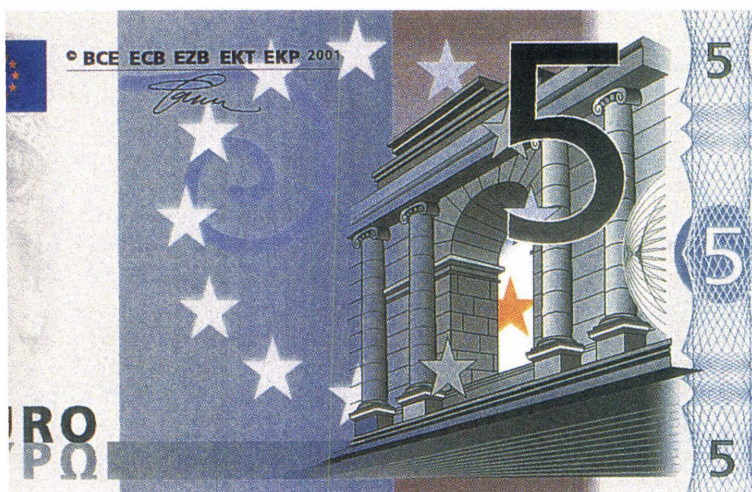
The opposition Conservatives will fight the election on an anti-euro ticket, one of the few issues on which they are ahead in the polls.

Japanese firms, meanwhile, are piling on pressure for the UK to get off the euro fence. Top investors—including Matsushita, the world's biggest electronics company, which employs 5,000 people in the UK; Komatsu, the construction machinery manufacturer; and car makers Toyota, Nissan, and Honda—are threatening to move pro-



# Out?

to embrace the euro or keep the pound.



duction and new investments to continental Europe. “The immediate question is when the pound will be included in the euro. A strong pound is making it difficult for us to continue production in the country,” said Matsushita president Kunio Nakamura.

Nevertheless, sterling’s strength against the euro—not its exclusion from the euro zone—presents the main problem for foreign companies that export a large slice of their British production to continental Europe. David Jordan, chairman of the British subsidiary of Philips, the Dutch consumer electronics giant, said his company is “under enormous and abnormal competitive pressure” from low-cost competitors and the high level of sterling. Toyota has told its British suppliers to quote in euros; Honda is sourcing more components from its European plants; and Nissan says the level of sterling will decide where it will build its next model in 2003.

of services, which are not affected much by the pound’s value against the euro or UK membership in the euro zone.

Japan’s commitment to the UK as a European manufacturing base was underscored by Honda’s announcement that it will export cars from the country back to Japan for the first time. More than 10,000 cars will be shipped to Japan, and some will go to the US when Honda completes a \$450 million expansion of its plant at Swindon. The export plan reflects the fact that while sterling has appreciated against the euro, it has softened against the dollar and the yen.

Furthermore, the UK has enjoyed an economic boom since September 1992, when sterling was forced into a humiliating retreat from the European exchange rate mechanism, the springboard for the euro.

Most foreign investors are relatively sanguine about the UK’s exclusion

The Japanese “threat” should be kept in perspective: Japan accounts for only 4 percent of the \$378 billion in stock of inward investment—about the same as Australia and half as much as Switzerland. Moreover, manufacturing accounts for only a quarter of foreign investment, the remainder made up

from the euro zone, reasoning it will eventually sign up. Additionally, the current strength of sterling is more than outweighed by the UK’s flexible labor laws, low non-wage costs, much less red tape than on the Continent, and a very pro-business government.

However, the government cannot get complacent because of the latest investment figures. A substantial time lag exists between business decisions being made and the resulting investment taking place. Rather than look back at past investment flows, the government is being urged to look forward at companies’ intentions for the coming years. In addition, most agree that a protracted absence from the euro is not a viable policy. “The British pound exchange rate is becoming damaging to the UK economy. I hope they join [the euro],” said Wim Duisenberg, the president of the European Central Bank.

While the UK turns its back on the euro zone, British companies are the most enthusiastic users of a currency that will not have notes and coins in circulation until 2002. According to the European Commission, British firms use the euro for 29 percent of their international transactions, compared with 12.5 percent in Germany and an EU average of 23 percent. The number of British businesses holding euro bank accounts is close to 7 percent, compared with an EU average of 3 percent and only 2 percent in Germany.

Furthermore, it is a safe bet when the United Kingdom eventually signs on to the euro, it will be with a whimper, not a bang. ☹



# London's Future in Finance

London is consolidating its position as the world's leading financial center, confounding the critics who penned a premature obituary after the European Central Bank opened its doors in Frankfurt and the United Kingdom decided not to join Europe's single currency, the euro. London's financial district, known as "the City," has pulled further ahead of its continental rivals since the euro was launched in January and has built an unassailable lead in important sectors, such as foreign exchange, eurobonds, and share trading. Says Bank of England Governor Sir Eddie George, "There were those who argued that the City of London would suffer if the UK failed to join [the euro] from the outset. That clearly has not so far happened—quite the reverse."

London can reel off a string of spectacular statistics. At the latest count, it boasted 554 foreign banks; more than 20 percent of Europe's biggest companies have their headquarters in the British capital; and it has Europe's biggest cluster of high-technology startup companies.

Despite gripes about staff shortages, traffic jams, poor transport, and sky-high rents and property prices, foreign firms are staying put. London remains the best city in the world in which to conduct financial business and is likely to retain its leadership for the next

decade, according to a recent survey of City-based foreign banks. More than four in five banks polled say it will remain the top global financial center with its closest rival, New York, supported by only one in ten, the survey by the London Chamber of Commerce found.

"London will no doubt remain the leading center in Europe, thanks to its advantages of size, excellently qualified personnel, and the attractive tax, legal, and cultural environment," according to Rolf Breuer, chief executive officer of Deutsche Bank, Germany's largest bank, and chairman of Deutsche Börse, Frankfurt's stock exchange.

The latest figures show London is still forging ahead. Between 1992 and 1998, its share of Europe's foreign exchange trading rose from 49 percent to 57 percent, and its share of derivatives trading reached 55 percent, according to the Bank for International Settlements.

London's magnetic attraction to outsiders was highlighted by the fact that trading in the shares of Switzerland's top blue-chip companies will move to the City following an agreement between SWX, the Swiss stock exchange, and Tradepoint, the US electronic marketplace, to set up a new pan-European stock exchange called Virt-x. The deal represents the first time a national stock exchange in Europe has transferred trading in its blue-chip shares to a market based in another country.

The City's reputation did not suffer from the collapse of the planned merger between the London Stock Ex-

change (LSE) and Frankfurt's Deutsche Borse as most observers predict it will soon forge an alliance with another continental bourse. There is no shortage of suitors for the world's third-largest stock market after New York and Tokyo. OM Group, the information technology company and owner of the Stockholm exchange, launched a hostile bid worth more than \$1.1 billion for the LSE. Then, Euronext, the pan-European exchange formed earlier in the year by the merger of the Paris, Brussels, and Amsterdam exchanges, offered itself as a "white knight" to fend off the Swedish takeover.

The City, however, cannot afford to be complacent or dismiss the risks inherent in a protracted exclusion from the eleven-nation euro zone. "Staying outside the euro area may in the long-term imply risks for the British financial industry," according to Pedro Solbes, the European commissioner for monetary affairs.

Analysts contend, however, that the strength of the pound against the euro and whether or not the UK joins monetary union will have little impact on the City as only a tiny fraction of international bond, equity, and currency transactions involve sterling.

The City has suffered some setbacks, notably the eclipse of its Liffe futures market in the late 1990s by Eurex, its Swiss-German counterpart, and the financial scandals that rocked the Lloyd's of London insurance market. Meanwhile, the Baltic Exchange, the world's





# With competitor cities rising across the EU, London seeks to remain Europe's preeminent financial center.

By Bruce Barnard

London's financial district, known as "the City."

largest ocean freight market, is facing stiff competition from Internet-based services. Moreover, the Deutsche Börse's highly advanced trading technology highlights the spectacular progress of Frankfurt, especially its new high-tech offshoot, the Neuer Markt, which already lists more than 300 stocks.

Share trading in Frankfurt and Paris has grown faster than London, admittedly from a lower base: Frankfurt's do-

mestic volume is greater than London's, and Paris is not far behind. London, however, remains the preeminent international center, with non-domestic stocks accounting for 63 percent of turnover, compared with only 16 percent in Frankfurt.


London has positioned itself at the center of the European financial market just as the Continent embraces an equity culture. Europe will become the largest "emerging" stock market in the

world over the next five years, according to Tempest, a consultancy, which forecasts that its combined capitalization will jump from \$7.8 trillion last year to \$17.7 trillion in 2005.

There's a bonanza ahead, and the City is set to scoop the biggest prizes. ☺

*Bruce Barnard, based in London, is a EUROPE contributing editor and a correspondent for the Journal of Commerce.*





In April, Georgian voters returned President Eduard Shevardnadze to office for five more years.

**G**eorgian president Eduard Shevardnadze is a man of destiny. Twice before, he has changed the course of history by his actions. This time, however, it remains an open question whether he is up to his third superhuman challenge.

His first turn came in 1988–1990. As an ally of Communist Party leader Mikhail Gorbachev, Soviet Foreign Minister Shevardnadze was instrumental in withdrawing the Soviet army from Central Europe after fifty years of quasi occupation and letting German reunification proceed without bloodshed. It was a remarkable performance for a man who grew up and prospered in the closed Soviet Empire.

The second time came in 1992, when Shevardnadze was called back to Georgia by the feuding warlords to stop the civil wars in his native land. He did so over several years, playing one clan against another and neutralizing their militias, surviving several assassination attempts, and gradually gathering power in his own hands. Again, it was a tour de force by someone who started as no more than a figurehead president. Through personal rewards and divide-and-rule tactics—with the exception of the Russian-supported breakaway province in Abkhazia and the murky autonomous South Ossetia—he has reestablished the kind of authority he once enjoyed as Communist boss of

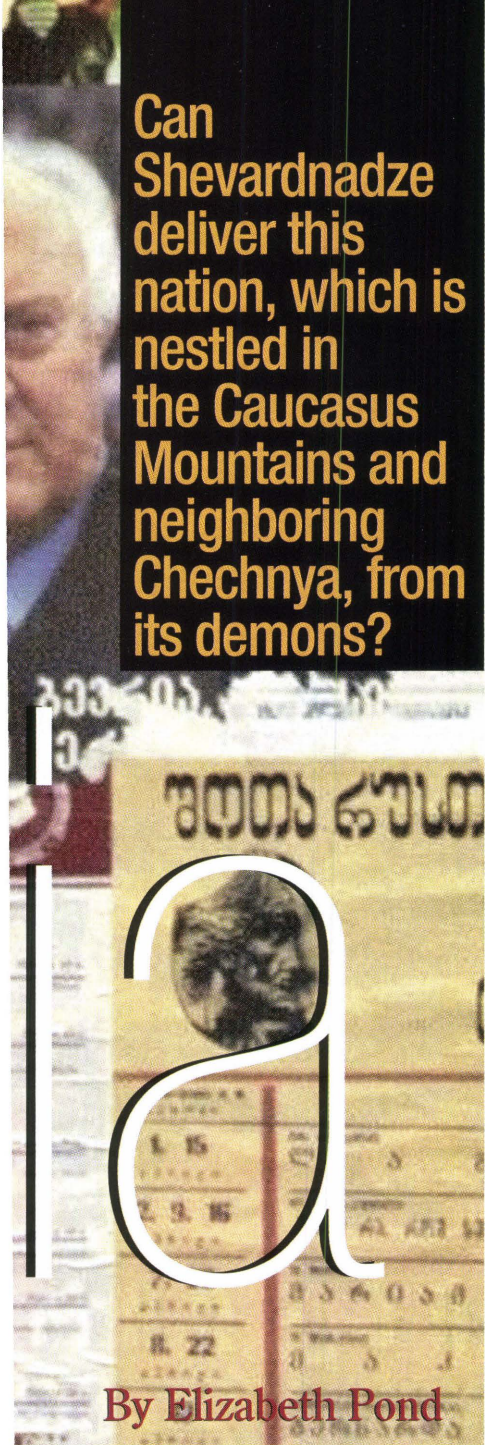
Georgia in the early 1980s. His position has been ratified in two elections, and he is now starting his last constitutional term.

His present challenge again requires Shevardnadze to transcend his own previous mindset. But this task is far more complex and alien than anything he has ever faced before. What is needed now is real implementation of the tough economic reforms he says he wants in order to qualify Georgia for membership in the EU and NATO—and to fit it for the twenty-first century global economy.

There is no doubt about Shevardnadze's desire to join the West. For the past two years, he has repeatedly de-



# Can Shevardnadze deliver this nation, which is nestled in the Caucasus Mountains and neighboring Chechnya, from its demons?



By Elizabeth Pond

clared Georgia's determination to gain admission to the West's two premier clubs. In a brief interview for *EUROPE* snatched during a visit by the president to his native village of Mamati, he restated this wish and said unreservedly that EU membership takes top priority. He also has been a booster of building the oil pipeline from Azerbaijan over Georgian territory to Ceyhan in Turkey—a project that would further link Georgia to the West.

The problem, however, is that he does not appear to fully grasp market economics and its preconditions and does not seem to sense

the urgency of moving away from the post-Soviet system of personal monopolies and the all-pervasive bribe. Whether he likes it or not, these have been part and parcel of his political system of building his own personal networks to outmaneuver the warlords. It is therefore hard for him to curb corrupt cronies.

To be sure, he has talked reform; he has gotten parliament to pass decent legislation on the budget, privatization, and the like; and he has recruited energetic young reform economists to his team.

The reform laws have not been translated into effective practice, however, and the miserable economy reflects this failure. Production is now only a third of what it was in Soviet times. Government revenues are among the lowest in the world, going down recently to 3 percent of gross domestic product, according to International Monetary Fund resident representative Christopher Lane. The government then cannot pay its electricity bills or teachers and doctors, whose meager salaries are months in arrears. Unemployment is high. Foreign investment is negligible. In addition, vulnerable old people and children are dying for lack of heat and proper food, as the flood of petitions to Shevardnadze from village grandmothers attests. Most important, corruption has gained such a stranglehold that Georgia ranks with some of the worst African countries at the bottom end of Transparency International's tally of corrupt nations.

If this does not change, complains a young Georgian, his nation will be relegated to another generation or two of the status of a "least-developed Third World country."

The grim situation need not continue. The proud Georgians come from a 2,500-year-old culture, have not yet become cynical, and still feel deep shame at the system of bribery. They are highly edu-

## The Georgia File

**BACKGROUND** Georgia was absorbed into the Russian Empire during the nineteenth century. Independent for three years (1918–1921) following the Russian revolution, it was forcibly incorporated into the USSR until the Soviet Union dissolved in 1991. Russian troops remain garrisoned at four military bases and as peacekeepers in the separatist regions of Abkhazia and South Ossetia. The country continues to move toward a market economy and greater integration with Western institutions.



### GEOGRAPHY

**Total Land Area:** 26,900 square miles  
**Capital:** Tbilisi

### PEOPLE

**Population:** 5,019,538 (July 2000 est.)

**Life expectancy at birth:** 64 years

**Ethnic groups:** Georgian 70.1%, Armenian 8.1%, Russian 6.3%, Azeri 5.7%, Ossetian 3%, Abkhaz 1.8%, other 5%

**Religions:** Georgian Orthodox 65%, Muslim 11%, Russian Orthodox 10%, Armenian Apostolic 8%, unknown 6%

**Languages:** Georgian 71% (official), Russian 9%, Armenian 7%, Azeri 6%, other 7% (Abkhaz official in Abkhazia)

### IMPORTANT DATES

**Independence:** April 9, 1991 (from Soviet Union)

**National holiday:** Independence Day, May 26 (1991)

**Constitution:** adopted October 17, 1995

### GOVERNMENT

**Chief of State:** President Eduard Amvrosiyevich Shevardnadze elected by popular vote for a five-year term; last election held April 9, 2000

**Legislative:** unicameral Supreme Council (235 seats; members are elected by popular vote to serve four-year terms)

### ECONOMY

**GDP Real Growth Rate:** 3.5% (1999 est.)

**GDP Per Capita:** purchasing power parity \$2,300 (1999 est.)

**Population Below Poverty Line:** 60% (1999 est.)

**Inflation Rate (consumer prices):** 19% (1999 est.)

**Labor Force:** 3.08 million (1997)

**Exports:** citrus fruits, tea, wine, other agricultural products; diverse types of machinery and metals; chemicals; fuel re-exports; textiles (1999 est. total of \$330 million)

**Export Partners:** Russia 27%, Turkey 20%, Azerbaijan 10%, Armenia 8% (1997)

**Imports:** fuel, grain and other foods, machinery and parts, transport equipment (1999 est. total of \$840 million)

**Import Partners:** EU 22%, Russia 15%, Turkey 12%, Azerbaijan 12%, US 7% (1997)

**Currency:** 1 lari (GEL) = 100 tetri

Source: CIA Factbook



cated and regularly produce world-class mathematicians, linguists, and other scholars. Their vibrant intelligentsia could well form the core of a future middle class—"if we don't turn out like [weak] Chekhov characters," notes one woman doctoral candidate. Moreover, Georgia by now has enough young economists with Western training to administer modern macroeconomic policy and provide a nucleus of those small and medium-sized entrepreneurs that were the engine of Poland's post-communist economic success.

The energy of these people cannot be released, however, unless strongman Shevardnadze empowers them. So far, the Georgian president, while promoting young reformers, has preferred to treat them as only one among several factions in his traditional balancing act. Even within his own party of the Citizens' Union that now dominates politics, Shevardnadze has never let his reformers take on his old cronies and relatives who have become Georgia's little oligarchs. Nor has he launched any serious judicial pursuit of corruption by a prosecutors' office that operates on a \$25,000 annual budget and a customs office that pays its collectors \$18 a month, when it pays them.

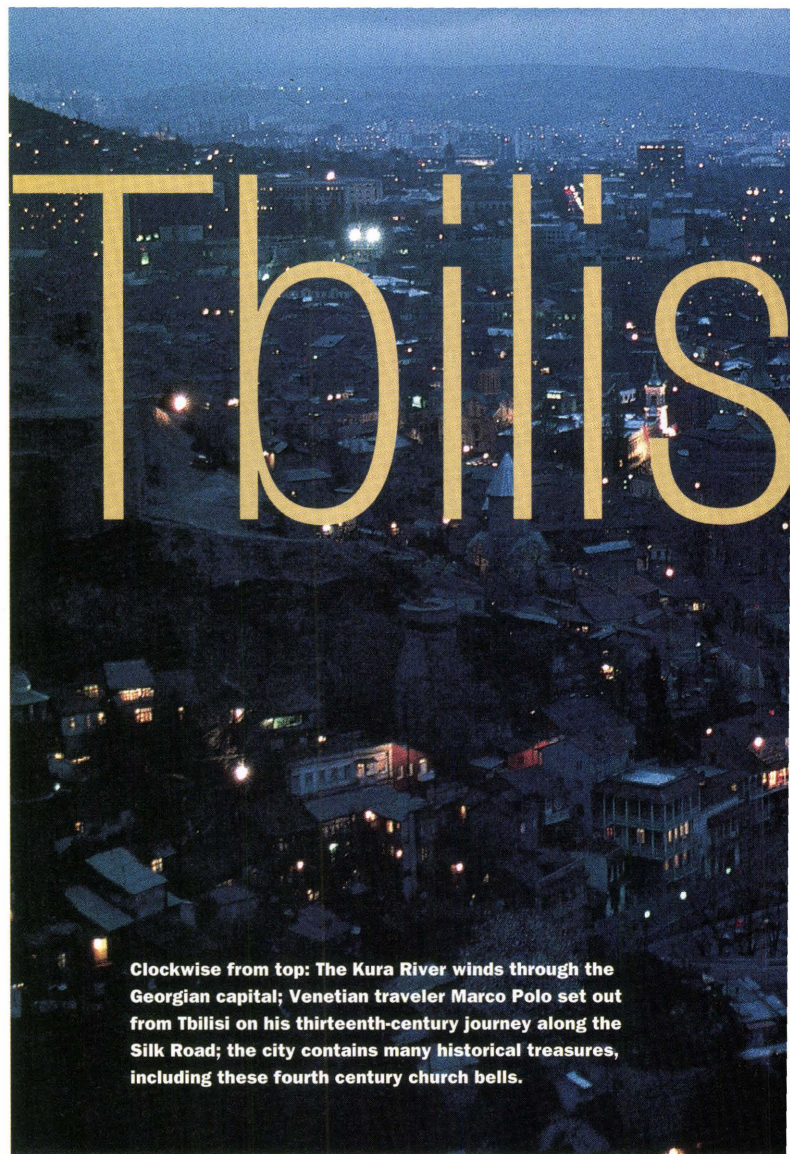
"Corruption is like an addiction," asserted the thirty-two-year-old new minister of revenues, Mikheil Mchavariani, in an interview in Tbilisi. "Once you start it, you can never say no again." One of the hopes of the reformers, he has just moved from being a member of parliament and chairing the Citizens' Union to the daunting task of collecting taxes from the energy, alcohol, and cigarette barons. He talked passionately about plans for a "surge of democratic activity" and a crackdown on delinquent taxpayers and high-ranking recipients of kickbacks, now that Shevardnadze has been reelected by a landslide.

If Georgia does not improve its economy this year, warned a senior Western ambassador in Tbilisi, it will be too late. The nation will have thrown away its best chance to escape poverty; no successor to Shevardnadze will have the authority he now has for a long time. Western investors will continue to bypass Georgia. Domestic cynicism will grow—already something between 50 and 80 percent of voters are convinced that their leading politicians are on the take, according to the most recent USIA and Georgian Opinion Research Business International opinion surveys—and there will be no public support for curtailing powerful bribe takers. The "addiction" of corruption will become firmly fixed.

When asked about this in his home village, Shevardnadze replied only, "What we must do now is to create normal social conditions for people." In Soviet and post-Soviet language "normal" is a superlative. It basically means a life that is as prosperous and secure as in the West. It does not necessarily entail the recognition, however, that rule of law, equality of citizens, and an end to a system of pervasive bribes and personal monopolies must underlie that Western well-being.

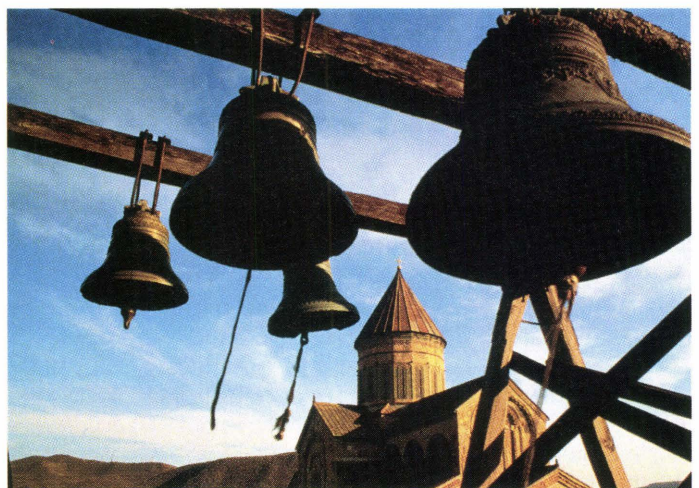
The question, therefore, remains: this third time around, can Shevardnadze once more step outside his own skin? ☹

*Elizabeth Pond is transatlantic editor of the transatlantic edition of Internationale Politik and a regular contributor to EUROPE.*

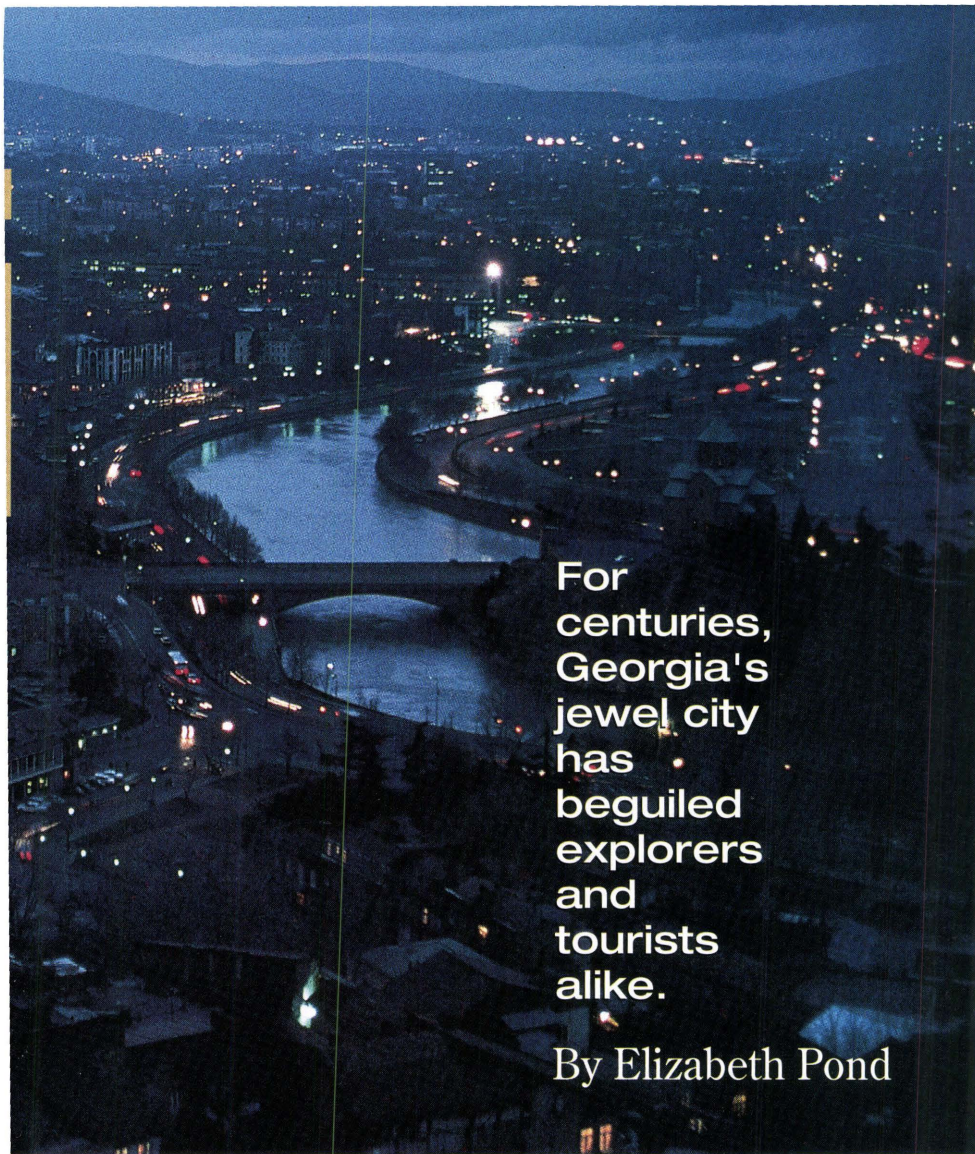


**Clockwise from top: The Kura River winds through the Georgian capital; Venetian traveler Marco Polo set out from Tbilisi on his thirteenth-century journey along the Silk Road; the city contains many historical treasures, including these fourth century church bells.**

Tbilisi is a jewel to be discovered by the traveler who likes to diverge from the well-traveled tourist routes. Clinging to the hillsides that drop down to the Kura River, the city appears to be a collage of tile and corrugated roofs punctuated by cypress and grape arbors that give it a leisurely Mediterranean air. But it is far to the east of Istanbul, and its dozens of invasions and conquerors over the millennia, from Tehran in the southeast to Moscow in the north, have given it a unique palimpsest.







For centuries, Georgia's jewel city has beguiled explorers and tourists alike.

By Elizabeth Pond

In Georgia, Jason sought the golden fleece, Marco Polo started on the Silk Road, and David the Builder erected early Christian churches with unique curved crosses made of vine. Local legend has it that when God finished creating the earth, the hospitable Georgians invited Him to stay and party with them, and they all had such a good time that He gave them the very land originally reserved for Himself.

In continuation of that celebration, Georgian wine is drunk from hollow rams' horns that cannot be set down without spilling the contents. Once lifted, they must be drained—and they are often done so by drinkers linking arms and singing the haunting polyphonic melodies that evolved in Georgia three centuries before they did in Western Europe.

The cuisine that accompanies the wine is delicious, ranging from spicy Mingrelian mutton to eggplant rolled in nut sauce to fast-food *khachipuria*, the ubiquitous cheese pastry. And anyone wishing to improvise a picnic for a hike

in the hills has only to pick up a 25-cent loaf of flatbread, some soft white cheese, and some jam made from local cherries or apricots.

The visitor who starts to learn about Tbilisi in either an elegant restaurant or a more modest hole-in-the-wall might well continue the introduction by strolling down Rustaveli Avenue, the



city's main street. Furniture shops give some idea of how today's Georgians live, or would like to live. Art boutiques offer works by contemporary painters. Bookstores tantalize the curious with the curly Georgian script that is like no other alphabet in the world. And the truly adventurous might try the Georgian sport of jaywalking across six lanes of traffic, one lane at a time.

The highlight of any tour, though, has to be three churches and one mountain.

The first church is Anchiskhati, where dedicated and devout musicians have revived those authentic seventh century polyphonic hymns that were banned in Soviet times. They form an integral part of the Georgian Orthodox church service—and attendance at candlelit Sunday worship enables even an outsider to share in the soul of this 2,500-year-old culture.

The second church is the much younger twelfth century Mtatsminda, perched halfway up the hill to the television tower. In this tiny cemetery, Georgia's most illustrious sons are buried, from poet Galaktion Tabidze to actor Akaki Alexeevich Khorava to twentieth century mathematician Ilya Verkur. During the Soviet era, it was a gathering spot for Georgian nationalists who wanted their country to be independent after two centuries as part of Russia. Now, after a decade of independence, it is more of a quiet refuge.

The third is the fourth century church of Jvari that seems to grow out of a peak fifteen miles north of Tbilisi. Here newlyweds stop to pay their homage. Families linger here on Sunday outings in their little Fiats. Fanatic football fans get photographed on the outlook high above the rushing Aragvi River. From Jvari a sixty-mile drive due north leads to the snow-capped 16,558-foot Kazbek Mountain, which stands astride the Russian (and Chechen) border.

Inspired by Georgia's dramatic mountain landscape, by the creative contradictions of the Georgian people, and by the respite his translations of Georgian poetry gave him from Stalinist censors—the twentieth century Russian poet Boris Pasternak wrote:

*We were in Georgia. You can get this land*

*If hell is multiplied by paradise,  
Bare indigence by tenderness, and if  
A hothouse serves as pedestal for ice. ☺*





American Jeff Koons created a giant floral sculpture to illustrate his personal vision of "beauty" as part of Avignon's cultural year.

# AVIGNON

By Ester Laushway

One of this year's **Capitals of Culture**

By nature, Avignon is a drama queen. Poised theatrically above the Rhone River, which lies at its feet like a doting admirer, the city shows off the chiseled outlines of its grandiose papal palace and the three and a half miles of stone ramparts with the supreme self-assurance of a leading lady who has held the spotlight for a very long time.

Avignon first took center-stage in 1309, when the popes, deciding to flee the constant strife among Rome's great

families, chose it as their official residence. It was an honor that lasted an entire century, until the Holy See returned definitively to Rome in 1417.

To house their ecclesiastical lordships with the pomp and circumstance befitting their high office, a vast palace-fortress was built, which is one of the Gothic masterpieces of the world. Pillaged during the French Revolution, turned into military barracks in the nineteenth century, it was stripped

down to its walls, and even pieces of those, decorated with valuable frescoes, were cut out and sold. In 1906, the *Palais des Papes* finally came under the protection of the French government and restoration has been underway ever since.

The event that really made it come into its dramatic own again, however, took place in 1947, outside the palace itself, in the *Cours d'Honneur*—the great courtyard. A young theater troupe from



Paris, with an unknown actress named Jeanne Moreau in its midst, was invited to perform there as part of a contemporary art exhibition. Its director, Jean Vilar, decided to stage three new plays without a penny of subsidy. To help him in his mission improbable, he called on the army. A temporary stage was built supported by oil drums; garden chairs were collected from all over town; the actors brought twenty-five projectors with them from Paris; and the Avignon Theater Festival was born. Vilar had no money for sets, so he did not build any, focusing instead on lights, sound, and costumes, which he asked painters to design. They painted the costume motifs directly onto plain, inexpensive cotton cloth, creating, for example, an intricate suit of chain mail with their brushes. Today, those costumes are museum pieces, and the festival is the main event of Avignon's cultural calendar. It attracts actors, directors, and audiences from all over the world and has sprouted an "off festival" with hundreds of fringe productions and events. It invades every available inch of space in the summer—and some 400 projectors now light up the main stage in the papal courtyard.



An overview of Avignon

Avignon

**is southern French city seduces.**

Theater is so much the life-blood of Avignon that the program for its year as a European city of culture could not help but be a dramatic one. The main theme assigned to it by the European Union is, fittingly enough, "Art and Creativity." The France 2000 mission has added the concept of "beauty" as a guiding principle for the principal cultural events of the year. From May until the end of September, more than seventy international artists from various

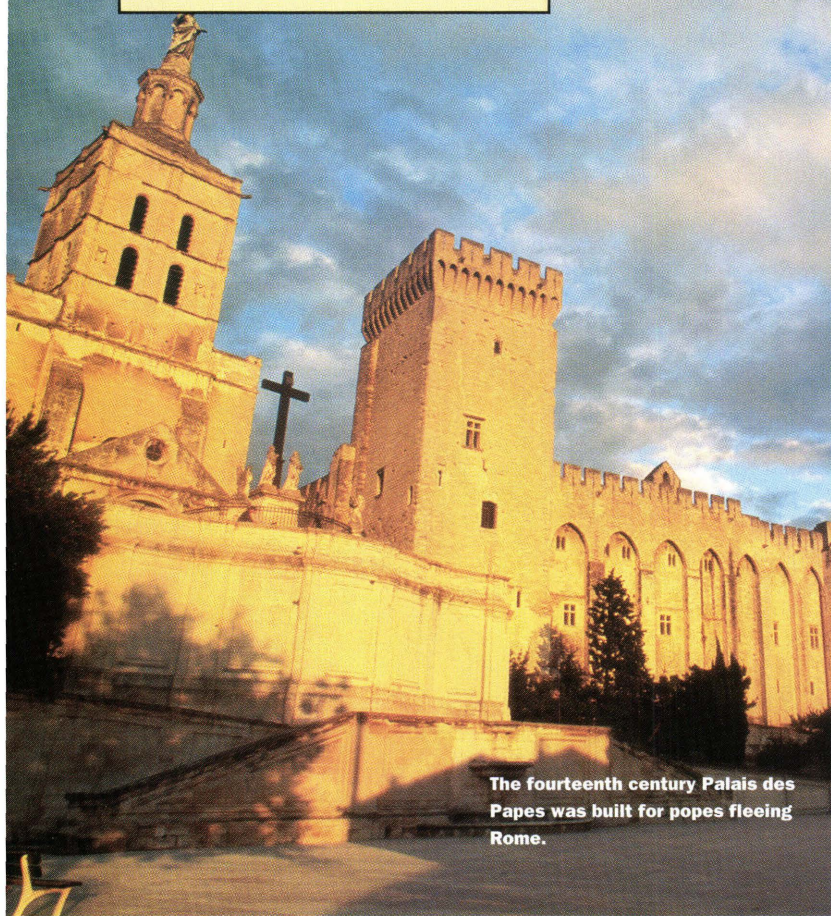
disciplines, including American provocateur Jeff Koons, UK fashion designer Alexander McQueen, French architect/designer Philippe Starck, and Icelandic pop star Bjork have been asked to present their personal visions of beauty in twelve different sites throughout town.

The results are definitely personal and eye-catching. Jeff Koons has created a giant head out of flowers that is supposed to be half dragon, half horse, but looks more like one of the Disney chipmunks. French fashion designer Christian Lacroix has dressed the streets and trees of Avignon with bright fabric and paper pennants, ribbons, veils, and flags in his trademark fuchsia, orange, and black. There is a morphing space, too, where visitors can transform themselves with makeup, hairdos, and body-designs, and have a photo taken of the result. Twenty rooms inside the papal palace have been set aside for an explo-

ration of "Beauty in Fabula"—the concept of Beauty as a fable, which is a truly fantastic combination of the sublime and ridiculous. By far the most stunning exhibits are the "Marvels of Nature," in the riverside Doms gardens: a display of fabulously shaped and colored specimens of the animal, vegetable, and mineral world. The live jellyfish, intricately marked and shaped insects, rocks and roots are paired with some exquisite artistic uses of natural materials: a Chinese headdress made of kingfisher down, pure gold, precious stones, and seed pearls, monks' robes made from brightly colored beetles, a top made of thistle-down, a sash woven of golden spider's silk—pure marvels, one and all.

The downside of all this creative activity was that the Avignon Theater Festival (which attracts 120,000 spectators) and the off festival (which brings in 450,000 more) combined with the beauty exhibition turned Avignon (which has a resident population of 90,000) into a seething anthill of humanity this summer. Better, far better, to wait until the tumult and the shouting have died and there is room to





The fourteenth century Palais des Papes was built for popes fleeing Rome.

stand back and look at the more permanent pleasures that the City of the Popes has to offer.

The City of Culture program, with a \$14 million budget attached, has given Avignon some new facilities that will outlive the year 2000. In keeping with the town's love of contrasts, one is a glitzy skate park designed by a contemporary artist; another is a new terrain for playing that timeless southern sport of *pétanque*, which requires men to stand around in contented little groups and drink generous amounts of pastis. Another addition to the cultural landscape of the town is a new Modern Art Museum, the Yvon Lambert Center, which opened this summer with an exceptional collection of 400 works from the 1980s and 1990s on display inside an historic mansion. Now closed for further renovations, it will reopen with a new exhibition in December.

Like a lot of divas, Avignon knows how to play to the bal-

cony and is at its spectacular best when viewed from a distance. One prime vantage point is the Ile de la Barthelasse, France's biggest river island. For many years, it was linked to the town by a cable ferry. This summer, a new river shuttle reinstated that link, and the island's riverbanks are being turned into landscaped walking paths. The best viewpoint from which to admire Avignon in all its glory lies slightly further away, on the opposite bank of the Rhone, from the small, picturesque town of Villeneuve-lès-Avignon. In the fourteenth century, the cardinals built fifteen magnificent residences here, and in the late afternoon, when the setting sun gilds the sculptured outlines of the City of the Popes, nothing can upstage its majestic beauty. ☺

*Ester Laushway is EUROPE's Paris correspondent.*

# Avignon Autumn 2000 HIGHLIGHTS

## September 15–November 12

*Art and Fashion, 1900: Paris–Avignon:* In the intimate setting of the Angladon Museum, where his private art collection is on display, another side of the fashion designer and collector Jacques Doucet will be revealed. A collection of dresses, accessories, photos, and documents will trace his role as a pioneer of Parisian haute couture during the *belle époque* at the turn of the last century. The fashion trends in Avignon at that time will also be explored.

## October 21–29

*RegArt:* In keeping with the year's general theme of beauty in all its incarnations, this show focuses on innovative, beautifully crafted creations for the home. Selected by a jury, ninety talented artisans will exhibit their works in and around the Popes' Palace.

## November 16

*Côtes du Rhône Celebration:* When it became the official capital of the Côtes du Rhône wine-growing region four years ago, Avignon planted a small vineyard in the Rocher du Dom gardens overlooking the river. In September, it celebrated its first harvest from those vines with an in-town grape festival, during which a set of nine bells, named after the nine cities of culture, rang out for the first time.

In November, the harvest celebrations spread to the entire Côtes du Rhône region. Wine first started being made there in the fourteenth century, for the eternally thirsty popes in Avignon. Now, there are more than 650 vintners, producing some of the best wines of southern France—more than enough reason to drink a toast in celebration.

## December 18

*The Night of All Nights:* This date has long been marked on Avignon's calendar as a celebration of light. This year, that tradition will be reinforced, with light decorations everywhere and special street installations created by the art students of Avignon.

## December 2–23

*Christmas Market—Place de l'Horloge:* Handcrafted gifts and handmade specialties for the holiday season, on sale in the main town square.

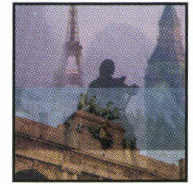
## December 20–January 20, 2001

*Crèche Exhibition:* A circuit featuring some of the most beautiful Christmas mangers, with handcrafted Nativity figurines.



# CAPITALS

An overview of  
current events  
and trends in  
Europe's capitals



The UK's Queen  
Elizabeth II and  
Prince Philip



## Europe's Royals

### THE GREAT SURVIVORS

How do you get a newspaper or magazine noticed on the newsstands of Europe? Easy: use a cover-photo of a British royal, Queen Elizabeth II, for example; or, in August when she celebrated her one-hundredth birthday, Queen Elizabeth the Queen Mother; or perhaps Prince Charles, preferably with his consort, Camilla Parker-Bowles. Even today, three years after her tragic death in Paris, a photo of Princess Diana ("Princess Di" to a nation of swooning Britons) will dramatically boost a publication's sales.



But why? What explains the extraordinary fascination of ordinary Europeans (and plenty of Americans) with the House of Windsor? After all, the British royals have no political power (the queen's annual message to Parliament is dictated by the government of the day); nor are they particularly glamorous (Princess Di was the great exception). So why are they regularly featured in the pages of *Paris Match* or Spain's *Hola* or Germany's *Der Spiegel*?

One obvious answer is that a nation's royalty is by definition different from its commoners, and we are all interested in what is different. The British royals may lead the fray, but the fact is that every royal family in Europe attracts attention—be it the bicycle-riding monarchies of Denmark and the Netherlands or the party-going princesses of Monaco. Indeed, even exiled monarchs or putative monarchs can command the limelight, as the dispossessed Greek and Italian royals have found in their continuing efforts to find a place in their republican homelands.

A second answer is that royalty represents continuity and, therefore, comfort. The popularity of kings and queens goes up and down—Queen Elizabeth, with her air of aloofness, suffered by comparison with the warm Princess Di (and still suffers in comparison with her mother). But they represent reassurance. That is why members of the media constantly pose the question of succession. Will the magic spell of Monaco, for example, be broken with the death of Prince Rainier? Should Queen Elizabeth step down not in favor of Prince Charles, too single-minded, even eccentric, for some tastes, but in favor of her handsome grandson, Prince William? Will the Spanish monarchy, restored after the fascist era of Franco, survive the eventual demise of King Juan Carlos, who cemented the monarchy's legitimacy and his own popularity by facing down a coup attempt in 1981?

There is, however, another, more practical explanation. Europe's modern monarchs, stripped of their political powers, do not rule. Instead, they reign by popular assent (after all, any parliament in a constitutional monarchy could vote to become a republican legislature). Their role is to embody the nation's values and to inspire its future. In other words, they generally do what any republican president is supposed to do (that duty, by the way, goes for all republican presidents, whether they are rela-

tively powerless, as in Germany, or, as is the case in France, wield the sort of executive powers enjoyed by American presidents).

But the monarchs do this with one great difference: they have never been members of a political party, and they have never espoused any particular political or ideological beliefs. By contrast, any president is the product of a political career, rewarded for long service or for political infighting. Who, then, has the better claim to represent the common man? Love them or loathe them, but God save the royals!

—John Andrews

## PARIS

### BOURBONS VERSUS ORLEANS

**N**o other country attacked its nobility with more bloodthirsty gusto than the French did 200 years ago. Yet, in spite of all the aristocratic heads that rolled during the French Revolution, not all royal ambitions were cut off by Madame la Guillotine.

It took only until Napoleon's defeat at Waterloo in 1815 for the Bourbon family to be restored to the throne, in the person of Louis XVIII. He was followed by Charles X, who was ousted by a new revolution in 1830, which ushered in the "middle-class" monarchy of Louis-Philippe. Finally, another revolution in 1848 finally put an end to the reign of the Bourbons, and that would seem to be that.

But just because no king has ruled in France since then, does not mean that the institute of monarchy is dead and forgotten. Two opposing branches of the royal family tree of France, both related to the Sun King, Louis XIV, continue to spar over which one has the more legitimate right to the French throne. In one corner are the Orléans, descended from the Duke of Orléans, one of the brothers of Louis XIV; in the other corner, the Bourbons, living in Spain, descended from a grandson of Louis XIV. The Bourbons claim that the Orléans are only second in line to the throne because they are not direct descendants of Louis XIV; meanwhile, the Orléans maintain that the surviving Bourbons are not French, but Spanish, and therefore have no claims on the throne of France.

The undisputed authority on this dispute and all other royal affairs in France

is the journalist Stéphane Bern. For the past fifteen years, he has carved a niche for himself as the Frenchman who hobbles with European royalty and reports on their lives without giving way to either a swollen head or the gossipy bitchiness that often goes with the job of royal chronicler. He has followed the Orléans versus Bourbon feud closely and was an admirer of the Orléans pretender to the throne, Henri, count of Paris, who died last June.

Since then, his admiration has turned to outrage at the count's less than noble way of handling his heritage. During his lifetime, for example, he had declared \$30,000 worth of woodlands to the tax authorities. Bern was there at the opening of the count's will, and there, he says, "We found more than \$8 million worth of woodlands. How do you explain that difference? So, he robbed the tax authorities. Secondly, we did not find the family jewels, the paintings—everything had disappeared. The paintings were hidden in a bank; the jewels were hidden somewhere else. It was a really sordid affair."

After the count's death, his title passed to his son, also named Henri, whose oldest son, the thirty-three-year-old Jean, is the "crown prince" of the Orléans dynasty. Support for Prince Jean has fallen off among France's 2,000 or so active monarchists because of the scandal of his grandfather's will and is now swinging more in favor of the young Bourbon pretender, Louis, who is the cousin of Spain's King Juan Carlos. Only twenty-six years old, he is handsome, single, an MBA graduate, and works as an investment banker. He has the additional romantic appeal of coming from a family haunted by tragedy, rather like the Kennedys. His younger brother died in a car crash in 1984, his father in a skiing accident in Aspen in 1989.

Neither of these royal pretenders is ever likely to reign in France, but that does not stop them from going on public relations tours. The United States, where royalty has great star appeal, is one of their favorite destinations. New Orleans, for example, which was founded by the Orléans family, received a visit from Prince Jean last year, and this year, Prince Louis of Bourbon flew to St. Louis, Missouri, to celebrate August 25, the day of his patron saint and ancestor, Saint Louis.

—Ester Laushway



## MADRID

THE KING WHO SAVED  
DEMOCRACY IN SPAIN

In opinion polls conducted periodically by Spanish newspapers, King Juan Carlos is always by far and away the most respected figure in the country's political life. When talking with Spaniards, a foreigner is impressed by how much the monarch is truly loved by his subjects.

Tall, handsome, and ebullient, Juan Carlos never puts on regal airs in public and is adept at chatting easily with whomever he meets, whether president or street peddler, in his frequent appearances abroad and around Spain.

Born in 1938 in Rome where the Spanish royal family was living after his grandfather, King Alfonso XIII, had relinquished the throne and Spain was declared a republic, Juan Carlos de Borbón y Bordon never set foot in his homeland until the age of ten.

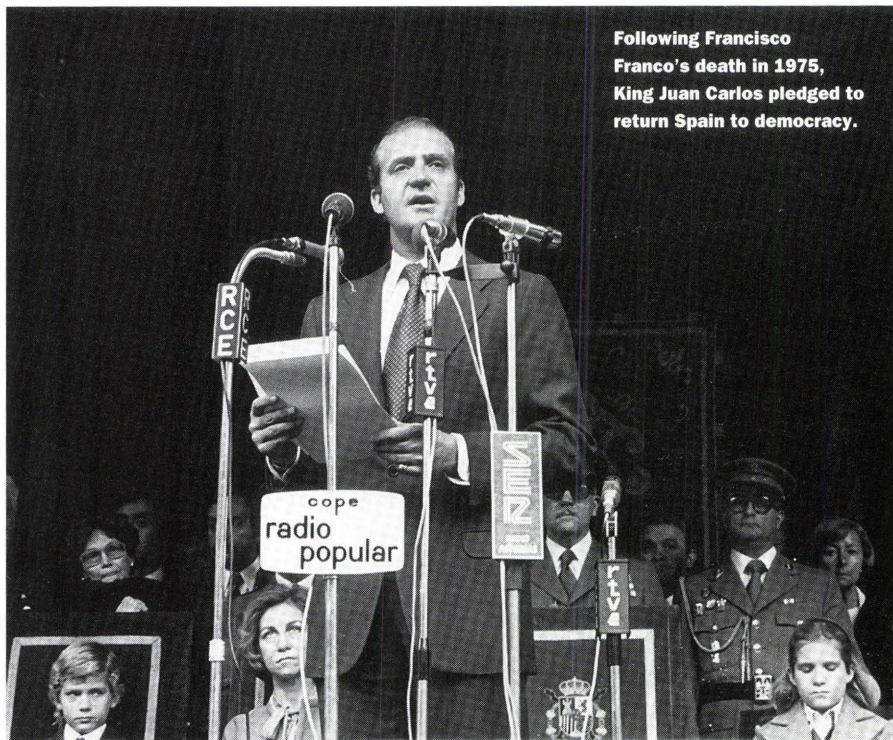
His father, the count of Barcelona, Juan de Borbón y Battenburg, wanted the young prince to be educated in Spain so he could learn about the country over which he would one day reign, if not rule, as a constitutional monarch.

Following his studies at a school in Madrid, Juan Carlos went on to do courses at the army, navy, and air force academies and later graduated from the capital's Complutense University, where he studied institutional and international law and economics. He married Princess Sofia of Greece in 1962, and they have two daughters and a son, heir to the throne Prince Felipe of Asturias.

Spanish dictator Francisco Franco, believing that Juan Carlos would be easily pliable and maintain the government's right-wing bent, designated him as his successor as head of state in 1969. Six years later after the old *generalissimo* finally died, Juan Carlos was proclaimed king and pledged to restore democracy.

Political analysts say the monarch was instrumental in smoothing the transition. His biggest challenge came on the evening of February 23, 1981, when right-wing Civil Guards seized the parliament and generals ordered tanks into the streets. A full-on military coup was about to drag Spain back to its dark past.

But the dissident officers did not take into account the king's determination to nip the uprising in the bud. As armed forces commander-in-chief, he worked



Following Francisco Franco's death in 1975, King Juan Carlos pledged to return Spain to democracy.

the phones throughout the night to persuade those generals still sitting on the fence to back democracy and went on national television to denounce the plotters. The coup failed, and Spaniards hailed Juan Carlos as the savior of democracy.

That act did much to cement the king's relationship with his subjects, and the deep respect remains. Press criticism of Juan Carlos is unheard of, and when an Italian gossip sheet published allegations several years ago of an alleged affair between the monarch and a foreign woman, the Spanish media ignored the story.

—Benjamin Jones

## LISBON

## THE MAN WHO WOULD BE DOM

Every December 1, the president of the republic addresses the nation to mark the anniversary of the 1640 restoration of Portugal's independence from Spain. On the same day, a man who, his supporters say, should replace the president as head of state makes a rival speech across town.

Duarte Pio, duke of Bragança, is a scion of the aristocratic family that rose to the throne after the 1640 uprising ended a brief period of rule from Madrid. The Braganças were turfed out in 1910, when the then king, Manuel II, was forced into exile five years after his father

and elder brother were assassinated.

The Portuguese are undoubtedly proud of their almost unblemished 800-year record of keeping the Spanish out of their part of the Iberian Peninsula. So it makes sense for monarchists to try to associate their cause in the public mind with an historical event that unites their fellow countrymen and women.

Their annual Conspirators' Dinner is held on November 30, the eve of the anniversary of the restoration. As many as 1,000 royalists attend the event, which is addressed by the duke of Bragança.

The next day, a public holiday, the duke delivers his "message to the Portuguese" in a suitably grand historical setting. Last year it was in the Palácio Galveias, an elegant building once on the outskirts of Lisbon that now finds itself in the midst of a bustling business district, serving as a public library.

Its faded grandeur serves as a metaphor for the decline of monarchism itself. Support for the cause nowadays is minuscule, and although monarchist candidates have regularly stood for election, they have no representation in parliament.

However, despite their small numbers, monarchists are not united. There are various regional "royal associations" that in fact correspond to different factions. The real die-hards are the Miguelistas, who hanker after an absolutist form of monarchy rather than the constitutionalist sort that coexists with democracy.



In their imagination, the Miguelistas are fighting the battles of long-dead Miguel, eldest son of King João VI and leader of the Absolutist faction at the beginning of the nineteenth century. When his father died in 1826, Miguel's claim to the throne was shoved aside by the Liberals, who proclaimed Pedro, his brother, king. The subsequent war ended with Miguel being forced into permanent exile—becoming “the king over the sea” to his more romantically-minded followers.

The duke of Bragança, himself, or Dom Duarte as he is referred to in glossy magazines (the word “dom” means lord but is the title attached to Portuguese kings’ names) is well aware that such dyed-in-the-wool attitudes will not help his cause.

While his views are firmly at the conservative end of the spectrum—and he is a bit of a Euroskeptic—he carefully distances himself from the reactionary camp. He says he wants a “modern monarchy,” similar to Spain’s. However, unlike King Juan Carlos, he can occasionally be seen on the Lisbon subway as well as at diplomatic garden parties.

His image—that of a genial country squire—has been much enhanced (at least in those glossy magazines) by the birth of two children after his marriage a few years ago, which was attended by representatives of all Europe’s royal families.

Indeed, the duke is not at all averse to name-dropping, as evidenced in a recent interview in which he discussed plans for the education of his young son Afonso. The duke mentioned casually that the emperor of Japan had advised him that because different forms of Japanese are used according to social status it was important that Afonso learn imperial Japanese when young.

—Alison Roberts

## HELSINKI

### UNSENTIMENTAL FINNS HAVE LITTLE USE FOR KINGS

**F**inland is the only Nordic nation that is not a monarchy. Through the centuries, the country has put up with so many Swedish kings and Russian emperors that today it is perhaps understandable there is no vestige of royalist sentiment among any of the 5 million

population, even among the 6 percent whose first tongue is Swedish.

Not only that, the heraldic clues of a country with a rich past are almost completely expunged. There is no aristocracy, although there is old money. Neither is there much sentimentality about the country’s history before 1917, when it became independent.

However, one particularly striking clue to Finland’s complex history remains, although its presence puzzles many tourists: a statue of Russian Emperor Alexander II stands in the capital’s main square.

After numerous wars and intrigues, the Russian czars arrived in the country with Alexander I in 1809, replacing centuries of Swedish monarchical rule of the area that is today modern Finland. He established Finland as a grand duchy, not as a colony of the Russian Empire. Although he brought a throne, suitably decorated with the double eagle symbol, and loyalty to him was a precondition of Finland’s autonomy within the empire, the degree of independence he allowed the Finns in many significant ways laid the foundation for its independence a little more than a century later. Later, Alexander II (1818–1881) revived Finland’s legislature and instituted several reforms that improved Finnish living standards. When Nicholas II was swept away by the Communist Revolution in 1917, Finland opportunistically used the power vacuum in Russia to declare itself a sovereign, independent state.

In terms of tourism, however, Finland has seen a revival of interest in another monarch, Sweden’s King Gustav III (1746–1792). Of course, he lived in Stockholm but in 1775 decided to visit the part of his kingdom that was Finland, when Helsinki had a population of 1,500. Gustav landed in Turku, the nation’s original capital, and journeyed east across southern Finland to Loviisa. Everywhere along this route, which runs parallel to the coast, the king was acclaimed and feted. Known as the King’s Road, much of its rather torturous course remains today, although some of it is subsumed under modern highways.

Gustav’s expedition was not altogether altruistic; he wanted to see for himself the fortifications in the eastern reaches of his kingdom and that is why he visited all the garrison towns along the way. However, the king was an enlightened man and made some im-

pressive reforms during his reign over Finland.

He banned the use of torture, gave freedom of expression to the ‘press’, and he granted religious freedom to the Finns. In addition, he revived the money system by introducing notes into the currency. He also founded two of the country’s principal cities—namely, Tampere and Kuopio. In today’s parlance, he would have been called a ‘liberal.’ The culture that he brought to Finland was later to burgeon with significance for the country. All this plus the presence of a significant number of Finns among his courtiers meant that, at first anyway, he enjoyed the high esteem of his eastern subjects.

Modern Finns generally remain unsentimental about this king, but in recent years, there has been a revival of interest in him because, although ‘foreign,’ he was a monarch of whom no one need be ashamed. Furthermore, his exploits, which tap into Finland’s deeper roots, have been put to good account by the tourist industry, which provides guides for those who wish to retrace Gustav’s ride. In the remaining manor houses along the way, notices abound claiming, “Gustav III slept here.”

—David Haworth

## THE HAGUE

### ROYAL DUTCH BELLE

**I**t’s two down and waiting for the big one. Two princes of the Dutch royal family, nephews of Queen Beatrix, recently got married, but the main event is the expected announcement of the wedding of thirty-three-year-old Crown Prince Willem Alexander, the oldest son of Queen Beatrix and Prince Claus. Ever since it was revealed in the Dutch press, about a year ago, that the heir to the throne of the Kingdom of the Netherlands had fallen in love with an Argentinean woman, speculations about the royal marriage have abounded. Not the least because the love affair of the prince of Orange with Máxima Zorreguieta, the daughter of a landowner from the Argentinean pampas, is full of both romance and politics.

For the first time, the Dutch government, constitutionally responsible for the royal family, officially recognized a relationship of Willem Alexander. Prime Minister Wim Kok acknowledged ‘the



friendship' of the Dutch prince and Máxima, who at that time was working as an investment banker at Deutsche Bank in New York. Since then, Máxima has moved to Brussels, closer to her paramour. She also joined the royal family on several occasions but was banned from public appearances, like, for example, the weddings of Willem Alexander's two cousins, sons of his aunt, Princess Margriet. In fact, as of yet, Máxima had never appeared in public in the Netherlands, and photographers had a hard time getting pictures of her.

For one thing, Máxima has increased the popularity of Willem Alexander. He is widely liked in the Netherlands, and as he moves from the shadow of his influential mother, he seems to be more at ease. Beyond Máxima's beauty, little is known about her. The Dutch public, nevertheless, apparently has decided to embrace her as its future queen, but a serious obstacle remains.

The complication of the royal romance has nothing to do with Máxima's lack of royal blood nor that she is Roman Catholic. (The link between the House of Orange and the Netherlands has its roots in the Reformation and the Protestant uprising of the Dutch provinces against the Spanish Crown in the sixteenth century.) The problem stems from her father's past. Jorge Zorreguieta served as a sub-secretary and later secretary of agriculture during the military regime that ruled Argentina from 1976 until 1983. The coup that brought the regime to power ended the catastrophic regime of Isabel Perón, widow of the late Juan Perón, but it established a government with arguably the worst human rights record of twentieth century Latin America. It was fiercely criticized by the Carter administration among others. As a civil member of the government, however, Zorreguieta was not involved in the 'dirty war' waged by the military against opponents of the regime. Like the vast majority of Argentina's elite, he welcomed the junta.



**Maxima Zorreguieta, the Argentinean girlfriend of the Netherlands' Crown Prince Willem Alexander, is said to be taking Dutch language and history lessons.**

He went a step further, though, by actually joining its government, thus making himself, at least politically, co-responsible for the atrocities of the military.

Ironically, the Dutch well remember that Argentinean dictatorship: in the 1978 World Cup final, the Dutch national soccer team played Argentina in Buenos Aires despite widespread protests against its participation. The Dutch players received their silver medals from the hands of General Videla, the leader of the junta.

Now, the debate around Willem Alexander and Máxima's affair is whether Jorge Zorreguieta would be acceptable at the wedding of his daughter in the Netherlands. Meanwhile, it is said that Máxima is learning Dutch and receives private classes on Dutch culture, history, and civics. The girl from Buenos Aires better be prepared, as she may, after all, one day become queen of the Netherlands.

—Roel Janssen

## CITY AT THE HEART OF THE PRUSSIAN MONARCHY

When Allied bombers rained their deadly payloads on Potsdam on April 14, 1945, they destroyed the city that had once been the heart of the Prussian monarchy. Most of the aristocratic Potsdamers had fled at the approach of the Red Army. Previously, they had sat out both the Weimar Republic and the Third Reich, hoping against hope for a return of the monarchy. Now, they realized the cause was lost. In truth, it had been lost in 1918, after Kaiser William II's abdication and flight to the Netherlands. The reactionary Potsdam nobles still schemed to restore the monarchy in the early 1920s at Schloss Cecilienhof, the former residence of Crown Prince William of Prussia and Germany, the son of Kaiser William II, Germany's last emperor.

Today, the refurbished Schloss Cecilienhof is a luxury hotel. Europe has few hotels like it: not only did the Prussian royal family live here, but it was the scene of the Potsdam Conference of July 1945 where Truman, Churchill, and Stalin set the conditions for the occupation of Germany and Austria.

From an urban planner's standpoint, today central Potsdam lacks a focal point. What the Allies bombs did not destroy the East German Communist regime did. The Stadtschloss, which could have been saved, was demolished in 1960. In fact, the Stadtschloss had been Potsdam's *raison d'être*, built by Kaiser Frederick I to establish a Prussian Versailles away from Berlin. Furthermore, the loss of the Garrison Church and the Heiliggeist Church destroyed Potsdam's baroque skyline, which had remained much the same since Frederick's father's time.

However, today Frederick, his son Frederick William I, and his grandson, Frederick II (Frederick the Great) would still recognize many areas of the city they did so much to design and beautify. In the former Neustadt district, numerous buildings survive from Frederick the Great's time. He was said to have paid attention to even the smallest details, insisting on the slightly kitsch putti that invariably adorn these structures.

The prettiest original area remaining in central Potsdam is the Neuer Markt,



which only partly dates from Frederick the Great's reign, but in the Kiezstrasse (the Slavic fishermen's neighborhood), a whole street of buildings remains from his time.

However, the best place to catch a glimpse of Frederick the Great's Potsdam is up at Sanssouci, the summer palace he built on the summit of the old south-facing vineyard. Sanssouci was his attempt to find relaxation and diversion after the Silesian Wars. The little rococo palace's peaceful ambiance persists today among the putti, musical instruments, and vines. The only allusion to war comes in the domed dining hall, which features a few breastplates and swords. The best room is the concert room, with its ceiling frescoes depicting greyhounds pursuing hares, where the king performed his compositions for flute.

The gold and marble Neue Palais, which is less than two miles away, stands in stark contrast to Sanssouci, yielding an unloved magnificence. Frederick the Great built it to create jobs but also to demonstrate to the world that Prussia despite the seven-year war was still powerful financially and politically. Later, King Frederick III, who only reigned for ninety-nine days, died here in 1888 and was succeeded by his bellicose son, William II, then twenty-one, of whom his own mother once said, "My son will be the ruin of Germany." Unwilling to tolerate the domination of the seventy-three-year-old Otto von Bismarck, the Iron Chancellor, William forced the legendary leader out of office. He took charge of military and diplomatic matters, and led Germany into the debacle of World War I, which forced his abdication and the end of the monarchy in Germany.

—Wanda Menke-Glückert

## BRUSSELS

### PREPARING FOR A NEW ROYAL GENERATION

There have been six Belgian kings, and many of the founders of the Belgian state would have regarded that as six too many. They aspired to create a republic, but reasons of national preservation dictated otherwise.

The Dutch king, whose forces were driven out in 1830, threatened to reinvade, and the infant state needed power-

ful friends to deter him. The leaders turned to their great power neighbors—Britain and France—for support. The British supplied them with a king—Leopold of Saxe-Coburg-Gotha. He had been married to the heiress to the British throne, Princess Charlotte, who unfortunately died in childbirth. Otherwise, Leopold would have become the British prince consort, as his nephew, Albert, did some years later when he married Charlotte's cousin, Queen Victoria.

To secure the backing of France, Leopold took as his second wife Louise-Marie, the daughter of the French king, Louis-Philippe. The ploy proved successful, and the Dutch eventually accepted the loss of their southern provinces.

The six Belgian kings may be briefly summarized:

Leopold I (1831–65) was a natural autocrat, constrained by the Belgian constitution, which severely limited his powers. Leopold II (1865–1909) was a megalomaniac, who festooned Brussels with grandiose buildings and acquired his own private colony in the Belgian Congo, which was notorious for its cruelty and rapacity. Albert I (1909–34) was a war hero, who won great popularity by resisting the German occupation in 1914–18. Leopold III (1934–50) initially proved to be a popular figure but lost support by not resisting the German occupation (1940–45). He eventually abdicated in 1950, after failing to secure a convincing majority in a referendum. Baudouin (1950–93) was a pious Catholic who ruled for nearly forty-four years and abdicated for thirty-six hours in 1992 to avoid signing a law permitting abortion. He died suddenly in 1993 and was succeeded by his younger brother, Albert II, a reformed playboy who never expected to be king. An avuncular figure, Albert may well stand down in favor of his elder son, Philippe, now forty, after only a few years on the throne.

It was always expected that Philippe would succeed his uncle, Baudouin, but the Belgian government considered he was not yet ready to succeed to the throne, partly because he was still unmarried. He remedied this deficiency last December and since then has cut a more convincing figure. Although he previously appeared disinterested in carrying out his royal duties, he now appears much happier and more positive.

The monarchy in Belgium has few constitutional powers, the main one being the selection of potential prime

ministers, who then have to seek a vote of confidence from the parliament. According to opinion polls, it is supported by roughly three-fourths of Belgians, though without notable enthusiasm. Many hold the view that it is essential to keep the country together, which might otherwise split up between its French and Dutch-speaking halves. There is little evidence to support this belief, but the probability is that the institution will continue for many years to come.

—Dick Leonard

## DUBLIN

### IRELAND'S ROYAL BLUES

Given the centuries of wrangling over British rule on the island of Ireland and—even earlier this year—disputes over the renaming of the Northern Ireland police force, it is surprising that any traces still exist of Ireland's (British) monarchist past.

But they do—and not only in that part of northeast Ireland that still claims adherence to the British crown.

Perhaps not surprisingly, given its place within the United Kingdom, Northern Ireland boasts its Royal Avenue in Belfast. A large proportion of the population still hankers for the preservation of the Royal Ulster Constabulary (RU) rather than the less-imperialist sounding Northern Ireland Police Service. Nevertheless, hundreds of other continuing royal associations persist.

However, here in the Irish Republic, the royal links also remain after almost eighty years of independent rule, through a plethora of old—and more recent—royal appendages.

There is the Royal College of Surgeons in Ireland, which provides medical qualifications independently of the university medical schools. There are also the Royal Cork, Royal Dublin, and Royal St. George yacht clubs. The illustrious Royal Dublin Society was founded in 1731 as the Dublin Society but later acquired the "royal" prefix, a thriving agricultural, equine, scientific, arts, and cultural body. The Royal Hibernian Academy was established in 1823 as an amalgamation of previously splintered artists' groups, and the Royal Institute of Architects of Ireland was founded in 1839. Furthermore, the Royal Irish Academy, established in 1785 to give



Irish science and technology an independent focus, remains one of country's leading institutions. It is joined by the Royal Irish Academy of Music, the Royal British Legion, the Royal Victoria Eye and Ear Hospital, the Royal City of Dublin Hospital, the Royal Canal, the Royal Hibernian shopping arcade, the Royal Horticultural Society of Ireland, the Royal Irish Automobile Club, the Royal Marine Hotel, the Royal National Lifeboat Institution, the Royal Meath pitch-and-putt club.

Not to mention a royal rubber stamp company; a royal oil distribution company; a royal bar; a royal television society; royal upholstery, tile, and transport firms; a royal window-glazing company; even a number of royal Chinese and Indian restaurants, although they possibly reflect more distant and ancient dynasties.

The ports of Queenstown and Kingstown have been renamed Cobh and Dún Laoghaire. King's County and Queen's County are now known as Offaly and Laois.

Statues of Queen Victoria and other British royals no longer adorn the country's main thoroughfares—most of them suffered the twin fates of either past strategic removal for preservation in local authority collection yards or the more permanent effects of IRA explosives.

But there are still terraces and roads bearing royal and queen adornments—and five families with the surname Royal are included in the Dublin city telephone directory.

Surprising? Not really. In the second century BC, Celtic Ireland was divided into roughly 150 miniature kingdoms and five more powerful provincial kings.

The arrival of the Norman French in 1167 saw their influence rapidly spreading through most of the country and, in 1171, Henry II, king of England, was recognized as overlord by both the Normans and the Irish.

The Normans intermarried with the native Irish, while adopting the same parliamentary law and administration as in England, but rapidly assimilated and became “more Irish than the Irish themselves.”

Toward the end of the fifteenth century, direct English rule had been reduced to an area around Dublin, sparking a reconquest of Ireland by the Tudor monarchs and the self-declaration of Henry VIII as “king of Ireland.”

In a series of subsequent battles, the

native Irish chieftains (and many of their old Norman in-laws) were defeated and forced to flee and join the royal armies of France, Spain, and Austria. English and Scottish settlers took over their vacated lands, and the seeds for centuries of violence and hatred were sown and are only now being exorcised.

So the Irish Republic is anti-monarchist? Not so.

Visits by European royals have been greeted with overwhelming enthusiasm. Two Irish presidents have taken tea with Queen Elizabeth in Buckingham Palace during state visits to the United Kingdom. Prince Charles was toasted and mobbed as he toured the country, and whisper it, there is even a proposed royal visit to the Irish Republic by Queen Elizabeth in the cards—the first such by a reigning monarch since her ancestor Queen Victoria—when the security situation appears right.

Oh, and a further contradiction—royal weddings and funerals? Almost the entire country takes a day off and electricity demand soars as the population turns to the television coverage.

—Mike Burns

## LONDON

## WILL APATHY FELL THE CROWN?

**T**he British royal family is the most famous in the world, and thanks largely to the celebrity status of the late Princess Diana, the most exposed to the searchlight of media scrutiny feeding a worldwide fascination with the love lives of the younger royals.

Media intrusion has been more constrained since the death of Diana in a car accident in Paris three years ago. But the consequence is that the family has slipped back behind its wall of privilege and privacy, and the public now appears bored by the royals, who again seem aloof and out of touch with the Britain of the twenty-first century.

Again, the royal family is seen as being irrelevant and anachronistic, a tourist attraction rather than a symbol of the nation. A growing number of people here would not be distressed if the family simply faded into history. A poll in June showed that support for the royal family has fallen to its lowest level in recent times. Three out of four young people said they would rather live in a republic, and fewer than three in ten

believe that there will be a monarchy in fifty years.

Indeed, when a government minister recently suggested that the Windsors should move out of Buckingham Palace to a more modern building, there was no public outcry about disrespect. “We pay an awful lot of money for the upkeep of the family,” commented one royal correspondent when challenged about media coverage of the monarch and her family.

Longevity may be one cause of the troubles. The queen has been on the throne for half a century and even at seventy-four looks set to continue to rule for decades. This leaves fifty-one-year-old Prince Charles with the prospect of a long wait before he gets a chance to sit on the throne.

Hence much of the interest in his eldest son William, who turned eighteen this summer. Standing six-feet-two and with blue eyes and his mother Diana's stunning good looks, it is not surprising that there has been a renewed focus on the young man who could conceivably



Prince William, heir to the British throne, turned eighteen this summer.

bypass his father to sit on the throne.

The summer also saw a focus on the older generation. The month-long celebrations leading up to the Queen Mother's one-hundredth

birthday on August 4 brought forth suitable throngs of flag waving crowds. The Queen Mum has long had the affection of a public who perceives her as a tough old boot who likes a gin and tonic and a flutter on the horses.

But for the first time ever she was also the subject of critical articles about her right-wing xenophobia and appeasement toward Hitler. Indeed, while some parts of the public marveled at the longevity of the Queen Mum, others said that if they had spent a life of cosseted idleness, they too could live to be one-hundred.

Commenting on a photo opportunity on the steps of St. Paul's Cathedral during the Queen Mum's birthday celebrations, an article in London's *Evening*



*Standard* observed, “Photograph them in sepia tones, and they could almost be their own grandparents posing in the same place circa 1912. They look like inhabitants of another era.... They are not people who visibly belong in the modern world.”

The monarchy has survived trouble before the 1990s divorces and the unpredictable daughters-in-law, notably in 1936 during the abdication crisis. But how long can it survive unchanged in the face of growing public apathy?

—David Lennon

## LUXEMBOURG

### CROWN TURNS ON A COIN

**T**he celebrations on Luxembourg’s national day, June 23, were better attended and more heartfelt than usual this year. In a sense, people felt they were saying goodbye to Grand Duke Jean after thirty-six years as Luxembourg’s head of state. Now approaching eighty, the grand duke has signaled that he will step down this year so that his son, Crown Prince Henri, can be enthroned as the new head of state this fall.

There are not many grand duchies around these days—in fact Luxembourg is probably the only one of any importance. Grand dukes and grand duchesses, nevertheless, are cut from the same royal cloth as the kings and queens of other countries. Jean is a distant cousin of the British and Scandinavian monarchs arising from their common ancestry in the Nassau family and is the brother-in-law of the king of the Belgians. He is addressed as his royal highness. His powers, like those of most monarchs today, are impressive on paper, less so in real life: he appoints the prime minister, but this is always somebody he knows will be accepted by Parliament.

Born in 1921, Jean was nineteen when the Germans invaded Luxembourg in 1940. The family fled to France and then the US, Canada, and Britain. In 1942 Jean volunteered for the Irish Guards, was commissioned in 1943, and promoted to captain in 1944. His active war service included the battle of Caen, the liberation of Brussels and Luxembourg, and the Arnhem operation.

He acceded to the Luxembourg throne when his mother the grand duchess abdicated in 1964.

With his distinctive moustache and trim, youthful frame, the Grand Duke has the looks of a 1930s Hollywood screen idol. He’s an active sportsman, an enthusiast of the Boy Scout movement, and a keen environmentalist. A few engagements have been canceled recently, but there is nothing to suggest the grand duke’s health is seriously at risk in spite of his years. His decision to abdicate at a time when most Luxembourgers expected him to go on until at least his eightieth birthday next year has taken many by surprise.

Blame the euro. In 2002, Luxembourg will have to issue euro coins bearing the image of the head of state. At least two years are needed to design and produce the coins so the image had to be chosen last year. Jean apparently decided to let the honor pass directly to Henri, which meant that the throne would have to be handed over earlier than expected.

Many Luxembourgers are now looking forward to Henri’s enthronement, not least because his Cuban wife Maria Teresa is expected to bring a touch of Latin color to the royal house. The daughter of a banker who fled Havana when Castro took over, Maria Teresa was educated in Switzerland. She met Henri when they were students at Geneva University, and they were married in 1981. The future grand duchess is a popular figure in Luxembourg where her natural exuberance has been effectively put to the service of charity work in recent years.

Henri, forty-five, has inherited his father’s interest in the scout movement and is an active figure on the Olympic committee. For some years, he has been bred for leadership as the grand duke’s representative lieutenant. In particular, the prince has won widespread respect for his work as president of the industrial board charged with recruiting foreign firms to invest in Luxembourg. He “stood his man” as they say here. Henri is a widely traveled expert in commerce and foreign trade whose speeches have won acclaim in North America, China, and other countries. His mantle will now fall upon his own son Guillaume, the eighteen-year-old new crown prince, who has begun participating in public events even though still at school in Switzerland.

Luxembourg being the cosmopolitan place it is, not everybody was excited about taking the day of the coronation off as a national holiday. Neither the big in-

ternational banks that provide Luxembourg with much of its income nor the European Union institutions based in the country are known as great romantics. But it could hardly be business as usual on the day.

Drawing on the Luxembourgers’ longstanding talent for compromise, the government announced that companies could decide for themselves whether they operated normally or not. In any case, they would be reimbursed by the state for up to half of any business lost as a result of the celebrations.

—Alan Osborn

## STOCKHOLM

### THE KING’S NEIGHBORHOOD

**B**undled in a heavy parka, King Carl XVI Gustaf Folke Hubertus glanced around at the crowd waiting for him to officially open the cross-country ski race around the Royal Palace in Stockholm’s old town, Gamla Stan.

“Well,” said the king with a diffident smile, “welcome to my neighborhood.”

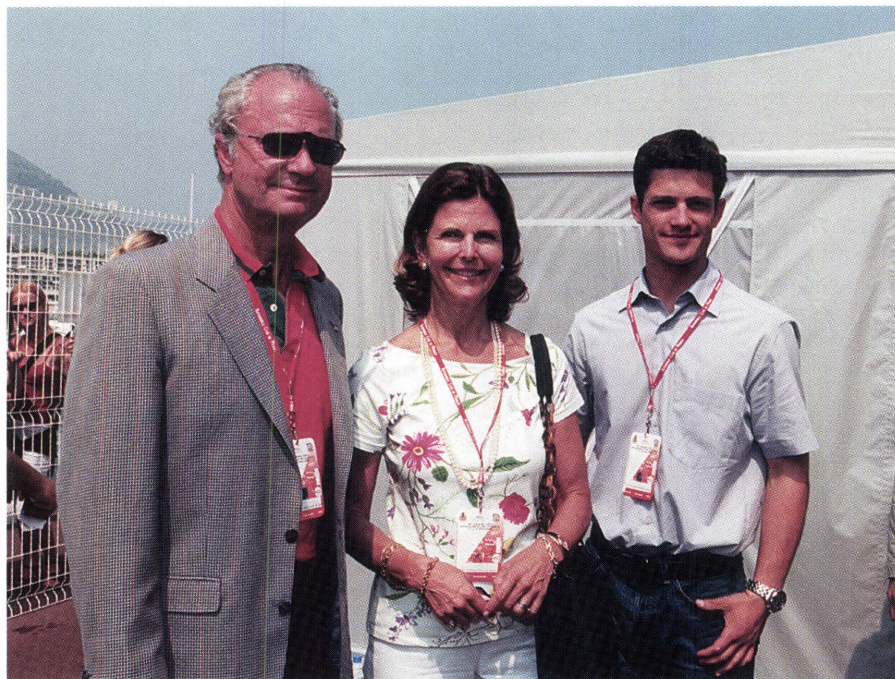
It is hard to imagine a less royalistic comment, but then, it is hard to imagine a less royalistic monarchy than Sweden’s.

The Swedish monarchy dates back to about 970 AD. The current House of Bernadotte was founded in 1818 when the Swedes imported Jean Baptiste Bernadotte from France to become King Karl XIV. The Swedes hoped that Bernadotte, one of Napoleon’s generals, would make war against Russia and help win back Finland, which had been part of Sweden. Instead, Bernadotte joined with Russia and took Norway.

Today, the Swedish monarch is essentially a goodwill and business ambassador for the country. The king frequently travels with business delegations abroad. Last year, he received an honorary doctorate from the Stockholm School of Economics for his interest in the development of Swedish business and his support to export companies.

The fifty-four-year-old Carl Gustaf does not have any real power. He opens the Riksdag, the Swedish parliament, each year, but he does not even have formal approval over the government, cannot dissolve the Riksdag, or in any way influence the country’s laws. Unlike his counterparts in neighboring Norway and Denmark, the king does not seem to influence public opinion much either.





Sweden's King Carl XVI Gustaf, Queen Silvia, and Prince Carl Philip attended this year's Monaco Grand Prix.

But, like most Swedes, he is a nature enthusiast and likes to sail and ski. In 1981, the family moved from the Royal Palace to the castle on the park-like island of Drottningholm, outside of Stockholm. The Royal Palace is used for ceremonial visits and important state occasions such as the ski race. Part of it is also open to the public.

The king does not seem to stir particularly strong feelings among his ostensible subjects. Older Swedes tend to respect the monarchy out of tradition while younger people are often either indifferent or openly critical. Poking fun at the king's intelligence—or supposed lack thereof—is sometimes a popular pastime.

But in fact, the king comes up with some particularly pithy comments. Several years ago when a national US morning news program spent a week broadcasting from Sweden, a reporter interviewing the king mentioned that living surrounded by Drottningholm greenery must surely be better for his children than living in the city.

"Never mind the children," replied Carl Gustaf. "It's better for me."

Carl Gustaf became king in September 1973 when he was only twenty-seven, on the death of his grandfather Gustaf VI Adolf. His father, who would have ascended to the throne, died in a plane crash.

While still prince, Carl Gustaf developed a playboy's reputation. But in 1972,

he met Silvia Summerlath, a German commoner who was a hostess at the Munich Olympics that year. They were married in 1976, and the playboy image was toned down.

Or, as Swedish historian Herman Lindqvist once put it, "The family has not been involved in scandals, have not made fools of themselves; they are stable. But without Silvia it would have been a circus, à la House of Windsor." The couple has three children, including Crown Princess Victoria, who will eventually become Sweden's first queen since 1719, under a legal change that reinstated female succession.

But the king retains some playboy spirit. In April, he was stopped for speeding in Denmark in his Ferrari 456 Modificata. The king claimed he was doing 80–85 miles per hour and was speeding because he had to pick up his children at the airport, but some reports clocked the car at 120–150 miles per hour. Like a diplomat, the king has immunity from speeding tickets, so he avoided a certain \$102 fine.

Otherwise, Carl Gustaf might perhaps have had to appeal to Denmark's Queen Margrethe, his cousin, to get him out of trouble, or at least pay the ticket. Which might have been fitting, since he and his family were there to celebrate her sixtieth birthday.

Although he admits to initially resisting computers and the Internet, the king

helped set up the court's homepage [www.royalcourt.se](http://www.royalcourt.se), where visitors can read about the royal family but are advised that members cannot be contacted by e-mail.

—Ariane Sains

## COPENHAGEN

### AVOIDING POLITICS KEEPS DANISH QUEEN POPULAR

The immensely popular Danish royal family shares none of the troubles of their English counterparts. Paparazzi photos of Crown Prince Frederik enjoying summer frolics with a topless girlfriend evoke no bad feelings, and her state of undress has not hurt her chances of becoming the next queen of Denmark. Unlike some of the prince's earlier amours, she has not been shunned by the incumbent Queen Margrethe II of Denmark.

The private lives of Danish royalty may or may not be as colorful as the English royal family. The Danes simply do not want to know, and though the tabloids in Denmark observe the same low standards as elsewhere, they never trespass on the private turf of the royal family. This is not just a royal privilege; the same is true of politicians. Tolerance and respect of privacy of personal relationships is widespread.

Monica Lewinsky would never have had a chance for fame in Denmark, who ever had accepted her advances. Gay and lesbian relationships are openly accepted in politics, and recently, a gay minister was invited to a court function and brought his companion. The press reported this as positive proof of the tolerance of Queen Margrethe II.

Support for the monarchy in Denmark is stronger than ever. A recent Gallup poll showed that almost 90 percent of Danes believe that the monarchy will survive in the long run. And an astounding 97 percent believe that Queen Margrethe II is doing a good job, an endorsement beyond the dreams of any elected head of state anywhere. Her personality is the obvious asset, she is an artist in her own right, and she has never stepped out of line in politics. Even the fact that she is an ardent smoker, and does so openly, strengthens the image that she is no conformist figurehead.

The queen writes her annual New



Year's speech personally, and she is careful not to involve herself in partisan politics, especially anything offensive to the elected government of the day. However, recently she has become involved involuntarily in politics.

Pia Kjaersgaard, the leader off the Danish People's Party, a right-wing party strongly against Danish participation in the euro, claimed that the future of the Danish monarchy would be in jeopardy if the Danes voted yes to the euro. The party's campaign slogan is "For the crown and the nation," and as the word crown is also the name of the Danish currency, monarchy and currency have merged into a single national symbol.

Supporters of the euro responded sharply, with Foreign Minister Niels Helveg Petersen in the vanguard, claiming that Kjaersgaard was misrepresenting the facts and exploiting the monarchy for party political purposes, well knowing that the queen would not be able to respond publicly. In perhaps an unrelated move shortly after the argument began, the Central Bank of Denmark published the design of the euro coins that will be in use if the Danes endorse the common currency. One side features the portrait of Queen Margrethe II, leaving little doubt that the Danish monarchy will survive for a long time, inside or outside the European Union.

—*Leif Beck Fallesen*

## ATHENS

### ROYAL REAL ESTATE ROW

**M**ore than a quarter century after the Greeks abolished their monarchy through a referendum, deposed King Constantine remains a controversial figure. The former king, who lives in London, says he accepts the result of the 1974 referendum, but he is still fighting a legal battle to recover or receive compensation for three royal properties that were confiscated by the state.

In an unusual move, Constantine has taken his case to the European Court of Justice in Strasbourg. The court is expected to give a ruling early next year on whether the property—a country mansion at Tatoi outside Athens, a summer palace on the resort island of Corfu, and a forest on the foothills of Mount Olympus—should be handed back.

The Corfu palace, now owned by the island's local administration, has been

lavishly restored as a venue for official functions. However, the Tatoi estate, which includes the royal cemetery, has fallen into disrepair. Under a former conservative government, Constantine was allowed to arrange for the removal of furniture and mementos from the Tatoi palace and ship them to London.

Nevertheless, the governing Socialists are strongly republican. If the European court finds in the former king's favor, the finance ministry would be likely to present the former king with a hefty bill for unpaid taxes on the properties.

Greece's royal family was never wealthy. When Constantine fled Greece in 1967 after staging a failed coup against the colonels' junta, his wife Queen Anne Marie reportedly stuffed the crown jewels into a shopping bag in case the family found themselves in need of cash. The London-based community of Greek ship-owners provided generous financial support over the years.

Public opinion in Greece remains strongly anti-monarchist. The royal family's popularity plunged as Constantine's mother, the late Queen Frederika, acquired a reputation for meddling in politics. Despite the king's attempted countercoup against the colonels, his initial decision to accept their seizure of power in April 1967 was seen by many as an irrevocable political blunder.

Constantine has avoided involvement in politics, and there is no royalist political party in Greece. However, as an honorary member of the International Olympic Committee—he won a gold medal for sailing in the 1960 games—he lobbied energetically on behalf of Athens during the bidding for the 2004 Summer Olympics.

Greece's president, elected by parliament, is a figurehead with no executive powers. Yet the current incumbent, Konstantinos Stefanopoulos, a former conservative cabinet minister, is the country's most popular public figure. He leads a modest lifestyle, living in a suburban apartment and using the former royal palace in the center of Athens as an office and for entertaining.

An opinion poll last year—when Constantine's eldest son Paul married an American heiress—showed less than 6 percent of the population would back the king's return. Yet most of the nation watched the wedding ceremony on television, screened by a private Greek channel.

"The heat has gone out of the monarchy issue in the past few years," says Thanos Veremis, head of the Athens think tank Eliamep. "Greece's royal family keeps a low profile, and young people in Greece are scarcely aware of them."

It took several years of diplomatic pressure by the Spanish government to persuade the Socialists to invite King Juan Carlos of Spain and his Greek wife, Queen Sophia—Constantine's sister—for an official visit. But it went so smoothly that Sophia was encouraged to return on a private trip to see childhood friends.

Constantine is in a more difficult position. He has said he wants to be able to travel to his birthplace. The Socialists, however, insist he should enter Greece as a private citizen under the name of "Glucksberg"—one of the royal family's titles. Constantine has contested the decision in a Greek court, and the standoff has lasted for almost a decade.

—*Kerin Hope*

## VIENNA

### HABSBURG LINE LEADS TO POLITICS

**O**nce one of Europe's most powerful monarchies, Habsburgs were forced to flee what was left of their kingdom at the beginning of the twentieth century. However, as the twenty-first century begins, the family now finds itself building something of a political dynasty.

Among Europe's oldest royal families, the Habsburg line extends more than seven centuries. After coming to power in 1273, Rudolf I, a member of the Habsburg clan, wanted to make the title of Holy Roman Emperor a Habsburg birthright. His son Albert ruled as emperor from 1298 to 1308. Although the family later lost the throne in 1322, they reclaimed it in 1438 and held onto kingdoms of varying size until 1918.

Part of the Habsburg's long success was due to their tradition of clever intermarriage to expand their reign, which included modern Austria and Hungary and at various times parts of Germany, the Netherlands, France, Luxembourg, Spain, Italy, and territory in North America.

In many ways, the Habsburgs may be best remembered for the empire that arose from the 1867 Ausgleich agreement. The Austro-Hungarian Empire





With his wife Francesca and daughter Eleonore by his side, Karl Habsburg, grandson of the late Austrian Emperor Charles I, ran for the European Parliament in 1996.

proved both short-lived and rife with tragedy for the family. Emperor Francis Joseph's brother Maximilian was killed by a firing squad in Mexico, and his son, crown prince Rudolf, committed suicide with his lover in 1889. Nine years later, Francis Joseph's beloved wife Queen Elisabeth, known as Sissi, was shot by an anarchist in Switzerland, which foreshadowed the assassination of Archduke Francis Ferdinand that led to World War I in 1914. After World War I, the empire was mostly dissolved, leaving only Austria and Hungary.

In 1916, Charles I, Francis Joseph's nephew, became the last Habsburg to sit on the throne. Two years later with the empire collapsing, he renounced his power in affairs of state in both Austria and Hungary. However, because Charles refused to relinquish the Habsburg hereditary titles, the Austrian National Assembly passed the "Habsburg law" of 1919, which banished all Habsburgs from the country unless they renounced their royal claims. The law was later written into the Austrian State Treaty of 1955.

Enter Otto von Habsburg, born in 1912 to Charles and his wife Zita. Because of the Habsburg law, he was ex-

iled from Austria at age six. He lived in Spain, Belgium, and Switzerland. During World War II he fled to the US, where he lobbied Roosevelt and Churchill to consider Austria a victim of aggression and promoted future Hungarian and Czechoslovak independence. He spent a brief time in Austria after 1945, but the Soviets demanded his departure. In 1951, he married and settled in West Germany where he raised seven children. In 1966, he finally relinquished his claim to the throne and was given a visa. He became a German citizen in 1978 and was elected to the European Parliament a year later, where he served until 1996.

So far, at least two of his sons have followed him into politics. His eldest son Karl moved to Austria, where he served in the military, and in 1996 won a seat in the European Parliament. His son Gyorgy moved to Hungary, where he is a Hungarian special ambassador lobbying for EU membership for Hungary.

—Alexandra Hergesell

## ROME

### SHOULD EXILED ROYALS RETURN?

In June 1946, Italians voted in a popular referendum concerning the monarchy and, by a small majority, decided in favor of creating an Italian republic. Although most thought they were only making an important political and constitutional decision, the decision, which ended the reign of the Savoias, also spawned an industry based on society news and gossip. By exiling the then young King Umberto II (called the May King because his reign, following the resignation of his father, Vittorio Emanuele III, lasted only that one month), Italians unknowingly started a soap opera that has kept scribes and tabloids busy for more than half a century.

As long as Umberto was living in discreet exile in a beautiful villa in Cascais on Portugal's Atlantic coast, the subject of the Italian royal family remained simply the domain of frivolous high society chroniclers. Since Umberto conducted a very quiet, dignified life, the tabloids focused on his two daughters and son,

whose escapades were typical of those of gilded youth everywhere.

In the past few years, however, the debate has undergone a quality upswing. Now politicians, historians, and serious journalists are taking part. All because Umberto's son, Vittorio Emanuele IV, a businessman living in Switzerland, and grandson, Emanuele Filiberto, are asking to return to Italy. However, an article in Italy's constitution prohibits male descendants of the House of Savoia from entering Italian territory.

The two heirs say that they do not want to restore the monarchy and ask why they should have to bear the burdens of their fathers' mistakes. After some hesitation, they have even declared themselves ready to swear allegiance to the Republic.

Frankly, their reasoning seems logical. Yet, more than fifty years after the fact, heated discussions persist about the topic of the Italian monarchy. Famous historians, including the elderly Alessandro Galante Garrone, and active politicians, like the president of the Chamber of Deputies, the ex-Communist Luciano Violante, argue that King Vittorio Emanuele III's errors were too grave to be forgotten: his nomination of Mussolini as head of the government, which gave rise to fascism, and, above all, his agreement to sign the antisemitic racial laws are just too egregious. To a certain degree, they say, his descendants carry the weight of his mistakes.

The question seems to be at an impasse. A few years ago, the then president of the republic, Oscar Luigi Scalfaro, shook hands with Vittorio Emanuele IV. In 1997, then prime minister Romano Prodi, now the head of the European Commission, proposed a bill that would have permitted the reentry of the male descendants of the House of Savoia. It passed in the lower house but was blocked by the upper chamber of Italy's legislature.

Now even the European Parliament has gotten into the argument since the two Savoias have presented an appeal stating that they are being discriminated against because, though they are European citizens, their freedom of movement within EU countries is being denied. The European answer—actually the two answers, the first in March of this year and the second at the beginning of September—was no. Nevertheless, the saga continues.

—Niccolò d'Aquino



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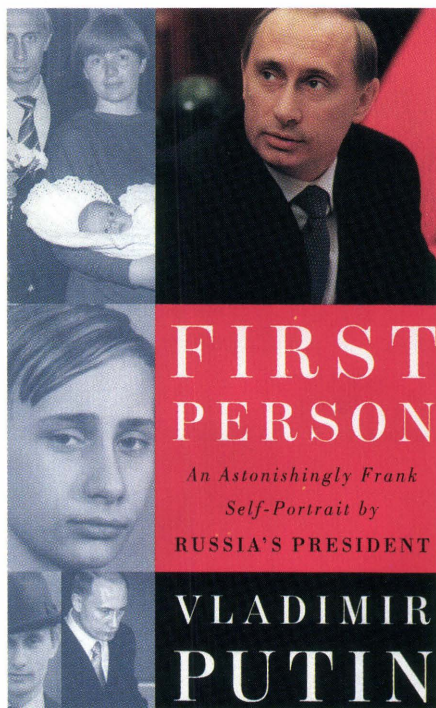
### FIRST PERSON: AN ASTONISHINGLY FRANK SELF-PORTRAIT BY RUSSIA'S PRESIDENT VLADIMIR PUTIN

With Nataliya Gevorkyan, Natalya Timakova, and Andrei Kolesnikov; *PublicAffairs*; 207 pages; \$15

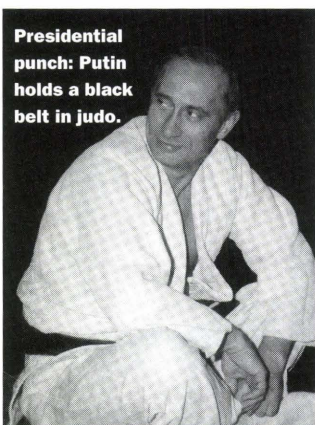
**"E**ven before I graduated from school, I wanted to work in intelligence.... I wanted to be a spy," says Russian President Vladimir Putin about his early days.

The book, which consists entirely of a series of interviews with Putin and his family and various friends, is quite unusual especially for a Russian leader. Putin appears to be a very self-confident, unflappable person with a strong sense of survival and perseverance. He does not appear to have any strong ideology. His rise from obscurity and a poor childhood to his election as president of Russia is remarkable. While the book does offer valuable insight into Putin's past, this reviewer cannot say that he could predict his future behavior any better having read these interviews.

It does, however, fill in several blanks, for example, about his time working for the KGB from 1975 until 1991. "It was very routine work," comments Putin about his stint as a spy in East Germany from 1985 to 1990. Later, he was named the first civilian head of the FSB, the successor organization to the KGB.



Putin, who lacks the color and charisma of his predecessor Boris Yeltsin, does provide some revealing clues to his character as he talks about Chechnya, NATO, democracy, sports, his family, and Russia's future.



Presidential punch: Putin holds a black belt in judo.

Throughout the book, the Russian president seems to regard matter-of-factly his meteoric rise in politics. He appears to shrug off each of his promotions as just another stage of life. "I have some rules of my own," he states. "One of them is never to regret anything.... As soon as you start regretting and looking back, you start to sour. You always have to think about the future. You always have to look ahead."

When asked which political leaders he admired most, he mentions several European leaders. "De Gaulle, most likely. And I also like [West German chancellor Ludwig] Erhard. He was a very pragmatic person. He was the one who built the new Germany after the war."

Putin also appears to be a pragmatic person who is trying to rebuild his nation in troubled and difficult times. His remarks give the reader a small peek inside the world of Russia's new ruler, but I am not sure the book contains anything astonishing except, perhaps, the fact that he allowed himself to be interviewed in the first place. One has the feeling that this man, who, after all, spent sixteen years in the KGB, may not be fully disclosing his true character. At times, he almost seems as if he is talking

about another person rather than himself.

However, any time a president of a nation takes the time to talk about his or her life it is worthwhile. And Putin, who lacks the color and charisma of his predecessor Boris Yeltsin, does provide some revealing clues to his character as he talks about Chechnya, NATO, democracy, sports, his family, and Russia's future.

—Robert J. Guttman

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