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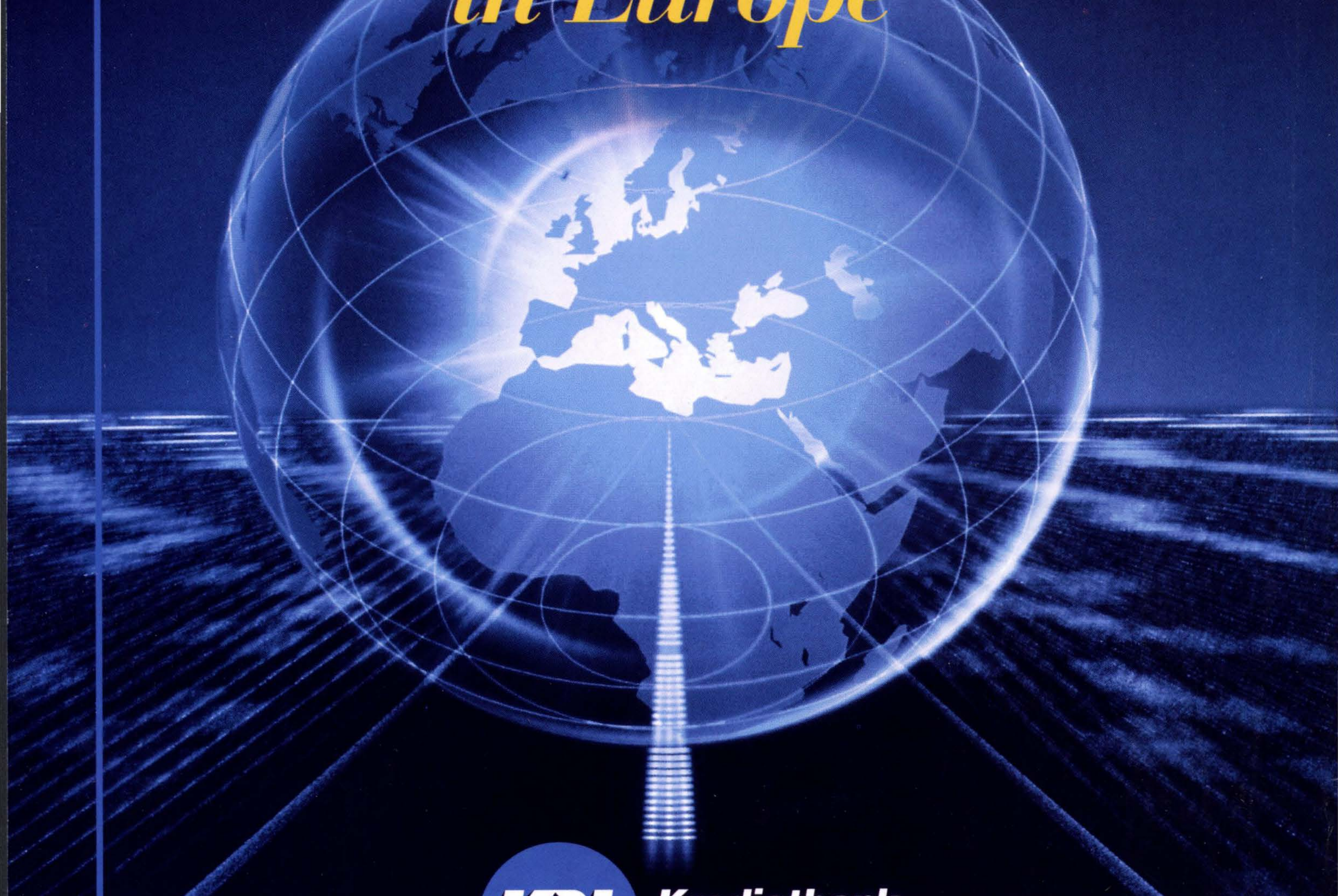

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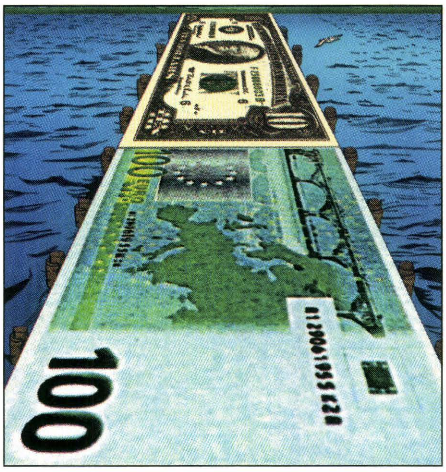
SEPTEMBER 1997 NUMBER 369

EUROPE

MAGAZINE OF THE EUROPEAN UNION



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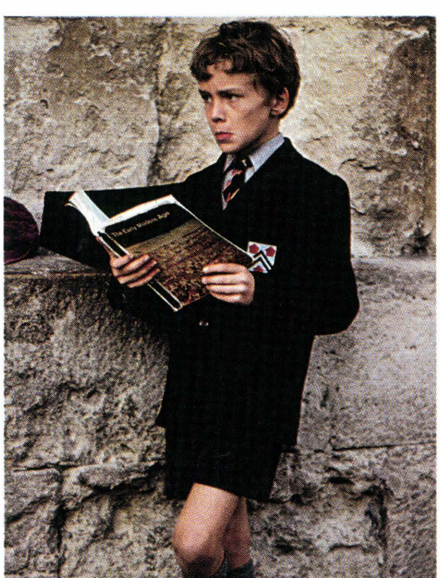

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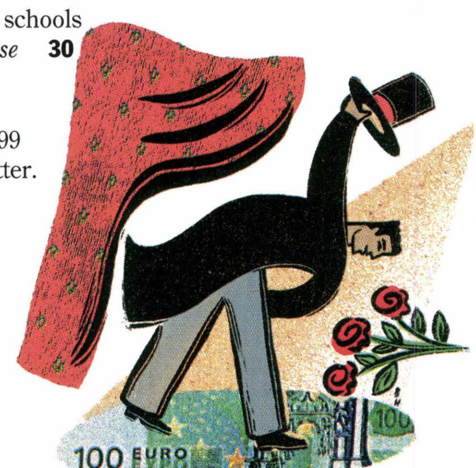
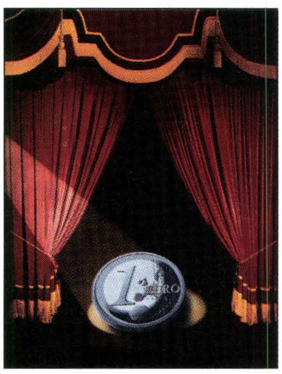


Letter from the Editor

We are pleased to present our second *EUROPE Special Report*, entitled "The Euro: Everything You Need to Know About Europe's New Currency." This *EUROPE Special Report* explains the complete political and economic background of the euro. We look at the new central bank of Europe and give a step by step look at how the euro will be introduced and how the currencies of the EU nations that join the monetary union will no longer exist after 2002.



The curtain rises on Europe's new single currency.

Yves-Thibault de Silguy, the European commissioner for economic and financial affairs and monetary matters, discusses why the euro is "an irreversible project" and tells our readers why "the euro will give [European] companies more competitiveness" in the global marketplace.

How will the new European single currency affect the dollar? President Bill Clinton tells *EUROPE* contributing editor Martin Walker, "I have never felt the United States should feel threatened by the prospect of a European currency, nor by the prospect of European integration in general."

Walker presents the views of the president and his administration and the opinions of leading analysts on Wall Street as to how the euro will impact the dollar and how American business will have to adjust to Europe's new currency.

As Bruce Barnard, our contributing editor based in Brussels, writes, "The countdown to economic and monetary union (EMU), arguably Europe's most ambitious project since the end of World War II, begins in earnest this month."

EUROPE looks at EU-US relations as the 21st century approaches and finds that transatlantic relations are increasing in many diverse fields. As Lionel Barber, writing from Brussels, points out, "The EU is America's largest trading partner and vice versa in a combined trade worth more than $230 billion. Around 51 percent of foreign direct investment in the US comes from the EU, while more than 42 percent of foreign investment in the EU comes from the US."

Senator Gordon Smith, chairman of the Senate Foreign Relations Subcommittee on Europe, talks to *EUROPE* about NATO, EU enlargement, and American involvement in Bosnia.

Luxembourg Prime Minister Jean-Claude Juncker spoke with *EUROPE* correspondent Alan Osborn regarding the goals of the Luxembourg presidency, which will focus mainly on EU enlargement. Osborn also analyzes Luxembourg's banking and television sectors.

Finally, all of our Capitals correspondents discuss various aspects of education in their respective countries.

Robert J Guttman

Robert J. Guttman
Editor-in-Chief

EUROPE

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

EYE ON THE EU

Profiling Personalities and Developments Within the European Union

EASTWARD HO!

The embryo of a new Europe will begin to take shape in the opening months of 1998 when the first wave of former communist nations embark on negotiations to join the European Union.

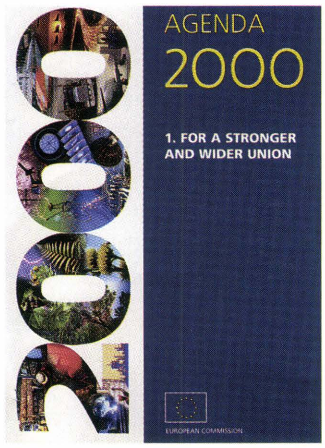
An EU summit in Luxembourg in December is expected to endorse the five applicants recommended by the European Commission—the Czech Republic, Hungary, Poland, Slovenia, and Estonia. And the list could be bigger as the Nordic nations press for Latvia and Lithuania to join their Baltic neighbor Estonia at the starting line, while France is promoting the cause of Romania.

The historic decision to move the EU's borders deep into Central and Eastern Europe is the culmination of a process that began when the collapse of communism in the late 1980s ended the artificial division of the continent.

By 2015 the new EU will have borders with Ukraine, Belarus, and Moldova, a much longer frontier with Russia, and access to the Black Sea. This would have been inconceivable only a decade ago when the former communist nations in the East refused to give diplomatic recognition to the (then) European Community, alleging it was the economic arm of NATO.

Picking the successful applicants is the easy part. Turning Eastern enlargement into reality will pose a massive challenge to the EU.

The accession negotiations will be tough and pro-



tracted, and the first countries aren't likely to join the 15 nation EU before 2002 at the very earliest.

The Commission uses two telling statistics to underline the size of the task confronting the current member states. The accession of all 10 applicants will boost the EU's population by a third to 480 million but increase its gross domestic product by a mere 5 percent.

To be sure, the chosen five are much richer, but their per capita income is still barely a third of the EU average, and some are much more dependent on agriculture, particularly Poland, which has more dairy farmers than the 15 EU countries put together.

Even the choice of the five nations wasn't without controversy as the EU commissioner in charge of Eastern enlargement, Hans van den Broek, had to fight off a determined bid within the Commission and member states to restrict the short list to three nations—the Czech Republic, Hungary, and Poland—which have been invited to join NATO.

Meanwhile, the US has been putting discreet pressure on EU governments to start membership talks with more countries as compensation for being excluded from NATO.

Enlargement will jolt both sides. Even as they negotiate, the applicants will be rushing through reforms to align their economic and commercial legislation with EU rules, all 30,000 pages of them. Poland has a special commission with 200 workers studying all rules to ensure they pass the EU test, yet at present less than a fifth of Polish and EU law coincide.

The European Commission hasn't sought to play down the difficulties ahead, conceding none of the applicants yet pass the three key economic criteria for membership—a functioning market economy, the capacity to withstand the competitive rigors of the EU's five year-old single market, and acceptance of economic and monetary union.

The EU itself won't be in any shape to absorb new members without drastic reforms to its regional and farm subsidy systems.

The Commission has given an early foretaste of the shock treatment ahead with the publication of a 1,000 page document *Agenda 2000,* which is essentially a blueprint for enlargement.

The bottom line is that without root and branch reform of its spending programs the EU will implode after enlargement.

The Commission's most explosive recommendation is for reforms of the Common Agricultural Policy (CAP), involving cuts of 20-30 percent in subsidies for cereals, 30 percent for beef, and 10 percent for dairy products. These would be on top of cuts of 30, 15, and 5 percent, respectively, triggered by the 1992 reform of the CAP. Without fresh cuts, CAP handouts, which account for half of the EU's $100 billion budget, could rise by at least $20 billion in the first wave of enlargement. In any case, the EU will be forced to slash farm handouts in the next round of world trade talks scheduled for around the year 2000.

The Commission says enlargement can be financed keeping the EU budget for 1999–2004 within the ceiling of 1.27 percent of the bloc's GDP agreed at the Edinburgh summit in 1992.

Staying within these limits after the East Europeans have become members means the EU must drastically cut regional aid to the current big recipients—Spain, Portugal, and Greece—to help the newcomers.

The countries that stand to lose out and the powerful farming lobby are already flexing their muscles for the battles ahead. Even as the Luxembourg summit gives the green light to accession negotiations, EU leaders will start the defense of their vested interests.

More worrying for the applicants is that accession talks will be downgraded as the EU prepares for the launch of its single currency in 1999. At worst, this will delay enlargement by a year or two. But that's a tolerable delay if a new Europe emerges at the beginning of the new millennium.

—Bruce Barnard

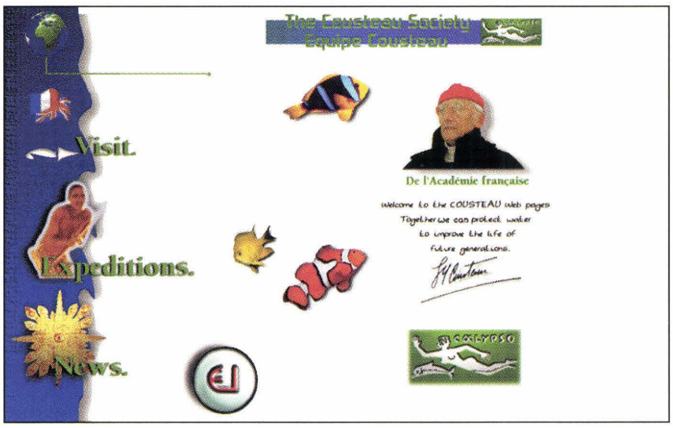
LANGUAGE CONNECTION

International boundaries mean little to Internet users, but the languages spoken and written in other countries do or perhaps should. For now English is widespread on the Net. But as foreign-language Web sites become more prevalent, English-only speakers are going to miss out. Opportunities to learn about other cultures and languages, however, are plentiful. Dozens of Web sites have surfaced to handle the simplest questions—such as saying hello in myriad tongues—to full-scale Web language courses and contacts with places where the most adventurous students can immerse themselves in other cultures.

The Human Languages Page is a kind of clearinghouse for anyone curious about language. College student Tyler Chambers launched the site (www.june29.com/HLP/) in 1994 as a small list of language resources, but last year Chambers created a database that sorts, by language, information available via the Internet. Don't expect any fancy graphics, but the number of links now tops 1,300, according to Chambers.

Those who parlano italiano, or who would like to, can click on the "Language and Literature" button, select Italian, and find several sources for mastering verbs and phrases or taking entire courses for beginners and intermediate students (www.cyberitalian.com). Links to on-line dictionaries also are available, including one for English-Portuguese (www.if.ufrj.br/general/dictionary.html). One drawback of the site is the "Schools and Institutions" portion, which is not broken down by language. So some sifting is necessary to find the desired language and setting—either in the United States or abroad. But Chambers gets high marks for an aspect important to any catalog-type Web site—timeliness. Resources added within the past two weeks are color-coded so repeat visitors can find them immediately, and dead, or nonfunctioning, pages have been scarce.

For the tourist or business traveler who wants to learn enough of a language to get by at hotels and restaurants during an upcoming trip, Travelang (www.travelang.com/languages/) is the Web version of a phrasebook, in more than 50 languages. Creator Michael C. Martin, a postdoctoral candidate at the University of California-Berkeley, has set up a database where users type in their native language and then the language they want to learn. A French-speaker could receive directions in French on learning Dutch or Afrikaans or Azerbaijani. The information provided includes basic phrases, numbers, time of day, and directions. And Martin also features a few links to other sites related to the language the user wants to study.



Jacques Cousteau's adventures live on via the Cousteau Society and its Web site.

SITE OF THE MONTH: FRERE JACQUES

In the past half-century the name Jacques Cousteau became synonymous with ocean exploration. His creation of scuba gear enabled divers to record images from the depths of oceans. He transformed a World War II minesweeper into a floating oceanographic laboratory that became as much of a home to him as his native France. But Cousteau's death in June brought sadness to more than his colleagues in science. The 20th century explorer brought millions of lay men along for the ride through more than 70 television films, 50 books, and three feature films.

Cousteau's legacy lasts not only in his accomplishments but in the ongoing work of the Cousteau Society. It is fitting that the society, as it readies to christen the state-of-the-art Calypso II, also has launched a Web site (webedi.edi.fr/cousteau/cstius.htm).

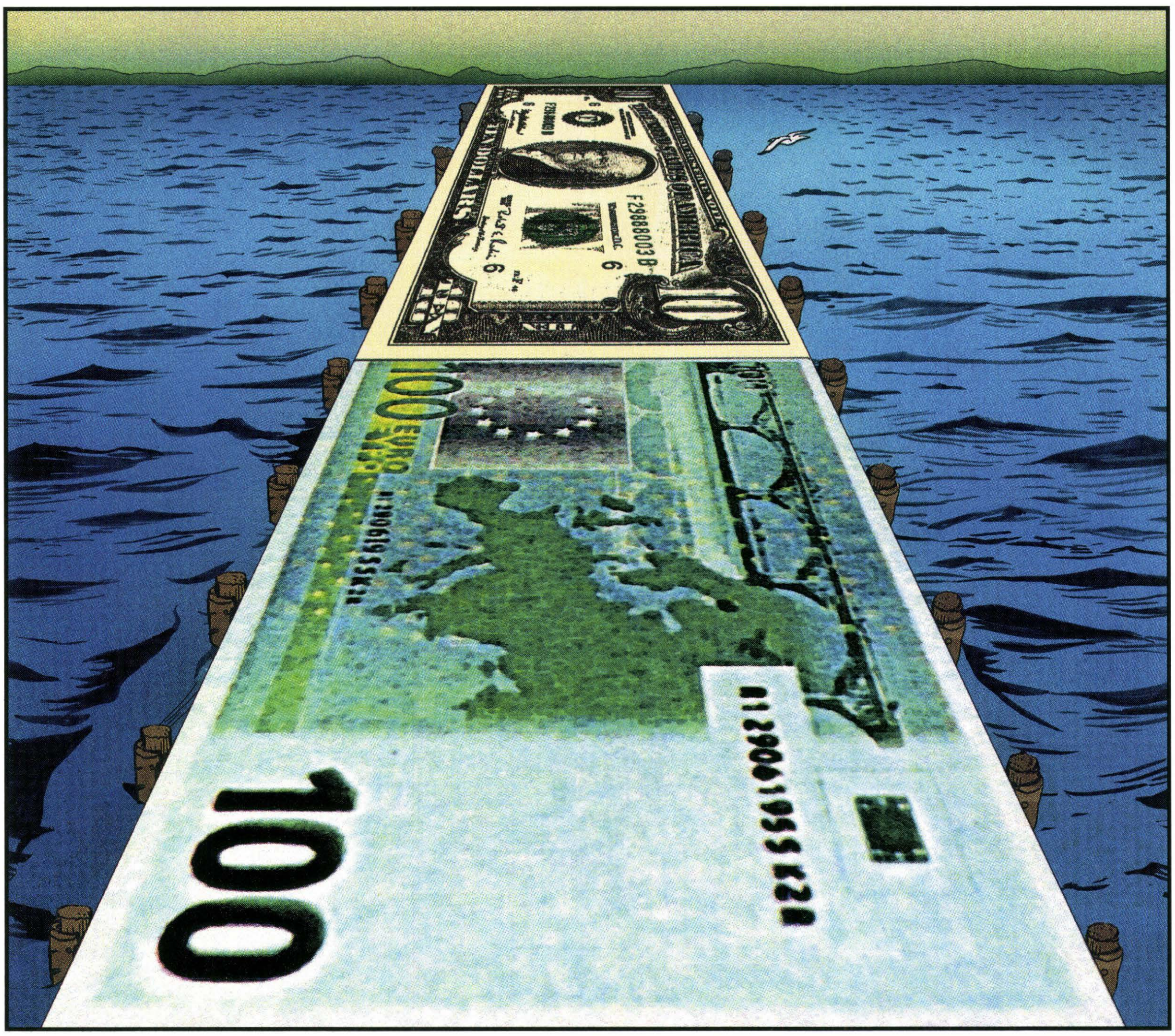
Visitors will find a biography of Cousteau—from his service in the French navy in World War II to his groundbreaking research, as well as a laundry list of awards received along the way, including membership in the prestigious Academie Française and the National Academy of Sciences. Viewers will also find a history of the first Calypso—which was placed in permanent dry dock after a 1996 accident—and the mission of the Cousteau Society. The pages, with several animated images and vivid photos, are fitting of a Cousteau production.

A recent visit found brief logs and photos about journeys to China's Yellow River and Siberia's Lake Baikal—the topics of the society's newest film projects. This area of the site could be enhanced greatly with a few video clips to showcase the film work that has been so impressive on screen.

But the only obvious omission recently seemed to be any acknowledgment of the explorer's death. There was a brief mention, but oddly enough it appeared only on the French portion of the site (webedi.edi.fr/cousteau/catifr.htm). Perhaps his successors at the society mistakenly thought that if the films and books continued, only the French would miss the man.

—*Christina Barron*

THE NEW TRANSA AGENDA



COOPERATION, COMPETITION, AND SECURITY

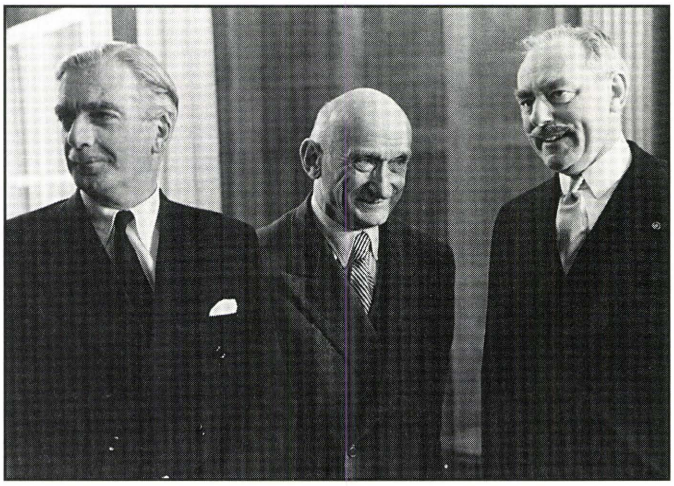
BY LIONEL BARBER

TLANTIC

HALF A CENTURY AGO, Dean Acheson, then the US secretary of state, wrote in his diary about the sense of exhilaration at being present at the creation of a new order in Europe.

The Marshall Plan, the NATO Alliance, the Organization for Economic Cooperation and Development, the Fulbright student exchange program—these were the institutions that built the bridges across the Atlantic and led to reconciliation among former European adversaries.

Fifty years on, Americans and Europeans are witnesses to the creation of a new, post-cold war order. This will require the dynamic evolution of existing institutions, such as NATO and the European Union, and a common capacity to cope with a future characterized by volatile capital flows, instant communications, and the inexorable liberalization of the global economy.



American diplomacy in Europe from Acheson to Albright: (right) Secretary of State Dean Acheson meeting with British Foreign Minister Sir Anthony Eden (left) and French Foreign Minister Robert Schuman (center) in Bonn in 1952. (below) Secretary of State Madeleine Albright meets with Italian Prime Minister Romano Prodi.

The new transatlantic agenda goes beyond military security and embraces new concepts, such as economic security and competitiveness. Business-to-business contacts may count as much as traditional diplomacy in managing the relationship. Here are some of the areas to watch.

First, competition policy. A foretaste of the problems appeared this summer when the European Commission announced that it had serious objections on antitrust grounds to the proposed $14 billion merger between Boeing, the world's number one aerospace manufacturer, and McDonnell-Douglas, the civilian airliner and defense business.

The notion that Brussels-based competition authorities could interfere with the merger of two companies often described as "more American than apple-pie" took many observers aback, especially in the White House and the Federal Trade Commission, which had cleared the deal. Suspicions were rife in Washington that the Europeans were defending the state-subsidized Airbus Industrie, Boeing's only serious rival.

After a nerve-wracking round of negotiations, Boeing agreed to slightly modify the terms of the merger. The Seattle-based company offered to make available licenses and patents from McDonnell's military research programs; it agreed to

The Boeing case highlights the rapid pace of mergers and acquisitions.

end 20 year-long exclusive delivery contracts with three major US airlines and not to sign others for 10 more years; and it pledged not to abuse its dominance in the world market.

The Boeing case highlighted European sensitivities about being left behind in the technology race; but it also points to the rapid pace of mergers and acquisitions, which is increasing the work-load of US and EU competition authorities alike.

For example, the Commission decided 126 cases in 1996, compared to just six in 1990. Many of these cases involving international mega-mergers, such as Grand Met and Guinness, the drinks conglomerates; BT-MCI telecommunications; and Kimberly-Clark and Scott Paper. All these cases require close transatlantic consultation.

The second growth area is cooperation on standards and certification of goods. The EU is America's largest trading partner and vice versa in a combined trade worth more than $230 billion. Around 51 percent of foreign direct investment in the US comes from the EU, while more than 42 percent of foreign investment in the EU comes from the US.

In this interdependent world of trade and commerce, multinationals are increasingly pressing for more consistency in rules on investment, technical standards, and the removal of obstacles to the free flow of goods, services, and capital.

The Transatlantic Business Dialogue (TABD) is a vital cog in this new form of transatlantic cooperation; so is the Transatlantic Policy Network, a sister grouping made up of parliamentarians on both sides of the Atlantic, businesspeople, and diplomats.

In June, the TABD successfully propelled US and European negotiators toward an agreement on mutual recognition on products such as medical devices, telecoms terminal equipment, and information technology in sectors that account for around $40 billion of transatlantic trade.

The mutual agreement deal took five years to negotiate and is just a start. For although it does address the problem of certification as a non-tariff barrier to trade, it does not deal

with the governments' practice of insisting on their own inconsistent standards. Thus, the test will be whether the US-EU deal will serve as a model for a multilateral agreement inside the World Trade Organization.

The third area of concern is the conflict between multilateralism versus unilateralism. This is an age-old dilemma for US foreign policy, especially among those in the Republican majority in the Congress, which is reluctant to cede sovereignty to bodies such as the United Nations or the WTO.

The positive side of the ledger indicates that both sides are apparently committed to making the WTO work. Thanks to painstaking negotiations, the row over the extraterritorial provisions of the US Helms-Burton anti-Cuba act is slowly being defused. An EU threat to take the case to the WTO disputes panel was averted earlier this year.

In other areas, the US and EU have clinched important multilateral agreements on telecommunications and information technology liberalization. The next test will be financial services.

The fourth element in the new transatlantic agenda is burden sharing, particularly in Bosnia. After the successful dovetailing of the NATO-led IFOR peacekeeping mission with the EU-led civilian reconstruction effort, the follow-up SFOR mission is facing steady harassment, especially in the rump Bosnian Serb republic.

The US wants to pull out its troops in 1998, and some European countries, notably the United Kingdom, want to follow suit. But if the peace consolidation effort fails and the 1995 Dayton Agreements unravel, the past three years' investment will go to waste. Some are wondering why the EU does not agree to shoulder the burden in their own backyard, using its fledgling defense arm—the Western European Union—to take over a scaled-down peace-keeping operation.

After the searing experiences of the UN peacekeeping mission in Somalia, the US is leaning increasingly toward US-led missions, such as the NATO operation in Bosnia, or subcontracting to regional groupings that can draw on US intelligence or hardware.

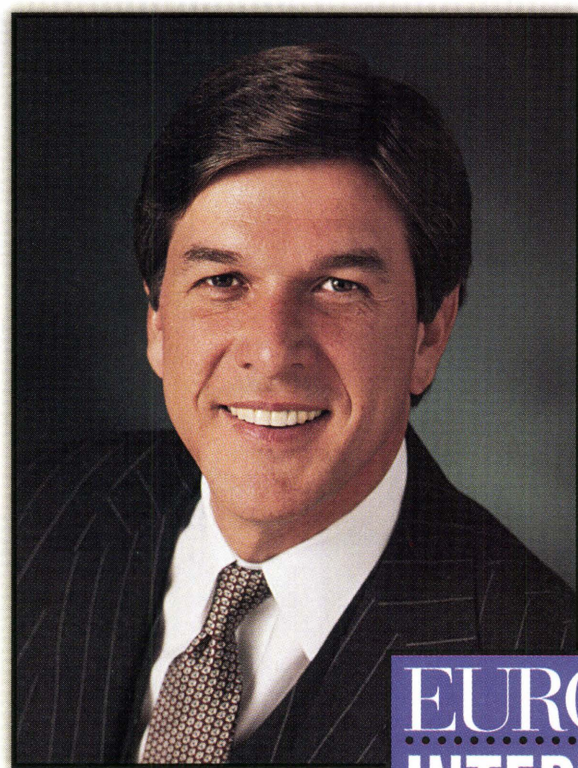
Airbus's market share is growing around the world.

A WEU-led operation in former Yugoslavia would be a vivid demonstration that Europe is ready for a more adult relationship with the US. Dean Acheson, a great Europhile, would no doubt have approved.

Lionel Barber is a contributing editor for EUROPE *and the Brussels bureau chief of the* Financial Times.

SENATOR GORDON SMITH

The chairman of the Senate Foreign Relations Subcommittee on European Affairs, speaks out on NATO enlargement, Boeing, the EU, Russia, and Bosnia in an interview with *EUROPE* Editor-in-Chief Robert J. Guttman.



EUROPE INTERVIEW

Does the recent controversy over the Boeing-McDonnell-Douglas merger between the US and EU indicate that our relations are rocky or does that it show that both sides work pretty well in a crunch situation?

It shows both things. There is natural competition, and it sometimes gets rocky. But in the end, we have too much interest in one another not to work these things out, and the relationship worked it out.

Does it concern you that the EU has so much power to rule on two American firms, Boeing and McDonnell-Douglas? Some Americans would say "Why should the EU have anything to say in this?"

It concerns me. It is extraterritorial, but they feel the same about our Helms-Burton law. Sometimes a nation or groups of nations will overreach, and we both are guilty of that.

Speaking of Helms-Burton, what is happening with that today?

People are trying to figure out how to live with it. The administration is trying to minimize its implementation, and Europeans are resigned to its being there in some form. It will be an irritant, depending on who you talk to, whether it will be major or minor. The major-minorness depends on who has got a dog in the fight.

Will the United States Senate approve NATO enlargement?

I believe it will, and the margin will be enough. It is part of the Republican platform, and while there is some opposition, it is not making the case sufficient to vote down a treaty that is crucial to our standing in the world.

Why is it crucial?

Because it represents our biggest commitment abroad, and one of our greatest successes in the past. People want to know if our commitment continues and with that knowledge, our influence will either increase or diminish, depending on the Senate's answer.

When is this going to come to a vote?

We will begin debating NATO enlargement after the first of the year, after the accession talks have concluded. And I suspect in the spring there will be a vote.

Are you positive the vote will succeed in the Senate?

I'm optimistic, but anything can happen in the meantime. The issues surrounding NATO enlargement are pretty well about Bosnia and burden sharing. Do all the Europeans feel like French President Chirac? If they do, there will be a growing opposition in the United States Senate. Bosnia is problematic because people wonder where this changed commitment takes us. Is it into more Bosnias, or is it in defending defined territory against a Russian threat, a nationalistic Russian threat?

Does Europe still need American troops?

It needs American involvement, yes. We are the indispensable nation in Europe. We are the honest broker, and because we are there with our military technological edge, a lot of positive things flow from that that otherwise would result in all of Europe looking more like Bosnia.

What does that say about Europe, that they need the United States?

They say it themselves. I'm parroting what I've heard European leaders say. It has to do with the spirit of nationalism and a human tendency to want to compete and to be exclusive. If you look at European history, it has been an ongoing civil war that has had a break over the last 50 years because America has not retreated.

Aren't your constituents going to say "why should we be pulled into Europe's problems and why expand NATO?"

They should ask that question, and the answer to me, or that I provide to them, is that an ounce of prevention is worth a pound of cure. To be engaged in a peacemaking role is a lot less expensive in terms of dollars and human lives than to be later engaged in war making.

Do you favor more countries being brought into NATO?

I do for a lot of reasons. From a moral perspective, NATO expansion closes the book on Yalta and keeps the promises that Roosevelt made but which America did not deliver on to Central Europeans. Again from a practical standpoint, it hedges our bet against the worst possible developments in the East, the Middle East, and the Far East.

Do you favor Romania and the Baltic nations joining NATO in the future?

Yes, I do. If they can qualify.

What about Russia joining NATO?

If they can qualify. I don't think they would ever want to be in NATO, but I wouldn't exclude any country. President Clinton has it about right when he says that this is a process, and it is open to any and all who can measure up to the standards required for NATO membership.

Will you be leading the debate in the Senate on NATO enlargement?

I will.

What about American troops pulling out of Bosnia next year? Is the war going to start again after US troops leave?

It will if we leave war criminals seated among the people. It will if the combatants don't implement the [Dayton] accord. In the end, it takes local will and effort. I'm quite certain that the administration will reconfigure America's involvement there. It will be different than it is now, but it will still be there in some supportive way.

Do you believe that US troops will stay in Bosnia?

I would guess they will in some fashion. Bosnia is a microcosm of the greater European problem, that when we're not there, you have war between great nations.

If that is so then why has Europe been at peace for so long?

It is because of the European Union and NATO. It's a willingness to learn from history. It's mass communication. It's the ability to get around radical ideologies. It's the seeding or the growing of democratic institutions. Democracies seldom war with one another; dictatorships almost always do.

Should NATO be capturing war criminals in Bosnia?

Yes, they've started, and they'll continue. I think they should. They have to. Otherwise, all we're doing is engaging in a very expensive ceasefire, and I don't think America should be party to that. We ought to go do the job and leave in place the architecture and the people who want peace. But by our being there and allowing war criminals to walk among the population without apprehension is to frankly accede that what they did is okay. It's to ratify what they did as acceptable, and it is not. We need to round up all the war criminals on both sides and send them to the Hague.

Do you think that peace would fall apart if the United States left Bosnia and the Europeans were there by themselves?

Apparently. That's what they tell us.

You're talking about nationalism returning to Russia. What do you see Russia as today—an American ally or an adversary or somewhere in between?

The jury is out on that. We're taking a risk with the NATO-Russia agreement. But in the end, it's a risk I'm willing to take if it will increase the Russian comfort level with the West. It will also provide to Russia's neighbors a sense of security that they seldom feel.

So you don't think we're out of the woods with Russia.

No, we're a heartbeat away from great uncertainty.

You are a successful businessman—would you invest in Russia?

Not yet. A prerequisite to capital formation is security. And that's ironically one of the real reasons underlying the demand for NATO expansion in Central and Eastern Europe—security. Capital is not going to go in there if it feels in jeopardy of confiscation.

What do you think the main threat to Europe is today?

Perhaps the state of Boris Yeltsin's health. And I suppose reemerging nationalism throughout the continent. I'll tell you from my observation; I've talked to few European leaders who are not absolutely committed to monetary union, and I've talked to very few Europeans out of government who are for it.

Can the Europeans learn anything from the booming economy in the US?

Yes, dismantle their welfare state, put back natural incentives in their economy. Remember that what you tax you discourage, what you subsidize you encourage. They're taxing initiative and they're encouraging status quo thinking.

They have to compete with America. The role of my party in this country is in part to keep us as a nation from becoming as socialized as many Western European countries.

Why is the US economy so strong?

It's because we still leave room for people to choose and to experience success and failure and to allow a marketplace to work.

Do you think the EU has been helpful in keeping the peace in Europe?

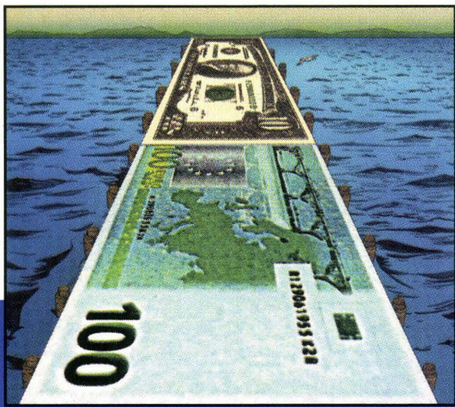
Yes, I do because it makes stakeholders and allies out of former enemies.

Do you have a phrase for the new era we're in today?

I've always just thought of it as the post-cold war.... We need a new description. We are plowing new ground. I believe the architecture of NATO and the EU are vital to European and world peace. It's the bedrock upon which a lot of the world has come to rely.

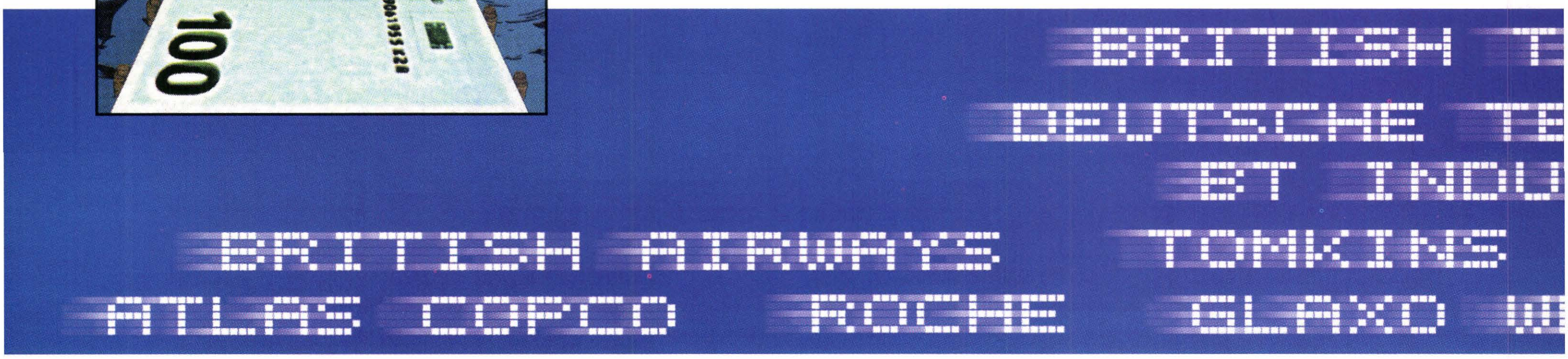
Is Europe more stable today after the cold war or less stable?

It's more stable, but the challenge is for us not to become complacent, to keep the stability through NATO enlargement and spreading Western values of democratic free enterprise. ⓔ



BUSINESS

INVESTING

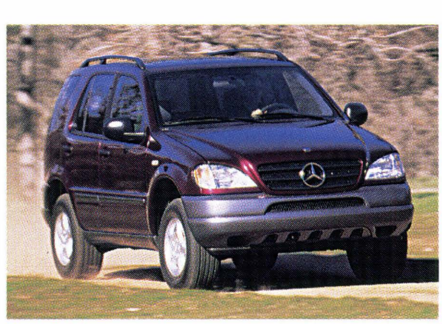


European investment in the United States is scaling fresh peaks as companies look across the Atlantic to achieve the critical mass to survive the globalization that is touching every industry, from financial services to machine tools. BY BRUCE BARNARD

US: A NATURAL MAGNET FOR EUROPEAN FIRMS

A US presence has become a do-or-die strategy for these companies as their more powerful American and Japanese rivals roam throughout the single European market.

The US is a natural magnet for European firms because it is the world's biggest market and readily accessible to foreign takeovers. Cross-border mergers in Europe, by contrast, are much more problematic while hostile takeovers, even those limited to domestic firms, are still taboo in countries like the Netherlands and Germany. As a result, many younger European executives feel much more at ease in the American corporate culture.



While a cheap dollar made the US a haven for bargain buys over the past five years, the recent strength of the greenback hasn't dulled the European appetite for US assets.

Many of the mega-deals have been driven by the need to establish a global reach. This was the motive for Europe's biggest investments in the US—British Telecom's $20 billion merger with MCI, the second-largest US long distance telephone operator, and the joint acquisition by Deutsche Telekom and France Telecom of a 20 percent stake in Sprint, the third-largest US carrier.

European airlines have also been quick to link up with US firms to ensure they will be among the few mega-carriers that will dominate the industry within the next 10 years. The leading

IN EACH OTHER

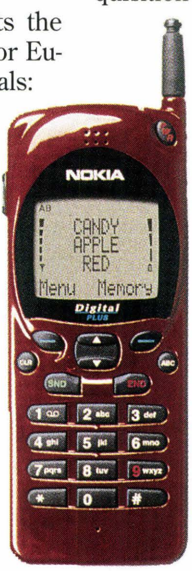
European players went further by acquiring stakes in the US airlines. US airlines haven't taken stakes in European carriers because the majority are state-owned and have little to offer in terms of domestic networks.

While these deals capture the headlines, most European investment activity in the US is concentrated on less glamorous industrial sectors. In a flurry of deals over the past year, European firms have built world market leadership in a wide range of businesses, positioning themselves for a battle with Japanese firms that are hesitant about growing through American acquisitions.

The pace of acquisitions has accelerated in recent months as the number of potential targets dwindles. And the deals announced in 1997 have taken European firms into the heartland of US industry.

The 1997 scorecard highlights the attractiveness of the US market for European firms. Among the main deals:

Tomkins, the British industrial conglomerate, snapped up US auto parts maker Stant Corporation, for $606 million, in April, only nine months after it bought Gates Corporation, a US manufacturer of vehicle hoses and industrial belts, for $1.85 billion.



GKN, another British engineering group, paid $570 million for Sinter Metals, underlining its enthusiasm for the US hasn't been dimmed by a $610 million award against its US exhaust retailer Meineke Discount Mufflers.

Thyssen, the German steel giant, paid $675 million for Giddings & Lewis, the biggest US machine tool maker, beating a rival bid by Milwaukee-based Harnischfege Industries.

Atlas Copco, the Swedish engineering concern, handed over $900 million for Prime Service, the second largest equipment rental firm in the US, two years after it picked up Milwaukee Electric Tool for $550 million.

Even the smaller deals have substantially boosted Europe's market position in the US. Sweden's BT Industries, Europe's third-largest supplier of lift trucks, became number four in the US with its $375 million purchase of Raymond. Fenner, a British group, became the world's second-largest manufacturer of heavy duty conveyer belts with its $71.5 million acquisition of Scandura Holdings of the US.

European firms say a US presence is equally vital in sectors like insurance, pharmaceuticals, chemicals, and biotechnololgy where they faced being squeezed by their bigger American and Japanese rivals.

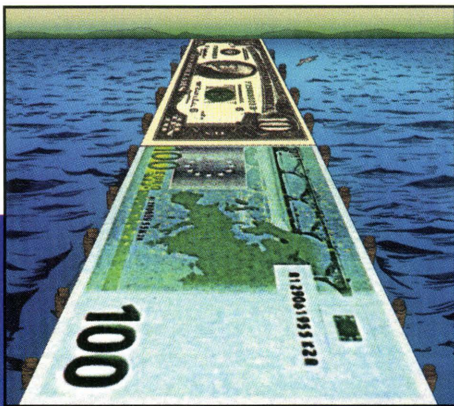
And for some European companies the United States remains the biggest attraction in spite of the competing potential of the Asian Tigers, China, and the emerging market economies of Central and Eastern Europe on their doorstep.

Veba, the giant German industrial group with interests spanning telecommunications to electricity, plans to spend $2.3 billion growing its North American business over the next five years. It made a start in July with the $632 million cash purchase of Wyle Electronics, a Californian distributor of electrical components and computer systems, and plans to list its shares on the New York Stock Exchange in October. Veba is focusing on the US because of the size and flexibility of the market, according to Veba chairman Ulrich Hartmann. It is "simply easier to achieve higher growth rates in the US."

A Wall Street listing is fast becoming *de rigueur* for big European companies. Deutsche Telekom and Daimler Benz are among a dozen German shares traded in New York and Munich-based SAP, the world's biggest business software concern, plans to have a US listing

continued on page 16

European companies, like Mercedes-Benz, Nokia, and Shell, have been attracted to the US's favorable investment climate.



BUSINESS

INVESTING

GENERAL ELECTR
CSX WISCO
CARLSON
OGDEN SOUTH

Corporate America has launched a new investment drive into Europe to cash in on the new opportunities spawned by the sale of state companies and the breakup of monopolies. US companies have a head start in exploiting privatization and liberalization because their experience of deregulation goes back nearly a quarter of a century. Europe, by contrast, is only now facing liberalization in a wide swathe of industries from air and rail transport to energy and telecommunications.

DEREGULATION ATTRACTS US FIRMS

Deregulation is opening up new areas to outside investment, topping up the attraction of Europe's fast maturing single market. An added bonus is the rapid growth of a new consumer market in Eastern and Central Europe, which US firms are attacking from their EU beachhead. The 370 million strong EU single market will swell by an additional 55 million consumers after the turn of the century as the first wave of East European countries join the 15-nation bloc.

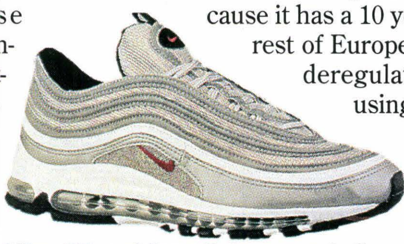
Europe has attracted a lot of negative publicity across the Atlantic during 1997 as its member states struggle to trim their budget deficits to qualify for a single currency against a backdrop of record high unemployment. But US businessmen look beyond the headlines and find Europe is still an attractive investment location and much more accessible than Asia and Latin America.

And Europe, along with North America, will be the most appealing location for business and investment over the next five years while Asia faces a decline, according to a recent survey by the Economist Intelligence Unit. The Netherlands will overtake Hong Kong as the most attractive location by the year 2001 with the United Kingdom in second place.

US companies are still investing in traditional sectors where they are well entrenched, such as car manufacturing

IN EACH OTHER

where Ford and General Motors have a combined 25 percent share of the European market and Chrysler is reporting double-digit sales growth. But most of the action is concentrated in sunrise sectors, such as semiconductors, computer software, and telecommunications.



Nike, GE, and Coca-Cola are part of a wave of US investments that are performing well in Europe.

Some companies are investing heavily in marketing efforts to boost their share of the European market. General Electric, for example, plans to double its annual sales of domestic appliances in Europe to $2 billion over the next three years. It also wants to boost European sales of light bulbs and industrial lighting products by 60 percent over the same period. GE Capital, GE's financial services unit, is in a class of its own, acquiring on average one European company every fortnight for the past few years in businesses as diverse as credit cards and equity capital to aircraft leasing and real estate.

But US companies are now moving into totally new areas that are being pried open by liberalization, often catching their European rivals off balance as they face competition for the first time ever.

Nine US utility firms have moved into the UK—the latest being Pacific Corp which paid $6 billion for Energy Group, the country's biggest electricity supply and second largest gas distributor. Other US energy groups have moved into gas supply in direct competition with the former state monopoly British Gas.

US firms picked the UK first because it has a 10 year head start on the rest of Europe in privatization and deregulation. And they are using it as a springboard into continental Europe. Southern Co., which bought into the British electricity industry in 1995, became the first foreign firm to take over a German utility in May when it acquired a controlling stake in Bewag AG, Berlin's power utility.

European firms, for long shielded by their monopolies, are actively courting US firms to help them to survive and prosper in the new age of competition.

ENEL SpA, Italy's state-owned electricity utility, for example, is forming a $2.9 billion power-generating venture with Enron, the Houston-based utility, to take advantage of the openings in the European electricity market.

US companies are also in pole position to exploit the new freedoms in Europe's state-controlled railway industry. Wisconsin Central Transportation, a medium-sized US railroad, controls all UK rail freight business, runs the queen's private train, via its English, Welsh & Scottish Railway unit, and has acquired the company that runs rail shuttles through the Channel Tunnel. Meanwhile, CSX, the biggest US railway, is carrying freight between the Netherlands, Germany, and Italy in a pioneering joint venture with Deutsche Bahn, the German state railway, and NS cargo, the Dutch rail freight operator.

US firms are moving into uncharted waters. Manufacturers of locomotives and freight wagons are making sales in Europe for the first time, and US banks hold more than 25 percent of the $14 billion debt of Eurotunnel, the Anglo-French operator of the Channel Tunnel. New York-based Ogden is ahead of its European rivals in taking advantage of competition in airport services, moving into Amsterdam Schiphol airport and several small German airfields.

US companies have also been fast off the mark to exploit Europe's late start in the so-called knowledge industries. EDS, the computer services group, overtook Japanese-owned ICL as the biggest player in the $18 billion British market last year. ICL was pushed into third place by IBM.

US telecoms firms are also deeply involved in the looming liberalization of Europe's $180 billion-a-year market. But the action isn't limited to the big names like AT&T, which has faced several setbacks trying to carve a European presence, but smaller, nimble firms that have moved into niche markets.

Many of these upstarts, European as well as US, are being financed by US

continued on page 16

US: A NATURAL MAGNET FOR EUROPEAN FIRMS

by the end of the year. French companies finally are following in the footsteps of the British and Dutch firms that led the European move into Wall Street.

Almost unnoticed European firms have ousted the local competition in some of the fastest growing US business sectors. Gambro, the Swedish health care group, became the second largest dialysis company in the US in June when it bolstered its network of clinics with a $1.6 billion purchase of Vivra, a California-based group. The market leader is also European, Fresenius of Germany.

Truck manufacturing in the US also is becoming a European preserve after Daimler-Benz agreed to buy Ford's heavy vehicle unit for $250-$300 million to add to its Oregon-based Freightliner group. Renault of France and Sweden's Volvo are also major players in the US truck market and are boosting their presence in spite of poor returns.

The big ticket transatlantic investments are concentrated in the financial sector where European investment banks and insurers are desperately trying to join their US rivals in the global league.

ING group, the largest Dutch financial services group, lost out to the Swiss SBC Warburg in a battle for Dillon Read, the Wall Street investment bank, in May, only to bounce back two months later by taking over Equitable of Iowa Co. in a $2.6 billion deal that doubled its US insurance operations.

For some European companies, US activities are beginning to rival their domestic operations. ABN Amro, the biggest Dutch bank, which recently acquired Standard Federal, the largest Midwest savings and loans institution, is the largest foreign bank in the US measured by local assets.

In a few sectors, the Europeans tower over their US rivals, making it easier to pick up bargains across the Atlantic. The world's top two pharmaceuticals firms, Novartis of Switzerland and Britain's Glaxo Wellcome are tipped to get even bigger by buying up their rivals, with US firms the most likely targets. Novartis moved first, paying $910 million for a crop protection operation owned by Merck, the leading US drugs group.

Roche, another Swiss drugs group, recently drew alongside Abbot Laboratories of the US as the world's leading diagnostics company. Roche's $11 billion purchase of the Bermuda-registered Boehringer Mannheim Group gave it control of DePuy of the US.

While some European firms are taking over their US rivals, others are joining forces with them. The most high profile deal was the merger of the telephone equipment operations of Philips Electronics and Lucent Technologies, the former AT&T unit. In another recent deal, Siemens of Germany formed a technology and marketing alliance with 3Com, one of the leading US manufacturers of computer networking equipment.

Few European firms have regretted their move across the ocean. Ahold, the largest Dutch supermarkets group, already is eyeing a further big buy in the US less than a year after completing a $1.8 billion purchase of Stop and Shop, a New England chain with more than 175 stores. Others have suffered temporary setbacks, notably British Telecom whose planned takeover of MCI was for a while called into question after the US firm announced it would lose $800 million because of the high cost of breaking into the US local telephone market.

European firms are moving into new markets, especially China. But for most, the United States will remain the top target for a long time to come.

INVESTING IN EACH OTHER

DEREGULATION ATTRACTS US FIRMS

investors and fund managers on the look out for winners. US firms are beating the local monopolies for prestige contracts: Florida-based CyberGuard Corporation won the contract to connect the British government's network to the Internet, and WorldCom, another firm, pipped Deutsche Telekom to a key contract from the Bundestag, Germany's lower house of Parliament.

The US has buried Europe in sectors it pioneered such as the $30 billion-a-year express industry. The European market is growing by more than 10 percent a year and will probably match the US by 2005, according to Carl-Stefan Neumann, a McKinsey & Company consultant.

The US is also in totally new service sectors, such as tourism. Miami-based Carnival Cruises acquired a stake in Airtours, a British vacation operator, and Carlson companies of Minneapolis paid $70 million for Inspirations, another British tourism firm.

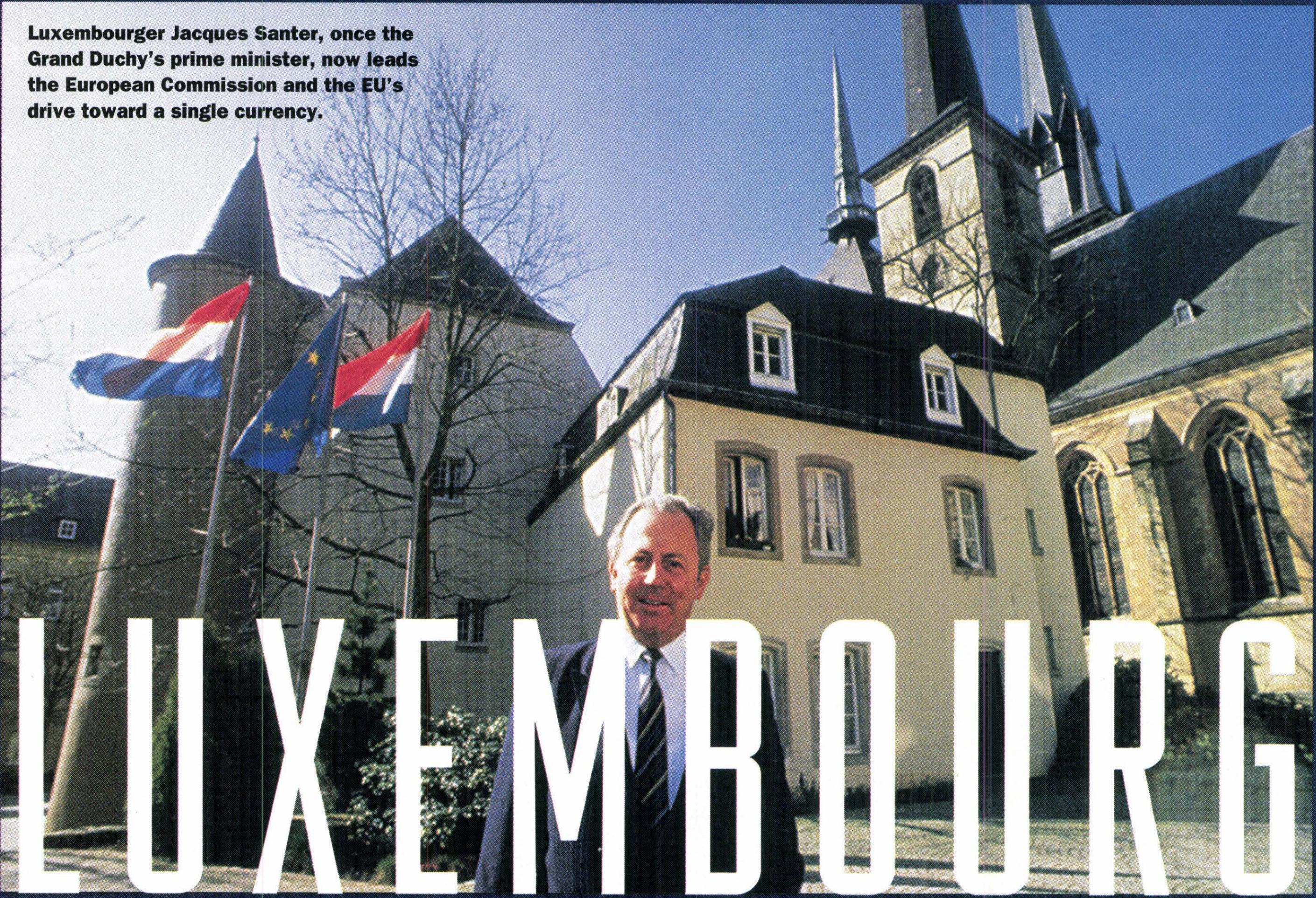
The consolidation of US industries at home and the quicker tempo of their overseas investments is forcing European rivals to mull cross-border alliances. The $13.4 billion merger between Boeing Co. and McDonnell Douglas is a "wake up call" for Airbus Industrie, according to Manfred Bischoff, head of Deutsche Aerospace, one of the Airbus partners.

"The Americans are leaving us behind in the aerospace industry and aerospace technology as a result of this merger," according to Klaus Kinkel, Germany's foreign minister.

The recent $11.2 billion takeover by Lockheed Martin Corp. of Northrop Grumman Corp., the final post-cold war consolidation of the US defense industry, compounded pressure on Europe's fragmented industry to accelerate plans to join forces.

The American influence will become increasingly pervasive as European businesses, freed from state ownership and intervention, adopt US management and financing techniques to survive in the new world economics order.

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



Luxembourger Jacques Santer, once the Grand Duchy's prime minister, now leads the European Commission and the EU's drive toward a single currency.

LUXEMBOURG TAKES CHARGE

Grand Duchy Leads Enlargement Drive

BY ALAN OSBORN

Somehow the Luxembourgers have the knack of being in charge of European events at just that moment when major decisions for the future of the Union are needed—and taken.

It happened six years ago when the key Maastricht Treaty was stitched together under the Luxembourg presidency of the European Union, and it happened before that in the late 1980s when Luxembourg steered the negotiations that led to the Single European Act. A British diplomat called it "a kind of political serendipity."

Now Luxembourg is at the controls again—but this time in double strength. While Prime Minister Jean-Claude Juncker serves as president of the EU Council of Ministers in the second half of 1997, his former political mentor, the Luxembourger Jacques Santer, will be conducting affairs in Brussels as president of the European Commission.

wealth. An ostentatious car seen on Luxembourg roads will more than likely have German number plates.

The Luxembourgers are not miserly; they merely spend discreetly. An ambassador to Luxembourg recalls a visit with a club of local art lovers to galleries in the Netherlands and his astonishment at the prices his traveling companions were willing to pay for their comforts during the visit.

In other countries the costs of such a trip would have confined the excursion to the super-rich, but in Luxembourg there were hundreds of applications for every visit. In fact, thanks to a highly progressive income tax regime and an historically generous social security system, Luxembourg has relatively few mega-rich citizens and few extremely poor ones.

These extravagant social benefits—with public servants and many private sector employees retiring on seven-eighths of final salary—were easily containable up to a few years ago when Luxembourg was the world's richest country in terms of spending power. Now they are becoming a potential headache for the Luxembourg government and a test for Prime Minister Juncker's political skills as he attempts to scale down retirement expectations.

Unemployment is also, by Luxembourg standards, worryingly high, though few other countries would shed tears over the rate. But in this, as in so many other aspects of Luxembourg life, the situation is made more complex by the high level of migrant workers residing in Luxembourg (about a third of the total) and the fact that about a quarter of the number of people with jobs come in daily from neighboring countries.

These are mostly *frontainie* workers with menial jobs, but at the other end of the scale the highest paid bankers tend to be foreigners, while many of the best paid of all employees are officials from other countries working for the many EU institutions in Luxembourg.

If all these special factors could be winnowed out, the average Luxembourger might be described as prosperous, archetypal middle-class, fiercely nationalist, and broadly conservative. The national motto—which translates as "we want to stay what we are"—fits to perfection.

Alan Osborn is EUROPE'*s Luxembourg correspondent.*

The chemistry between them could be invaluable for the EU as it faces two historic challenges this year: who to admit from Eastern and Central Europe as new members and how to ensure that a single currency for the EU begins on schedule in 1999 with a respectable number of countries signing up.

Nobody is better at striking a balance, forging a consensus, or finding a common denominator than the Luxembourgers. They are Europe's supreme negotiators. That's partly because there are so few of them—just 400,000 or so. They can occupy that narrow space between the heavyweights, feared by none, afraid of none.

Also, and unlike other countries, the Luxembourgers do not have a massive national agenda to carry into EU negotiations. For them, enlargement of the EU is largely a question of future decision-making and the possibility they may have to lose their EU commissioner in the interests of a slimmed down power structure.

The tiny country with its spectacularly beautiful capital city is the Euro-adman's dream come true—it qualifies for the single currency, it has switched its economic base from steel to banking with masterly skill, and its citizens are the richest in the EU on a per capita basis.

Mr. Juncker will not give ground here, nor will he agree to give up Luxembourg's tax concessions for non-resident depositors without a huge and, for the time being, unrealistic harmonization of tax regimes.

But beyond that, Luxembourg will be as forceful in the promotion of the European Union as even the most zealous federalist could wish. In a real sense the tiny country, with its spectacularly beautiful capital city, is the Euro-adman's dream come true—it passes the entry criteria for the single currency with ease; it has switched its economic base from steel (declining) to banking (thriving) with masterly skill; and its citizens are the richest in the EU on a per capita basis.

Moreover unlike the Germans, French, and Belgians, just across the border, the Luxembourgers do not flaunt their

At 42, Luxembourg Prime Minister Jean-Claude Juncker has the appearance and the assured manner of a high-flying young business executive who knows his market inside out.

Already Mr. Juncker, a lawyer, who attended Strasbourg University, is a veteran of top-level European Union negotiations. As Luxembourg finance minister in 1991, he chaired the key council setting up the groundbreaking Maastricht Treaty and has been at the forefront of the drive toward economic and monetary union ever since.

Yet Mr. Juncker is sufficiently young and politically secure enough at home to reasonably anticipate another 25 years or more at the center of European politics. His quick wit, command of languages, and shrewd negotiating abilities are underscored by a moral base that stresses the Christian in his allegiance to the Christian Social Party.

EUROPE interviewed Mr. Juncker at his office in Luxembourg soon after the EU summit meeting in Amsterdam this summer and just as Luxembourg was beginning its six month presidency of the Union. We asked him what had been achieved in Amsterdam.

LUXEMBOURG'S LEADER JEAN-CLAUDE JUNCKER

focuses on enlargement, the euro, and employment

BY ALAN OSBORN

"I believe the Amsterdam Treaty, provided it is ratified, will be seen later to have been a step in the right direction, but unfortunately it does not inspire enthusiasm because it doesn't take a great jump into the next century," he replied. Mr. Juncker expressed particular disappointment at the lack of progress on the introduction of majority voting to speed up decision-taking.

While there were some small advances in this area, he says, "the main judgment must be that once again the 15 governments have proved that agreement among themselves is not so easy as it seems."

"You have to bear in mind that each government is backed by 15 different national public opinions and 15 parliaments at home, so we had more than 15 at the summit, we had 45," he said. Mr. Juncker wondered if there were 15 states anywhere in the world, great or small, which could have reached agreement.

Mr. Juncker went on to observe that EU negotiations had now begun to touch on the "core matters" that for many states went to the heart of national sovereignty. He cited defense and sensitive justice matters like asylum and immigration "so it is not so surprising to see that it's become more difficult to reach agreement."

The first matter to command Luxembourg's attention as president of the EU during the second half of 1997 will be the preparations for enlargement of the Union toward Eastern and Central European countries," he said.

Linked to this will be the question of the EU's finances. Mr. Juncker's legendary skills as an honest broker seems likely to be in heavy demand as he tries to juggle the financial claims of the newcomers against the existing demands of poorer member countries, and the reluctance of the rich to assume any more of the burden. Recalling the need to keep public opinion on side, Mr. Juncker sees it as his job to prevent "shocks."

Then there is employment, with a special summit meeting to be organized "to seek a way out of the employment crisis."

Mr. Juncker identifies his third priority as preparation for the economic and monetary union of the EU, including the single currency. The latter "will happen as we have foreseen on January 1, 1999" with a significant group—a majority—qualifying," he said. His own country will certainly be among them.

Mr. Juncker is too crafty to spell out Luxembourg's plans in any detail, but he warns speculators, saying,"We'll be prepared. We'll make sure that the financial markets do not suddenly take us by surprise."

> Luxembourg will need to make no special tax provision for the state of economic and monetary union. "Other governments will not have the same margin for maneuver," said Mr. Juncker, adding that "we do have this room because our public finances are profoundly sound."

Elsewhere, the Luxembourg government has raised eyebrows in Brussels and other capitals by placing tax and social harmonization on the agenda for action by the EU this year. Mr. Juncker will circulate a list of special tax devices operated throughout the EU that he feels stand in the way of genuine economic and monetary union and that should be abolished.

Of course, Luxembourg's own refusal to apply withholding tax on savings is one such device. But there will be no question of the Grand Duchy yielding on this matter unless there is a "general compromise" on special tax regimes throughout the union, the prime minister stresses.

Even if the worst came to the worst on taxes, Mr. Juncker is supremely confident of the underlying strength of Luxembourg's financial sector, which he noted was the sixth largest in the world. "It has reached a state of maturity that makes it less weak, and it is the best prepared for all kinds of change," he said.

Specifically, Luxembourg will need to make no special tax provision for the state of economic and monetary union. "Other governments will not have the same margin for maneuver," said Mr. Juncker, adding that "we do have this room because our public finances are profoundly sound."

Ten years from now the financial sector will still be Luxembourg's main taxpayer, Mr. Juncker predicted "but we don't want to become dependent on its performance." The country is giving a lot of thought and effort to diversification: "We don't want to become reliant on one single sector—it's not wise, economically or politically."

The other two pillars of the Luxembourg economy at present are steel and television. Mr. Juncker is proud of his country's early recognition of the problems facing Western steel companies and the drastic action it took to reduce employment by two-thirds over 15-20 years. "Our steel industry is better prepared for the new world than its main competitors in other countries, but I would not say that all the problems have all gone," he said.

Mr. Juncker was more upbeat about television following the recent merger between the Luxembourg company CLT and the television interests of its former rival Bertelsmann of Germany. "Luxembourg is now the location of the most powerful media group we have in Europe...it's an enviable position for a small country like ours to be in there with the great players," he said. He also praised SES—the Astra satellite company—which had silenced earlier doubts to become "the best performing satellite company."

EUROPE asked Mr. Juncker about relations with the US. From Luxembourg's point of view they are "excellent," he said, "this is a very America-friendly country." A relatively small difference over the winding down of American military bases in the Grand Duchy was swiftly dealt with through a 1995 visit to Washington that Mr. Juncker undertook as one of his priorities after becoming prime minister.

As far as EU-US relations are concerned Mr. Juncker, is determined that the present machinery for contacts, the twice a year "transatlantic dialogue" between heads of government, should be "more useful and deeper and not just window-dressing." He wants to establish a proper working agenda for the meetings so that "genuine policy issues can be explored" rather than routine exchanges of views.

The next such meeting will be in Washington, in December, when the main subject is likely to be the enlargement of the EU and its implications for the rest of the world.

SPECIAL REPORT

EUROPE

MAGAZINE

SEPTEMBER 1997

Everything You Need to Know About Europe's New Currency

The Euro

You almost certainly know about our size (small). And about our standard of living (high). You have probably heard about our financial center (strong). And you might have heard about our

high employee productivity (Europe's best). Or, the launch of the newest Astra TV-satellite (the sixth).

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Luxembourg has a stable and supportive business environment

Robert Goebbels, Minister of the Economy, Energy and Public Works, talks about business opportunities in his country

Mr. Goebbels, what are your main objectives as Minister of the Economy of Luxembourg?

Diversifying and developing the industrial structure of our economy, and providing investors with a Luxembourg location to grow their business in Europe are key policy objectives of my Government. It is important for a country like mine to make international companies aware of "the Luxembourg opportunity."

"Our relative size can yield big advantages"

Given its size, how can Luxembourg compete with its larger neighbors?

Luxembourg is not an economic superpower. But our relative size can yield big advantages. We have a long tradition of integrating within larger economic areas (Benelux; the European Union), neutrality and experience in participating in foreign markets, and, not least, rapid decision making in an efficient, solutions-oriented administration.

Your country is well known for being politically and socially very stable. How do you see the relationship between labor, management and the Government?

Social unrest and labor disruptions are virtually unknown in the Grand Duchy. They have been avoided thanks to regular consultations between labor, management and the Government. In fact, for more than 70 years, there have been no major strikes in my country. Social tranquility has been an important component of the past economic success of Luxembourg, and will continue to be a Government policy objective in the future.

INTERVIEW

A company decision maker is interested in knowing about the availability of skilled labor. Are there any problems in that regard?

A highly qualified and multilingual workforce lives in Luxembourg and in the larger integrated economic region called Saar-Lor-Lux, who also consider a Luxembourg job location to be highly attractive. Our workforce enjoys a reputation for its skills, high productivity and professional attitude.

"Our workforce enjoys a reputation for its skills"

At crossroads of international business, infrastructure is a key element of ensuring the best connection to relevant markets. How would you evaluate the development of infrastructure networks in Luxembourg?

In my additional capacity as Minister of Public Works, I have been sensitive to the need for state-of-the-art infrastructure and digital telecommunications networks designed to provide an optimal link to economic and political centers throughout the world. All of our country's major industrial parks are fully equipped with modern utilities, and are located on or close to international road and rail networks. Luxembourg International Airport provides regular passenger and cargo service to the American and Asian markets.

"Luxembourg's benefits include competitive overall labor cost."

It takes substantial economic arguments to persuade a company to establish a foreign subsidiary. How would you summarize Luxembourg's unique advantages?

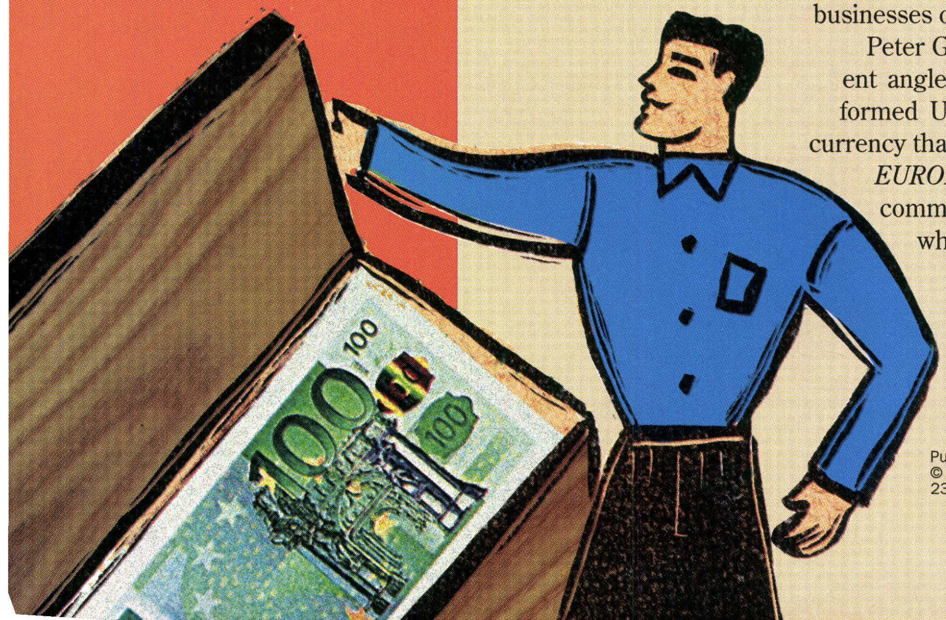
Luxembourg's benefits include pro-business policies supporting freedom of private initiative; unmatched political and social stability; competitive overall labor costs resulting from high productivity and low social costs; an attractive fiscal environment; no red tape; and modern infrastructure. These elements, combined with a stable business environment, have been key incentives to many international companies choosing Luxembourg as their strategic location in the European market. It is my Government's stated objective to maintain the favorable business climate which to a large extent has been responsible for the high growth and investment performance of Luxembourg and its foreign corporations in the past.

SPECIAL REPORT

EUROPE MAGAZINE

TABLE OF CONTENTS

ILLUSTRATIONS BY BECKY HEAVNER



WELCOME TO OUR SECOND *EUROPE MAGAZINE SPECIAL REPORT*: The Euro: Europe's New Currency. This edition gives our readers the who, what, why, where, when, and how of the euro. We explain everything you need to know about Europe's single currency.

We present a euro calendar detailing the numerous steps that will be taken from now until July 1, 2002 when national currencies will no longer be legal tender and only euro notes and coins will be in circulation. We also detail all the conditions that need to be met for a country to meet the standards to join EMU (economic and monetary union).

Lionel Barber, the Brussels bureau chief of the *Financial Times*, presents the political background of the euro. He discusses the key roles played by Helmut Schmidt, Valery Giscard d'Estaing, Roy Jenkins, Pierre Werner, Helmut Kohl, François Mitterrand, Jacques Delors, Alexandre Lamfalussy, and many others in keeping the project on schedule.

In an exclusive interview, Yves-Thibault de Silguy, the European commissioner responsible for economic and financial affairs and monetary matters, presents a clear picture of how the euro will actually work and points out all the necessary steps that will be taken for countries to join EMU.

Commissioner de Silguy states that "with the euro we'll have more currency stability in the world."

Bruce Barnard, columnist and Brussels correspondent for the *Journal of Commerce*, gives our readers a view of the new European Central Bank and explains exactly how it will be launched, how it will operate, and who will be on its governing board.

Martin Walker, who has been the Washington bureau chief of the *Guardian* and who will now be that paper's chief European correspondent based in Brussels, spoke with President Bill Clinton to get his views on Europe's new single currency. Walker also presents the views of leading financial analysts on Wall Street who discuss how they view the euro and how they see its impact on the dollar and US businesses operating in the European Union.

Peter Gwin, *EUROPE's* managing editor, takes a different angle by looking at how hard it was for the newly formed United States of America to introduce a single currency that was accepted by all of its citizens.

EUROPE hopes that our readers will give us their comments on our special report. Please let us know what else you might like to know about the euro. *EUROPE* will be following this historic event through the turn of the century.

ROBERT J. GUTTMAN
EDITOR-IN-CHIEF

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Setting the Stage for the Single Currency

BY LIONEL BARBER

For more than a generation, successive European leaders have pursued the elusive dream of economic and monetary union, otherwise known as EMU.

Helmut Schmidt, Valéry Giscard d'Estaing, Roy Jenkins, François Mitterrand, and Helmut Kohl. These are the statesman whose influence upon the EMU project is indelible.

But the intellectual godfather of monetary union remains relatively unknown outside his native country of Luxembourg, the mighty micro state sandwiched between France and Germany. His name is Pierre Werner, a long-serving prime minister of the Grand Duchy.

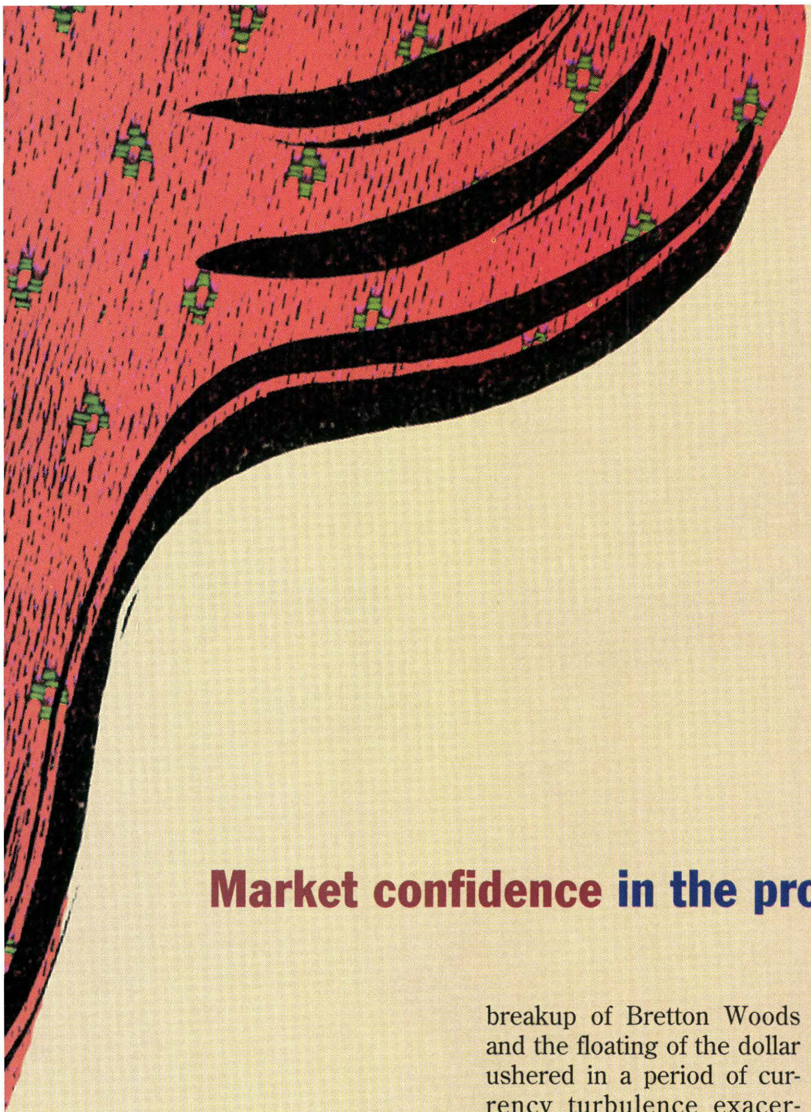
In 1969, Werner was asked to chair a high-level group on how EMU could be achieved by 1980. This was no mere academic exercise. It was the first serious European response to the upheaval in the Bretton Woods international monetary system in which the US dollar was the dominant currency.

By the late 1960s, the Bretton Woods system was creaking. Inflation was creeping up, thanks in part to the costs of financing the Vietnam War. In 1968–1969, the revaluation of the D-mark and the devaluation of the French franc threatened the stability of other European currencies.

The Werner report of October 1970 proposed a three-stage process for achieving a complete monetary union within a decade.

The final goal would be the free movement of capital, the permanent locking of exchange rates, or even the replacement of the currencies of the then six member countries by a single currency.

The blueprint was remarkably similar to the plan adopted in the 1992 Maastricht Treaty. But it was ahead of its time. The



Market confidence in the project cannot hide the political tensions which remain,

breakup of Bretton Woods and the floating of the dollar ushered in a period of currency turbulence exacerbated by the first oil crisis. EMU was put on hold.

The next step in the search for currency stability came with the creation of the European Monetary System. It was a personal initiative of two men, Helmut Schmidt, chancellor of Germany, and Valery Giscard d'Estaing, president of France, aided by a third, Roy Jenkins, president of the European Commission.

The EMS was built on the concept of stable, but adjustable exchange rates. All the member states (by then nine), with the exception of the British pound, joined its Exchange Rate Mechanism. This provided for a grid of bilateral rates and fluctuations that were not to exceed a margin of 2.25 percent. Finally, the EMS created a new currency—the ecu (European currency unit) as a weighted average of all EMS currencies.

The EMS restored a measure of exchange rate stability. Between 1986–1989, it was one quarter of what it had been between 1975–1979. But it took two separate phenomena—the arrival of Jacques Delors as president of the European Commission and his plan to create a single European market by 1992—to supply vital missing pieces in the jigsaw.

By the mid-1980s, Western Europe was enjoying the longest period of economic expansion since 1945. The European Community, as it was known at the time, was emerging from a period of political stagnation. Helmut Kohl in Germany, François Mitterrand in France, Margaret Thatcher in the UK—all were firmly established in power, ready for a big new initiative in Europe.

Delors' plan to launch the single market captured the imagination of political leaders and businessmen alike. But he went one step further by arguing the benefits of the internal market would be difficult to achieve with the uncertainties created by exchange rate fluctuations and high transaction costs for converting currencies.

In 1988, at the European Council in Hannover, Delors, following in the footsteps of Pierre Werner, was asked to chair a committee to study the prospects for monetary union. It was comprised of all EC central bank governors and independent experts, but Delors managed to slip into the chair, forestalling British and German hopes of a minimal political outcome.

The Delors report, like Werner, proposed a three-stage transition to EMU. At the Madrid European Council in June 1989, EU leaders ordered the launch of the first stage: the liberalization of capital movements. Within 18 months, the Maastricht Treaty had agreed on the final blueprint for EMU, including a fixed timetable for launching EMU by 1997 or at the latest by 1999.

The catalyst was the fall of the Berlin Wall and the unification of Germany. Chancellor Helmut Kohl decreed that a united Germany of 80 million people at the center of the continent had to find a way of reassuring its allies, notably France, that it was a reliable partner. And what better demonstration of goodwill than to give up the deutsche mark—the symbol of postwar stability and prosperity in Germany—in exchange for a single European currency?

The Germans were indeed ready to surrender the deutsche mark, but on two conditions. The future European central bank had to be modeled on the Bundesbank. It had to be free from political influence, and the entry criteria for EMU covering inflation rates, public deficits, government debt, and exchange rate stability had to be tough.

The other member states agreed, though in a brutal last night of negotiations the French and Italians secured a commitment that EMU was obligatory for all those countries that were judged to meet the so-called convergence criteria by 1999. However, the new Maastricht Treaty did not specify how and when the single currency should be introduced, and it was vague on the rules for budgetary discipline in the post-EMU world.

Over the next five years, the contradictions between the aspirations of the politicians and the actual performance of Europe's economies surfaced with a vengeance. Tensions were exacerbated by high German interest rates resulting from the Bundesbank's tight monetary policy needed to contain inflationary pressures caused by Kohl's decision to fund German unification through borrowing rather than taxes.

Between 1992–1993, the EMU show very nearly came off the road. The British pound and the Italian lira were forced out of the ERM in September 1992; in the next few months, the Irish punt, the Portuguese escudo, and the Spanish peseta all devalued. In August 1993, following another wave of speculation against the French franc, the ERM was suspended and a new system was introduced with fluctuation bands of 15 percent either way against the central rate.

The period 1994–97 marked a phase of consolidation and recovery for EMU. Through gritted teeth, the EU member states, by now 15, following the accession of Austria, Finland, and Sweden, squeezed inflation out of the system and reduced budget deficit targets within striking distance of the Maastricht criteria of 3 percent of gross domestic product.

Throughout this period, the contribution of one man—Baron Alexandre Lamfalussy, president of the European Monetary Institute, precursor of the future European Central Bank, was immense. With his calm professional style and his acute political instincts, Lamfalussy restored credibility to EMU via successful blueprints for the transition to the single currency and the rules for currency and fiscal discipline in the post-EMU world.

At the Madrid Council in December 1995, EU leaders decided to call the single currency, the "euro." Secondly, they elected to introduce the single currency in three phases: Phase A would begin in spring 1998 when EU leaders choose which countries qualify for EMU; Phase B would start on January 1, 1999 when exchange rates are fixed irrevocably; Phase C would start on January 1, 2002 when euro-notes and euro-coins would enter circulation over a period of six months.

particularly over the choice of countries which meet the criteria.

In 1996, the Dublin summit agreed on a new model ERM to regulate relations between members of the euro zone and those currencies outside, as well as a stability and growth pact, which is supposed to guarantee that countries will keep their commitment to sound public finances once they have entered monetary union.

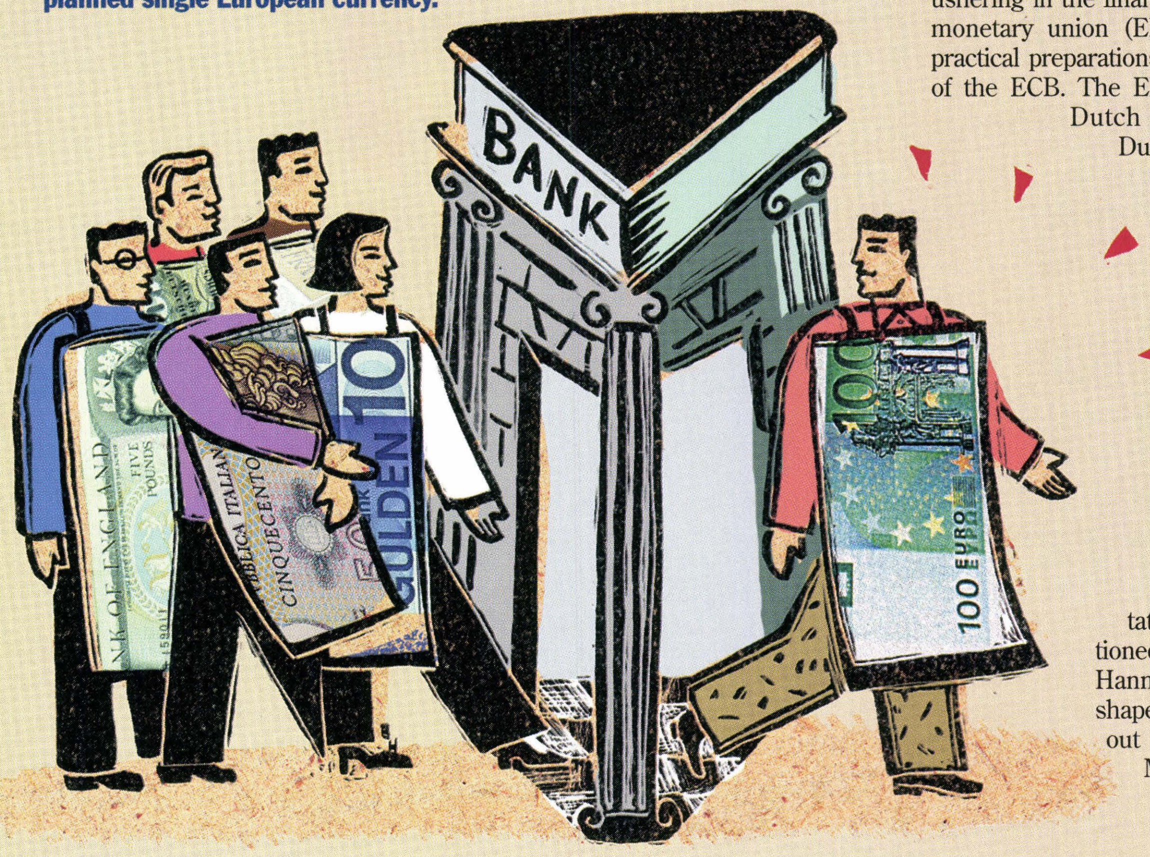
As a result of these decisions, once skeptical financial markets have turned into true believers in EMU. Market confidence in the project cannot hide the political tensions which remain, particularly over the choice of countries meeting the criteria. Nor does it lessen the difficulties which France and Germany are currently experiencing in meeting the all important deficit criterion. But the shift in sentiment does suggest that EMU, at last, is within reach. ⓔ

Lionel Barber is a contributing editor for EUROPE *and the Brussels bureau chief of the* Financial Times.

European Central Bank to Play Leading Role

BY BRUCE BARNARD

A new force will burst onto the international stage next year that will, in time, tip the balance of global financial power from the United States to Europe. The newcomer, the European Central Bank (ECB), will be sharing the limelight with the US Federal Reserve Bank from January 1, 1999, when it takes on the daunting and high risk of policing the euro, the planned single European currency.



The ECB has attracted little publicity as most attention has focused on the titanic struggle by EU member states, notably Germany and France, to qualify for monetary union. Yet the new bank will play a crucial role in establishing the credibility of the new currency in international financial markets, eventually determining whether it will challenge the global supremacy of the dollar.

All the ECB needs to start its work is the nod from EU governments next spring. It already exists in embryo in the shape of the Frankfurt-based European Monetary Institute (EMI), which is playing a key role in ushering in the final stage of economic and monetary union (EMU) and making the practical preparations for the establishment of the ECB. The EMI's president, former Dutch central banker Wim Duisenberg, is odds-on favorite to be the ECB's first boss.

The ECB will start life next May after EU leaders decide which countries qualify for EMU and will be fully operational in 1999 when the euro is launched.

The ECB has been a long time gestating. It was first mentioned at an EU summit in Hannover in 1988, and its shape and functions were set out in the EU's landmark Maastricht Treaty of 1991. In fact, the framework of the

ECB was set the very day it was conceived because it is a near carbon copy of the Bundesbank, Germany's formidable central bank. This, and the ECB's location in Frankfurt, were never in doubt because such was the minimum price for Germany's participation in EMU.

The ECB, like the Bundesbank, will see its role as the slayer of inflation—everything else will be secondary to this primary goal.

German Chancellor Helmut Kohl insisted the ECB should be cloned from the Bundesbank to convince the skeptical German public that the euro would be as strong as their cherished deutsche mark, one of the world's strongest currencies.

The German psyche is still scarred by memories of hyperinflation in the 1930s when shoppers filled wheelbarrows with million mark notes to buy bread and children played with worthless bank notes.

The Bundesbank's single-minded pursuit of price stability at any cost since its foundation in 1957 gives some idea how the ECB will police the euro zone. The bank steadily hiked interest rates in the early 1990s to douse inflation stoked by German unification, forcing other countries to follow suit, driving Europe deeper into recession, and eventually triggering a continental currency crisis.

Earlier this year, the Bundesbank thwarted a bid by Chancellor Kohl and his finance minister, Theo Waigel, to revalue its gold reserves in a bid to bring the budget deficit under 3 percent of GDP to qualify for monetary union.

As the Bundesbank is the de facto central bank of Europe, the ECB will enjoy a seamless succession.

How will the ECB work? It will have a governing body, composed of central bankers from each country participating in EMU. The main job of the governors will be to set monetary policy—basically setting interest rates. The ECB will also have a full-time executive board, based in Frankfurt, which will be responsible for the day-to-day running of the bank and will also participate in the governing body. In deciding monetary policy each EMU central bank governor will have an equal vote together with each member of the executive board.

The ECB will also have links to EU countries that don't participate in EMU through a general council of the ECB, composed of the central bank governors of all 15 member states. This general council will enable the ECB to cooperate closely with non-EMU members who in time likely will adopt the euro. Moreover, most non-EMU countries will be linked to the new currency through a new exchange rate mechanism that will be launched in January 1999.

The ECB can intervene to support non-EMU currencies, but it will be obliged to draw back if this conflicts with its primary objective of maintaining price stability.

The individual central banks will still have a role to play, acting as the ECB's "agent" in the member states. They will implement ECB interest rates in their own local markets and will continue to carry out non-monetary tasks, such as banking supervision.

Germany has successfully resisted French-led attempts to impose political control over monetary policy after 1999, thus usurping the ECB's independence. The two countries also clashed over whether the ECB, or national central banks, should have the power to conduct foreign exchange and money market operations after 1999.

A big unanswered question is whether the ECB will opt for a strong or weak euro against other key currencies, notably the dollar. Some observers reckon it will opt for a relatively soft currency to give EU exporters a competitive edge in world markets; others believe it will favor a strong currency to combat inflation. Its strength will also be determined by whether other central banks and institutional investors will buy the euro as a reserve currency.

The ECB will tread warily at first as it builds up its credibility in the financial markets. But in time it could challenge the US Federal Reserve as the world's most powerful bank as the euro takes on the role of a reserve currency.

The greenback still dominates, but its influence is waning. Between 1973 and 1994, the share of the dollar in official reserves has declined from 76 percent to 63 percent. The shift from the dollar into EU currency assets also is gathering pace. From 1988 to 1995 the share of EU currencies in the total private wealth portfolio rose from around a quarter to more than a third while the dollar's share declined from more than 50 percent to around 40 percent. Moreover, the central banks of the EU currently hold six times more reserves than the US and twice as much as Japan. This will be the ECB's inheritance. Ⓔ

Bruce Barnard is a contributing editor for EUROPE *and a Brussels correspondent for the* Journal of Commerce.

The countdown to economic and monetary union (EMU), arguably Europe's most ambitious project since the end of World War II, begins in earnest this month. It will begin with a whimper not a bang as the financial markets scan dry government statistics to glean which of the 15 European Union countries are likely to adopt the planned single currency, the euro, in January 1999. But even if all goes according to plan Europe's shoppers won't be

Countdown to the Euro

BY BRUCE BARNARD

spending euro notes and coins until January 1, 2002.

The fate of EMU will be settled when it becomes clear which countries hit the key target of a budget deficit of 3 percent or less of gross domestic product (GDP) in 1997 to qualify for the euro. Most eyes will be on just two countries, Germany and France, the EU's biggest economies. If they can't make the grade, EMU will be postponed, unlikely to be revived until a new generation takes the reins of power.

The EU missed the first starting date for EMU—January 1, 1997—because it couldn't meet the requirement in the 1991 Maastricht Treaty that a majority of member states meet the qualifying criteria.

In 1996 only four of the EU member states—Denmark, Ireland, Luxembourg, and the Netherlands—met all four EMU criteria. But an economic pickup, accompanied by government austerity programs, has ensured a majority of countries will qualify in 1997.

France is certain to overshoot the target, and it is touch-and-go whether Germany will qualify as its record jobless rate swells government spending and slashes tax revenues thus widening the country's budget deficit.

This is when the EMU project enters the political realm. The decision on which countries qualify will be taken by EU leaders and the Maastricht Treaty gives them sufficient leeway to readjust the verdict.

The treaty says the third and final stage of EMU "shall start" on January 1, 1999. And if a country doesn't meet the qualifying criteria, account will be taken "of all other relevant factors, including the medium-term economic and budgetary position." The start date is inflexible, the criteria aren't.

Most countries have little trouble meeting two of the four Maastricht criteria: a consumer inflation rate within 1.5 percentage points of the average rate of the three countries with the lowest inflation and average nominal long-term interest rates during 1997 within 2 percentage points of the average of the three countries with the lowest rates.

A majority of EU countries appear close to meeting the budget deficit, but several won't meet the requirement that the public debt must be less than 60 percent of GDP. This figure is covered by a let-out clause in the treaty that says countries can qualify if they exceed the target if the debt-to-GDP ratio "is sufficiently diminishing and approaching the reference value (60 percent) at a satisfactory pace."

These let-out clauses will provide plenty of scope for trade-offs when EU leaders gather at the summit in the United Kingdom next spring to choose the EMU winners. The meeting will be hosted by a neutral as the UK has an "opt out" from EMU and is highly unlikely to join in the launch of the euro in 1999.

Euro Timetable

1997—Countries will be judged on economic performance this year whether they qualify for EMU.

1998—European Commission (Brussels) and the European Monetary Institute (Frankfurt) will give their opinion on individual performance to the EU's finance ministers.

May—Special EU summit where leaders of the 15 member states will cast their votes on the successful candidates based on "the most recent and reliable actual data for 1997."

The summit will appoint the executive board of European Central Bank (ECB). The board will set up the bank and the linked European System of Central Banks, which will prepare the printing of euro notes and coins in mid-1998, a process that will take three years.

Voting in national parliaments on participation in EMU.

1999 January 1—The participating member states will fix their exchange rates irrevocably against each other and against the euro.

The ECB will begin operating a single monetary policy operation. All its dealings with commercial banks and foreign exchange activities will be transacted in euros. The dollar and the yen will be quoted against the euro, not national currencies.

New public tradable debt, particularly that maturing after 2002, will be issued in euros.

In the initial steps, no paper currency or coins will be issued in euros. The only legal tender, both paper and coins, will continue to be the national currencies.

The euro will exist, however, as banking currency.

The euro can be freely used from 1999 but no one can be forced to use it until 2002.

2002 January 1—After a three-year gestation euro notes and coins will be circulating alongside national bank notes and coins, which will be slowly withdrawn.

2002 July 1—National currencies are no longer legal tender. Only euro notes and coins will be in circulation.

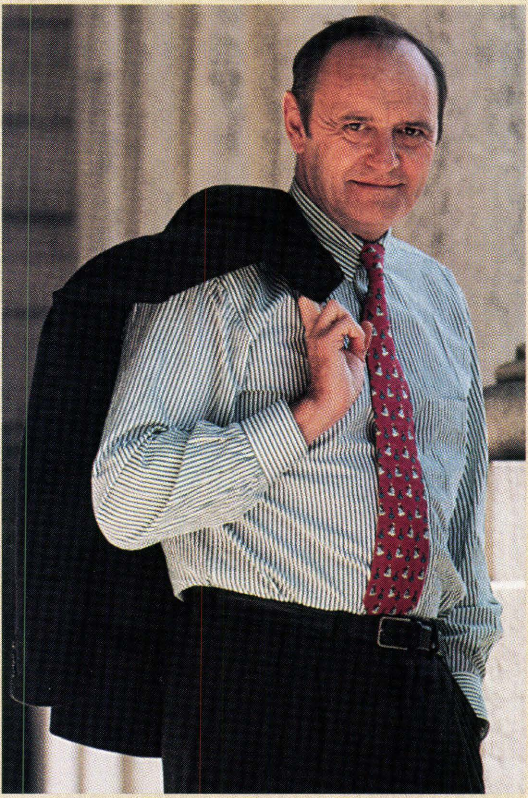
This will finalize a process that began in Europe in the Middle Ages when feudal rules tried to unify coins with trading partners.

An Interview with Yves-Thibault de Silguy

Yves-Thibault de Silguy, European commissioner for economic and financial affairs and monetary matters, speaks out on Europe's new single currency, the euro. The commissioner explains the requirements for joining EMU, the European Central Bank, and the timetable for the euro in his discussion with *EUROPE* Editor-in-Chief Robert J. Guttman.

Why does Europe need the euro at this time?

The first reason is that the euro is a response to the changes in the world. We are in a world where there is globalization, and we need more competitiveness for European economies and for European companies. The euro will give Europe more growth. The euro will give our companies more competitiveness because the cost of transactions will be reduced. The stability of the currency will increase the opportunity for cross-border trade and investment.



Another reason we need the euro is to give more stability to the international monetary system. At the present time, we are in a system which is very unbalanced because the dollar is used for 80 percent of transactions, whereas the United States represents only about 18 or 20 percent of world exports. Europe, which is one of the world's largest trade partners and a leader in economic terms, has no voice or no existence on the world scene in monetary terms. With the euro, we'll have a system that will be more balanced, and this is good for stability.

In addition to these economic reasons, there is a more political reason we need the euro. We already have a single market. Now we need to complete this process. A single currency is a vital complement to the single market.

In political terms, we also need the euro because we are at the eve of the enlargement of the European Union to the Eastern European and Baltic countries, and we need more coherence, more strength, and more vigorous political cooperation. To make the most of enlargement, we must first complete the single market with the single currency.

What does a country have to do to join EMU?

It must meet the conditions that are in the Maastricht Treaty. Participating countries have to achieve a high degree of sustainable economic convergence. That will be measured against five so-called "convergence criteria" covering inflation, interest rates, debt, public deficit, and currency stability. For each member state, we have to examine the state of convergence in 1997.

After that we'll have to make sure the convergence is sustainable, not only for 1997. The decision on the list of participating countries will be taken by Europe's leaders at the end of April 1998 or at the start of May 1998, on the basis of the Commission's recommendation.

When is the European Central Bank actually going to come into effect?

The European Central Bank (ECB) will begin full operations on the first of January 1999. But the ECB will be established in spring 1998, when the heads of states and government decide which member states will participate in EMU from the start. At the same time, they will appoint the board of the ECB, and the ECB will take all the legal decisions to be able to conduct monetary policy from the first of January 1999.

And the European Central Bank will be based in Frankfurt?

Yes.

Will it be shaped after the Federal Reserve or the Bundesbank? Is there any similarity?

It will neither be a Bundesbank nor Federal Reserve. But the European Central Bank will be quite a decentralized system composed of all the national central banks. It is the combination of these national central banks that will have the responsibility for implementing monetary policy decisions that will be taken at the ECB in Frankfurt.

Will the ECB have branches in each country?

The ECB will be the head of the European system of central banks. Decisions on the level of the interests rates will be taken by the governing council of the ECB. To implement these decisions, the ECB will use the capacities and abilities of the national central banks. In addition, the governing board of the ECB will include the governor of each national central bank.

What's going to happen to a city like London as a European financial center if the UK doesn't join EMU?

London is the biggest financial center in Europe. London is presently preparing to work with the euro, whether or not the UK is in the euro zone. But you see even in New York, you can work with euro bonds and on euro markets.

Will the euro compete against the dollar and the yen?

I do not like to talk in terms of competition between currencies. We'll have an international monetary system that will be more balanced between the yen, dollar, and euro because each currency will represent a large trade entity.

Should American businesses be getting ready for the euro?

Yes. American business will be affected by two aspects of the euro. First, it will influence trade to Europe from US companies, because with the euro we will have more growth and more dynamic markets, and this is good for business and good for trade, providing opportunities for US companies. Secondly, we have a large number of US companies with operations in Europe. These companies will benefit from the euro in the same way as the European companies. There is no discrimination. For instance, all companies operating in Europe will benefit from the elimination of transaction costs. Thirdly, we have to take into consideration the fantastic improvement for US companies of having larger, wider, and very liquid financial markets in Europe.

Should American business see any negatives or be nervous?

I don't see what will be negative. The creating and launching of the euro is a fantastic opportunity if companies can transform the challenge into an advantage. For instance, take an American company that sells very specialized financial products. It's very difficult at present to develop these specific financial products in Europe because we have very segmented and fragmented markets. When we have large, liquid markets, it will be easier to sell financial products throughout Europe.

Do you think the US government is now becoming aware of the euro and it's now accepted?

Yes. There is an awareness in America that the euro has arrived. And now we have to work together to avoid any problems during the transition period. For example, the dialogue on monetary aspects will be easier because we'll have Mr. Greenspan and we'll have the president of the European Central Bank. This will allow easier direct dialogue on any problem areas.

Will the European Central Bank take over some of the functions of the European Commission?

No. The responsibilities of the Commission and the European Central Bank are quite separate. The ECB will be responsible for monetary policy whereas the Commission's role involves coordination and surveillance of other areas of member states' economic policies, in particular their fiscal policies. In this context, the Commission will monitor countries' public finances to ensure that they avoid excessive levels of public borrowing in line with the stability and growth pact agreed at the Dublin European Council last year. If there is slippage against the treaty reference values for borrowing (expressed as a percentage of GDP), the Commission will react swiftly with recommendations on how to correct the situation.

More generally, the Commission has the sole right of initiative to make proposals for decisions between member states. For example, Europe's leaders will take their decision on the list of EMU participating countries on the basis of a Commission recommendation.

Is this kind of unique in history—a situation where you have a central bank, but you don't have a central government?

There will not be a single government in Europe. But we have put into place the stability and growth pact, and we have a lot of procedures in the treaty to reinforce the coordination of fiscal and economic policy. And secondly, there is a deterrent mechanism to prevent some member states from taking measures that would create economic pressures for the others. So there is not a central government, but there will be a very strong system of economic coordination.

What's going to happen with countries like Italy? Will they qualify for EMU?

Nobody knows today which member states will qualify. The decision will be taken next year on the basis of the real 1997 economic figures. And I cannot read in a crystal ball. No countries are excluded. All the member states have the possibility to be in the EMU, in the euro zone. If a member state does not meet the criteria, we'll have to put in place a transitional system to be sure there will be stability between the currency of this member state and the euro. This will be a new exchange rate mechanism which will limit the fluctuation of the currencies of these member states. The new system will also help to reinforce the convergence of these member states so that they are able to join in EMU as soon as possible after the others.

Are you convinced that everything is going to start on schedule?

Yes. It's not possible to change the timetable because if we want to change the timetable we have to change the treaty, and nobody now wants to reopen the negotiations on the Maastricht Treaty. Secondly, the preparations are very well advanced, especially in the financial services sector and in the banks. Billions of dollars have already been invested in preparations on the basis of a January 1 start. Also, there is a legal decision confirming the deadline of the first of January 1999. If this timetable is not respected, there is a danger that companies will want to make legal claims for damages. With or without the euro, it is necessary to have sound economic and fiscal policies for all member states. And if we don't have the pressure of the timetable, there would be enormous temptation to relax consolidation efforts. It would also have dreadful consequences for the markets.

So there's nothing you see that could forestall this? It's going to go ahead on schedule?

Yes, it's clear the timetable will be respected. But today I can't say which member states will be ready on the first of January 1999. We will know that next year.

So it could go forward even if Germany and France didn't meet the requirements?

I am confident that France and Germany will meet the criteria.

They will meet the criteria?

Sure, because I can't imagine a situation where the euro could start without France and Germany. And secondly, there is a rock

"There is an awareness in America that the euro has arrived. And now we have to work together to avoid any problems during the transition period."

solid commitment from the French and German governments to be ready in time.

The major problem the Americans hear about in Europe is severe unemployment. Is the euro going to do anything to help unemployment?

With the euro we'll have more growth. And if we have more growth, we'll create more jobs. This will not be sufficient to eradicate the unemployment problem in Europe because the major part of unemployment is due to structural reasons, in terms of lack of flexibility of the labor market, in terms of education, in terms of training, in terms of excess charges on wages and so on. And I think to correct the situation and to attack the real reasons for unemployment in Europe, member states have to conduct more courageous and comprehensive and global structural reforms, especially for the labor market.

Will all national currencies disappear, or will people within the country still use the franc and the deutsche mark?

From the first of January 1999, the euro will be the currency of Europe, and the euro will be widely used on the financial markets. But between the first of January 1999 and the start of 2002, the public will continue to use national currencies—deutsche marks, French francs, Belgian francs, and so on. On the first of January 2002, we will change the bank notes and the coins, and we will have a maximum of six months for parallel circulation of national currency and the euro. On the first of July 2002, the national currencies will be withdrawn from circulation.

So there will no longer be the franc or the deutsche mark?

No, they will be finished.

Do you think the average citizen understands about the euro?

It is clear we have to reinforce communication. We have launched a very comprehensive communication program in Europe with the European Parliament and with national governments in which we explain the process step by step. Last year we concentrated our efforts on banks and financial services because they are the first ones who have to be ready on the first of January 1999. But for the population, the changeover will take place on the first of January 2002. So we have five years. It's not too long, but we have five years to prepare people.

Where is the mint going to be? Are you going to have mints all over Europe? Who is going to make the money? Where is it going to be made?

The money will be made by each member state. That means that if euro borders coincide with EU borders, we'll have to change 12 billion bank notes and 70 billion coins. So each member state has to prepare the stocks of the bank notes and the coins that they will need. Each central bank, each mint, currency board, plants that make the coins, workshops in each member state are all presently preparing the euro coins.

Will there be something on a euro coin that says "France" on one side, for example?

One side will have a national design, and the other side will have a European design.

Do you see this as historic and unique in world history, bringing in a new currency and taking out national currencies? Do you see this as a historic event?

Sure. The historic event will be next year when the heads of governments will meet to decide the list of the first member states who will participate in EMU. That will be the most important event since the end of World War II.

And when will this take place?

At the end of April or the start of May 1998.

And this will be during the British presidency?

Yes.

For an American audience, should we be excited about this? What's the main way it will affect Americans?

It's difficult because Americans are naturally first interested in American issues. It's very difficult to interest Americans in European affairs. Americans will be concerned because, first, there are a lot of American travelers who visit Europe. Secondly, for the American companies, they will be affected by the change, either in the trading with Europe or when a company opens a European operation or branch. And third, because with the euro we'll have more currency stability in the world. And it's a good thing for everybody because more stability means more confidence, and more confidence is good for growth and prosperity. ⓔ

BY MARTIN WALKER

THE EURO: the View from America

"I have never felt the United States should feel threatened by the prospect of a European currency nor by the prospect of European integration in general," President Clinton told me, in an Oval Office interview on the eve of his last European visit. "Every nation will have its own concerns about that, as Great Britain has. That's something for the Europeans to work out."

"This European integration is a huge thing, and I don't think we should be frustrated if it's not achieved overnight. The main thing is just to keep this process going along. Chancellor Kohl is sort of my role model here. He just rolls on. He just keeps moving along. I just kind of think that's what we all ought to be doing."

"We still have a world of economic disputes. Trade arguments, Boeing and bananas will go on forever. This is a highly complex economic relationship. But if we have a framework that permits the Europeans to resolve these matters in their own good time and their own way, but still keep democracy expanding and keep our security partnership structured in ways that do not recreate the horrors of the 20th century, that can give us the tools to meet the challenges of the 21st century. I think economic realities will lead free people to good decisions."

President Clinton's relaxed and supportive approach to the euro and to the next phase of the European project reflects the broad consensus of his administration. Treasury Secretary Robert Rubin had set the theme at the G7 summit in Lyons last year, saying, "They certainly seem to be on the road to a common currency. All of this is a very positive development with respect to Europe, and what's good for Europe is good for all of us."

The senior official for international financial affairs at the US Treasury, Deputy Secretary Lawrence Summers, sees the euro as "the most extraordinary endeavor in monetary innovation, the most dramatic change in the system" since the collapse of the Bretton Woods system of fixed exchange rates in the 1970s.

"The best outcome from an American perspective would be a sound euro, underpinned by sound European macroeconomic policies," Summers declared at the end of April, in the administration's first authoritative policy statement on the euro. But he warned against overestimating its effects. "The revolution in European financial markets which many expect to follow EMU will not happen overnight. The dollar will remain the primary reserve currency for the foreseeable future, and any further erosion in its relative position in the system is likely to happen, if it happens, only slowly."

The Clinton administration's calm view of the euro had been briefly ruffled in March, when the respected head of the Institute for International Economics (and former US Treasury official) Fred Bergsten warned an IMF seminar that the coming of an alternative reserve currency in the euro could lead to a major and possible disruptive shift—of up to a trillion dollars—out of the US currency and into the European. This 'self-denying prophecy', designed to fend off just such an outcome, Bergsten's statement was really a plea for some advance planning of the transition. But it provoked a response from the US Treasury.

"Some believe this process will accelerate sharply because investors will find the euro attractive. I believe these predictions are substantially overrated," said Summers, who thinks that the facts of international economic life are unlikely to change overnight. "It will take some time before the political context in which it (the euro) operates will lead to a commitment to price stability as well established as that demonstrated by the Bundesbank."

The main concern that is voiced off-the-record inside the National Security Council is that if the euro is established as an act of political will despite the economic difficulties, that could lead to a weak euro that would be buffeted by the markets and could prove a serious setback for the larger goal of European integration. That concern grew after the

The official US view and the tactic

double shock of the French election result and the refusal of the Bundesbank to revalue the German gold reserves in order for the deutsche mark to meet strict Maastricht criteria to qualify for the euro.

The official US view is to distinguish between the overall strategy of European integration, which the US strongly supports, and the tactic of the single European currency as a way to

achieve that goal, which is seen as a matter for the Europeans.

"The trend is clearly toward a united Europe," Secretary of State Madeleine Albright told reporters at the celebration of the fiftieth anniversary of the Marshall Plan in the Hague. "The single currency may or may not happen. But I don't think this is a measure of whether there is a united Europe."

View of the Marketplace

At the end of February this year, a conference on the impact of European Monetary Union planned by the London International Financial Futures Exchange was canceled because too few of the targeted American audience had been interested enough to register for the event. Interest faltered dramatically after what the markets saw as a double setback for EMU, with the success of the Socialist-led coalition in the French elections and the row between the German government and the Bundesbank.

"The euro's credibility is going to be a joke," said John Beerling, chief currency trader at Norwest bank in Minneapolis. "If you believe that the euro is going to be weak, then you have got to go to the dollar—it's the best place to be."

"All this has raised concerns about the stability of the euro," commented Deutsche Morgan Grenfell chief economist Marc Chandler in a research note. "Talk of a possible delay to EMU continues to circulate, although such speculation appears more common among those who were not very keen about the euro in the first place."

But influential figures in the market, like Robert Hormats, vice-chairman of Goldman, Sachs and a former Treasury official, took a longer view. He reckoned before the French elections there was a 65 percent chance that the euro would start on time in 1999; after the votes were counted, he thought the chances were fifty-fifty.

"I think President Clinton understood that while the country wanted to reduce the budget deficit, it did not want to sacrifice Medicare and Medicaid, social security, and other social programs," Hormats said, and French voters had done the same. "They would like a little more fiscal stimulus. It's sort of a kinder, gentler euro. But in the long run, if Europe remains weak and can't restructure and is in fiscal turmoil, that's going to be bad for us."

The markets calmed after a statement from Treasury Secretary Robert Rubin that "there is a very strong commitment on the part of both political leaders and finance ministers (in Europe) to accomplish a belief that the EMU is good for the economic health and strength of Europe. And obviously, we have a very strong stake in a strong Europe."

But Rubin's reassurance about the politics of the euro simply changed the nature of the equation for the markets. The conclusion was that the euro would probably go ahead as planned, "but as a much weaker currency," in the judgment of Paul Home of Smith Barney.

"The markets have realized that if you are a part of the European political establishment, you cannot let EMU fail because so many reputations and so much credibility and so much of the European idea is riding on it," said Michael Andrews of Salomon Brothers. "But already, credibility is in play. There is a question about the amount of people ready to purchase European securities and bonds—with the exception of those issued by Britain, Sweden, and Denmark. There's the irony, that the strong euro-currencies could be those which are most cool to EMU."

is to distinguish between the overall strategy of European integration of the single European currency as a way to achieve that goal.

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

A Brief History of the Dollar

With the attention focused on Europe's drive toward a single currency, it is interesting to look back at how the United States put in place its own "single" currency.

BY PETER GWIN

A catalog shopper in Rome, Georgia, doesn't think twice about currency when phoning a company in Paris, Texas. Of course, we Americans take our single currency for granted. Conversely, an Italian ordering goods from a French company might have to consider the rate of the lira versus the franc. Proponents of a single European currency have long used illustrations like this to help focus attention on Europe's economic and monetary union. Amid the discussion regarding the euro's implementation, it is interesting to look back at how the United States put in place its own "single" currency.

As the New World was colonized, there was not a single currency, not even among the British colonies. Furthermore, a coin shortage forced the colonists to use many different types of specie to transact business. Near the end of the 17th century Britain exacerbated the problem by forbidding the exportation of coins from the British mainland. Although colonial businesses used British denominations in their accounting, they conducted most of their commerce using coins other than British currency. Spanish coins minted in Mexico were especially popular during this time.

One of the most popular of these Spanish coins was the "pillar dollar." It was so called because on one side it depicted two large columns, representing the Pillars of Hercules. Draped between the columns a banner read *plus ultra*—more beyond. Anthropologist Jack Weatherford, in his recently published *The History of Money*, offers the theory that this design formed the basis for the US dollar's symbol. "The two parallel lines represent the columns, and the S stands for the shape of the banner hanging from them."

The origin of its symbol, notwithstanding, the name *dollar* most assuredly came from Europe. During the 16th century a Bohemian nobleman discovered silver in Joachimsthal, a remote region of what was then part of the Holy Roman Empire. He began minting silver coins called *Joachimsthaler*. The name became *thalers*, and the coins circulated throughout the Holy Roman Empire. Other countries borrowed the popular name for their own coins, including Spain where thaler became "dollar".

By the late 18th century, Thomas Jefferson wrote that the dollar was a "known coin and the most familiar of all to the mind of the people." He also advised the use of a decimal system for the new currency.

With coins in short supply, some colonists turned to the idea of paper currency. The British, however, banned the use of paper money in the colonies in 1764.

As the war began, the Continental Congress needed a way to finance an expensive military campaign against Britain. In 1777, it turned to paper money, issuing more than $10 million worth of "Continental Currency." Congress assigned the notes, which became known as "continentals," the value of one Spanish silver dollar. This value was based on gold and silver the new government expected to collect in future taxes. Furthermore, Congress declared that anyone who would not accept continental currency was a traitor. Over three years, Congress issued around $240 million worth of continentals, the value of which, by 1781, had plummeted to 75 continentals to a silver dollar. At the war's end, the newly independent Americans redeemed the notes for the equivalent of one cent per continental, and the saying "not worth a continental" passed into the American lexicon.

After the war, the Constitutional Convention granted the government the power to issue money. Congress declared the dollar the official money unit of the United States, but the US did not mint its first silver dollars until 1794. During the interim, the new government allowed other coins, such as the ubiquitous Spanish silver dollar, to be used as legal tender.

Meanwhile, under a plan designed by Treasury Secretary Alexander Hamilton, Congress established the first Bank of the United States in 1791 as a private corporation operating under a federal charter. Hamilton foresaw the bank as a means to secure public funds and provide a source of credit for the federal government and the business community. The bank also stabilized currency by collecting the notes of abusive state chartered banks and demanding their redemption in gold. However, Thomas Jefferson and others raised doubts about whether the Constitution supported such an institution, and its charter lapsed in 1811. Five years later, Congress chartered the Second Bank of the United States to deal with the instability of the state banks. The bank again prompted controversy, and its charter was allowed to lapse under Andrew Jackson.

During the first half of the 19th century, the national monetary situation remained muddled. Coins continued to be in short supply, and attempts to establish a national banking policy had twice failed. State chartered banks continued to issue their own currency largely unchecked by the federal government. Certainly, America did not yet have a true single currency.

With the outbreak of the Civil War, the federal government made another foray into paper money. Once again the government found itself needing money to finance an expensive military campaign. Between 1862 and 1863, President Abraham Lincoln authorized some $450 million to be printed in the form of Demand Notes, which became popularly known as "greenbacks." (The color green was chosen for these notes because of its wide availability and its resistance to chemical and physical changes.)

Although the government demanded payment on import duties in gold and silver, it paid its debts to US citizens in greenbacks. The government backed the notes with the promise that at some future date it would redeem them for hard currency. During the war, the value of the greenbacks fluctuated widely, at one point losing nearly two-thirds of their value. In 1879, 17 years after the first greenbacks were issued, the government had recovered from the war and built up enough gold reserves to honor the redemption of greenbacks for gold. However, once people saw the government standing behind the currency, few wanted to return to the inconvenience of dealing in gold.

Another important monetary event occurred during the Civil War. In 1863 Congress passed the National Bank Act, which placed a heavy tax on bank notes issued by state banks. This legislation effectively ended the era of "free banking," vested monetary control with the federal government, and paved the way for the United States' single currency.

For the rest of the 19th century, the dollar and gold dominated the US monetary system. In 1913, Congress passed the Federal Reserve Act, and the Bureau of Engraving printed the first Federal Reserve Notes.

The problems of a gold backed currency, however, began to emerge close to the turn of the century. The amount of gold the government held restricted the number of dollars it could issue. This system had bad and good effects. On one hand, the government had very little room to maneuver when it came to exchange rates, regardless of other economic conditions unrelated to the price of gold. On the other hand, this system prevented the government from printing money that it couldn't back with gold (because if people lost confidence in their dollars, they could redeem them for gold). However, when the stock market crashed in 1929, people lost faith in the economy as a whole and rushed to redeem their dollars for gold, and the government was left largely helpless.

In 1933, President Franklin Roosevelt took the US off the gold standard in order to allow the government more economic maneuverability. He also ordered all US citizens to exchange their gold specie for dollars. The Federal Reserve then melted the gold down into gold bars and stored them in Fort Knox. This policy change applied only to US citizens; with the rest of the world, the US would continue to exchange gold for dollars.

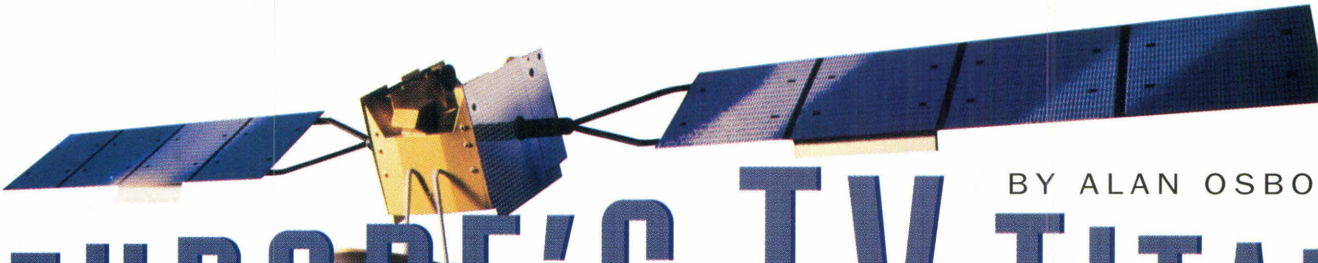
During the middle part of the century, gold remained the bedrock of international finance. In the wake of the Allied victory in World War II, delegates from 44 countries, who had gathered near Bretton Woods, New Hampshire, signed an agreement setting in place a new world economic order. According to the agreement, most of the world's currencies were pegged to the dollar, which was in turn backed by gold.

Today the dollar is a fiat currency or a currency backed only by government decree.

This agreement lasted until 1971 when President Nixon moved the dollar completely off the gold standard. No longer would the US back its dollars with gold, rather it would now allow the value of the dollar to be determined on the open market in relation to other currencies.

Today, Americans think nothing of the fact that the dollar is universally accepted in all 50 states and its value is largely stable. However, it is important to remember that the dollar is a *fiat* currency or a currency backed only by government decree. As long as people believe that the government will continue to enforce sound monetary policy, the dollar will remain a viable currency. Ⓔ

Peter Gwin is EUROPE's *managing editor.*



BY ALAN OSBORN

EUROPE'S TV TITAN

The new company CLT-UFA is now the largest free-to-air broadcaster in Europe.

When a market worth an estimated $15 billion a year begins to take shape you can expect some messy and vicious infighting for the big prizes, and that's broadly been the story of European television broadcasting over the past two years.

On the face of it, Luxembourg has come out of it quite well. Two years ago it looked as if the Compagnie Luxembourgeoise de Telediffusion (CLT), Luxembourg's astonishingly successful flagship broadcasting company, could be forced by financial pressures to drop out of the race for Europe's massive pay-television market.

There were talks of cross-border deals between the two giant German players—Bertelsmann and Kirch—Rupert Murdoch's BSkyB in the United Kingdom, and the French Havas group that could have effectively shut out CLT from the new generation of broadcasting.

It didn't happen. After a number of false starts CLT merged with Bertelsmann's television interests to create a new company, CLT-UFA, with its headquarters in Luxembourg. The cake was iced this summer when Bertelsmann joined with its rival Kirch to develop a digital pay-television package for the next decade. CLT-UFA is now the largest free to air broadcaster in Europe and potentially the giant of digital pay-television, which is where the $15 billion comes in. The company owns television stations in Germany, the Netherlands, Belgium, Luxembourg, the UK, and France, has radio stations in nine European countries, runs a major television production company, and is an active trader in film rights.

It's an impressive achievement for the company which, as Radio Luxembourg, pioneered commercial radio broadcasting in the pre-war years and went on to do the same in television a generation later.

Of course, it may not do to ask exactly how Luxembourgeoish the company is these days. Half of CTL-UFA is owned by Germans and much of the rest by Havas in France and the Belgian Lambert Group. CTL-UFA is not a major employer, even in a tiny state like Luxembourg, and though its tax payments will count for a lot, they will not push Luxembourg even further up the prosperity league.

It is nevertheless a source of considerable satisfaction to the Grand Duchy that CLT-UFA is the big player in television, just as the Luxembourg company SES is the world's second-largest private television satellite operator, beaming programs to some 67 million homes in Europe from its Astra satellites.

Nobody can say with any authority how keenly European viewers will take to pay-television and what the role of satellite broadcasting will be a decade from now, but Luxembourg seems to offer a good bet on the outcome either way.

That said, it might well be that the recent ferment of merger activity has a tad longer to run. This might be within Europe or, more provocatively, could involve American companies. There has been talk, for instance, that CLT-UFA might make a useful partner for Walt Disney. ⓔ

LUXEMBOURG BY ALAN OSBORN

BANKING ON

It's only about the size of Rhode Island and has fewer citizens than Chattanooga, but don't let that fool you: Luxembourg is up there with the global heavyweights when it comes to money management. The capital city ranks as the world's sixth-largest financial center and looks it. Its ancient battlements and fortifications suggest it might have been guarding money for centuries.

That's an illusion. Investment banking did not begin on any scale in Luxembourg until the 1960s, when the country seized an impressive share of the European currency markets and then went from strength to strength. Today there are about 220 banks in Luxembourg, and the sector, through direct and indirect taxes, provides about a third of government's total revenues.

Luxembourg's banking laws have attracted many foreign depositors and helped make the country a global banking center.

Nobody doubts that banking in Luxembourg is here to stay, but few believe it can continue the explosive growth of the past 20 years. Simon Gray, banking analyst and editor of the magazine *Luxembourg Business,* believes banking "has settled down to a cruising speed."

The introduction of a single currency for some EU countries in 1999 followed by full economic and monetary union (EMU) is, on the face of it, a real headache for Luxembourg's bankers. A huge loss of commission on foreign exchange and euro bond dealing looms.

In fact these activities have been dwindling quite sharply already, and currency transactions of this kind now represent only 4 percent of the Luxembourg sector's turnover. The banks aren't particularly worried, considering that their dealing expertise will in any case give them a head start in trading the euro—the new single currency—against outside currencies.

Moreover, just as some banking activities may be tailing off, others are coming forward. The 1990s have seen Luxembourg emerge as a leader in personal finance—serving in effect as the banker to the prosperous middle classes of Germany, Belgium, and France.

The Luxembourg banks might be shrewd money managers, but this doesn't impress the good burghers of neighboring countries as much as the fact that savings deposited by foreigners in the Grand Duchy are not subject to a withholding tax. This has been a phenomenally successful lure, attracting billions of francs of savings across the borders and proving a constant irritation to the Germans in particular.

Inevitably the approach of EMU invites speculation as to how long this practice can continue. The answer is probably a long time yet. Luxembourg Prime Minister Jean-Claude Juncker has acted boldly in putting tax harmonization high on the agenda for EU action this year, but he is not going to give up a hugely valuable national perk for nothing. He will only end the Luxembourg tax breaks when and if other EU

LUXEMBOURG

countries end their own cherished tax schemes and that may take many years.

"The balance of opinion is that he wants to test the idea to destruction, to prove that tax harmonization throughout the EU can't be done," says Mr. Gray.

That may be reassuring for the banks, but there remains the possibility of an end to Luxembourg's long-standing tradition of banking secrecy and a clear likelihood that minimum reserve requirements will have to be imposed on the banks under EMU.

In short, it is difficult to see the scope for further rapid growth in personal banking on the existing pattern. Does the Luxembourg financial sector then have other cards to play in the search for growth?

One growth area certainly remains investment fund management, for which Luxembourg is already the largest center in Europe and where the rate of increase in business, powered by continuing European privatizations and the growing taste for equity investment, seems likely to outstrip overall economic growth for many years.

Of newer activities, some analysts will cite insurance as an area where Luxembourg has taken a commanding early lead in writing life insurance policies across national borders. Indeed, the speed with which the Luxembourg companies (some of them owned by foreign banks) acted once Brussels had formally approved the practice sent shock waves through the European insurance industry.

That may be one opening, another could be pensions. Lucien Thiel, head of the Luxembourg Bankers' Association, speaks with infectious enthusiasm about the potential business opening up for banks in this area as European governments are forced to opt out of the provision of state pensions.

Mr. Thiel believes that Luxembourg's 30 years of experience in banking and fund management, its outward-looking mentality, and the healthy condition of its own national budget all equip the tiny state to succeed where larger financial centers will hit the buffers. He holds a view that so long as the United Kingdom chooses not to join the single currency Luxembourg could become the de facto offshore financial center of Europe.

In some respects, like investment funds, the Grand Duchy is already there at the top. In other areas—like the pensions market—a lot hangs on political decisions over taxes and regulation. But as Mr. Thiel says, "It's all to play for." Ⓔ

EUROPEAN INVESTMENT BANK

It's already the world's biggest non-government borrower and lender, and it's going to get a lot bigger still. The European Investment Bank (EIB) is not the kind of institution you go to for a home improvement loan, but many millions of European citizens will find themselves better off in the long run as a result of its activities.

For nearly 40 years, the EIB has operated from its headquarters on a lofty plateau above Luxembourg city under a remit "to finance capital investment projects that promote the balanced development of the European Union." In effect, the bank is the financial limb of the EU institutions, though it is entirely independent of the European Commission. Its shareholders and guarantors are the 15 member governments.

At its simplest, the EIB borrows cheaply (it's triple-A rated) in the world markets and lends a little less cheaply to the corporate and public bodies that serve its purposes. Last year it provided $26.2 billion in loans and raised $21 billion.

For all its size, the EIB is a nimble player in the world capital markets. It borrowed in 22 different currencies last year, and its loans included "large issues with positioning on the yield curve and innovative techniques involving the use of the price discovery system, borrowings linked to stock exchange indexes, and structured borrowing instruments." The bank is a big user of currency and interest rate swaps.

Just when it seemed the EIB's lending within the EU might be leveling off, the bank has had a handful of stiff new challenges flung at it. At the Amsterdam summit this summer, EU heads of government charged the EIB with responsibility for a number of new employment-creating initiatives on top of the bank's role in assisting the fledgling free market economies of Central and Eastern Europe to adjust to the rigors of full EU membership.

Last but not least, the EIB will have to cope with the EU's planned economic and monetary union. This will mean, in the words of EIB President Sir Brian Unwin, "the creation of a huge integrated financial and banking market, the biggest government bond market in the world, increased competition, innovation, and restructuring in the banking sector, and the progressive development of the capital market itself as a primary source of wholesale loans. Ⓔ

—Alan Osborn

LUXEMBOURG *Picturesque*

Luxembourg must surely be among the most paintable of all countries. The great English artist Joseph Turner thought so; his watercolors of the city and the land are among the most lovingly rendered of all his works.

Goethe described the capital as a place of "grandeur and grace, somber solemnity and exquisite loveliness." Victor Hugo famously celebrated the town of Vianden where he bought a house and lived for part of his exile from France.

BY ALAN OSBORN

The 999 square miles of Luxembourg abound with castles, cathedrals, rocky escarpments, turbulent mountain streams, and exhilarating vistas across dense, historic and ancient farmsteads. But to many artists and tourists the supreme image is that of the capital city itself, built on a giant rocky crag that soars dizzyingly above the moats and canyons of a natural fortress.

An exhibition in April this year reminded us of the hold that this spectacle has for today's artists. *The Artists in Residence Exhibition* at Konschthaus beim Engel in the city was an initiative of the British ambassador to Luxembourg, Nick Elam, and his wife Helen. Most of the painters and sculptors participating were from England. Here was the familiar city skyline rendered in a contemporary form that the main Luxembourg newspaper called "original and passionate."

Painter Joseph Turner found Luxembourg a worthy subject for his talents.

Many of the artworks were executed from the Promenade de la Corniche, a pedestrian walkway that tracks the remains of the ancient fortifications on the promontory. A thousand years ago, Count Siegfried built a citadel that was extended through the centuries with ring walls, tower gates, bridges, and underground passages to become a giant complex of forts covering 440 acres.

What is now known as the "old" part of Luxembourg city was for hundreds of years one of the most impregnable fortresses in Europe—known as the "Gibraltar of the North." The fort was largely torn down between 1867 and 1883 as Luxembourg gradually became independent of its Dutch rulers.

Today the old town comprises many of Luxembourg's numerous banks, the main shops, and the discreet government offices. It's linked by some spectacular bridges to the newer areas of the city, like the development around the main railway station and the complex of banks, television offices, and European institutions on the Kirchberg Plateau.

Luxembourg city had 110 bridges and viaducts at the last count, forming one of the city's most distinctive features. They include the massive and elegant Pont Duke Adolphe, which is 150 feet high and 275 feet wide, and the bright red Grand Duchess Charlotte bridge, soaring 280 feet over the city's suburbs to the Kirchberg.

Be warned: Looking down from these bridges to the roofs of residential settlements or to the green parkland through which the river Petrusse winds can induce severe vertigo in the fainthearted. An alternative might be to visit the Casemates, a 13-mile long network of underground passages out into the solid rock as part of the original fortress.

A UNESCO plaque reminds the visitor that the old quarter, the excavated fortifications, and the vestiges of an ancient city are all listed as World Heritage sites. It is a reminder of the "significant role in European history" that Luxembourg has played throughout the centuries since its creation more than a 1,000 years ago. Ⓔ

European Education

As fall arrives and schools welcome students back from summer holidays, we thought it appropriate that our correspondents write about education in their countries. Here follow their reports:

LONDON

EDUCATION ACTION

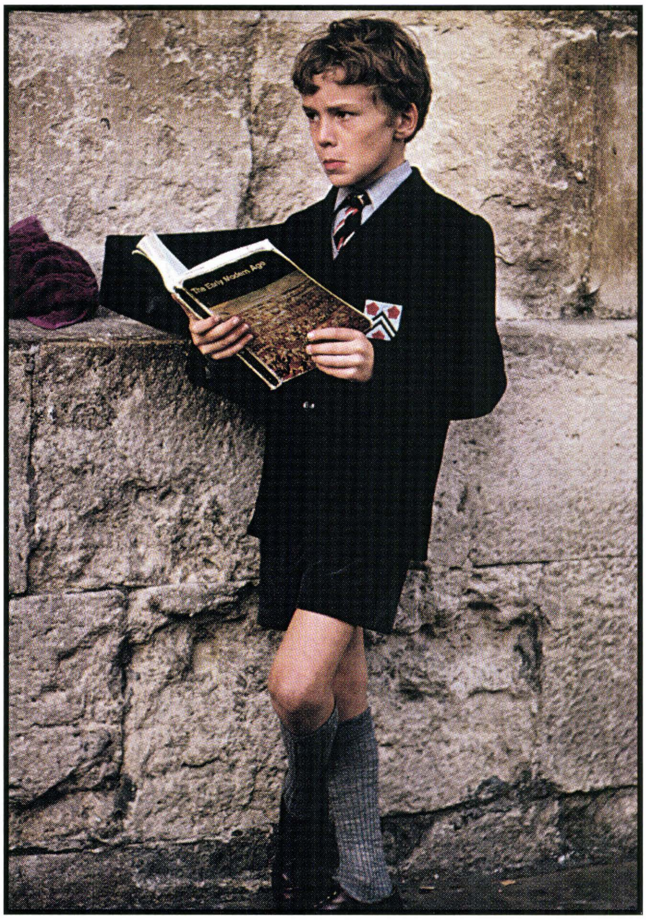
Education is the number one priority of a new government deeply concerned about what it perceives as falling standards in the very basic skills of reading, writing, and arithmetic—the "three Rs."

"Learning to read, write, and add up are the vital skills every child must learn," says Education Minister David Blunkett, "yet so many are failing to do so at the moment. We plan to get the three Rs right from the start."

The Labor government is launching what it proclaims is the biggest assault on low school standards since World War II: a crusade to raise children's educational standards over the next five years to make UK youth more competitive in an increasingly tough marketplace.

The reforms are designed to close the gap between pupils in the UK and overseas competitors. "Pupils in Switzerland are up to two years ahead of those in England in math. This despite having spent 18 months less in school," says Blunkett, who is spearheading the campaign.

When the Labor Party said before the election that it had three priorities, "education, education, education," teachers reacted with the cry, "resources, resources, resources." The government has responded by providing an extra $3.8 billion in its July budget to help repair rundown buildings and provide teachers with the books, computers, and training to do the job.



British schoolchildren will find a new emphasis on the basics when they return to class this fall.

Chancellor of the Exchequer Gordon Brown said this represented "a first step" in the government commitment to increasing the level of national income spent on education.

Excellence in Schools, the white paper on education tabled in Parliament in June, promised: education for all four year-olds whose parents want it ; class sizes of 30 or lower for five, six, and seven year-olds; an hour each day for literacy and numeracy.

One of the key aims spelled out is that by year 2002, 80 percent of 11 year-olds to reach expected standard in English and math, compared to 60 percent at present.

The government believes that the education system is chronically underperforming. So now every school will have to draw up targets in three-year plans, and these will be reviewed annually.

"There will be zero tolerance of failure," says Blunkett, himself an example of zero tolerance for failure. He is blind since birth, grew up in poverty, yet overcame all barriers to become a teacher and then moved into politics.

When he says that bad teachers will be sacked, he clearly knows what he is talking about. And when Blunkett declares that failing schools will be closed down and reopened under new management, he sends a chill through his former profession.

But at the same time the nation's teachers have been heartened by the announcement that the most deprived areas will become education action zones with additional money made available to hire good teachers.

Prime Minister Tony Blair will expect his government to be judged at the polls five years from now by its success in raising educational standards.

—David Lennon

DUBLIN

TEACHING HIGH-TECH

The Irish have always believed that education is a journey, not a destination. Unfortunately, for almost a century that journey for millions for the country's young people meant flooding out across the world to the seemingly greener pastures of the United States, the United Kingdom, Australia—anywhere they could get a job.

The country itself was a rural backwater, with little industry. The majority of young people rarely went beyond primary school. Some did manage to get a secondary education, and the wealthy few went onto university.

Then along came Donogh O'Malley, a bright young education minister, who persuaded his government colleagues that free education could help to stem the emigrant tide. That was in the 1960s. But jobs didn't materialize overnight. Emigration continued—and the only satisfaction the Irish taxpayer got was that the free education system, one of the best in the world, was sending out a better educated product.

The spinoff envisaged by Donough O'Malley didn't happen until the following decade. In the 1970s, the Irish government decided to capitalize on the O'Malley legacy, gearing the country toward attracting high-tech industry and using its highly educated youth to bolster its claims.

The pharmaceutical, health care, and computer industries were targeted—sectors mainly dominated by American multinationals. In came the big electronics and computer world players: General Electric, Digital, Hewlett-Packard, Apple, Intel, Motorola, Gateway, Microsoft, IBM, Analog, Lotus, and scores of others.

The Industrial Development Authority, which is responsible for attracting new industry, says Ireland now rates as the single most important location in Europe for the world's major electronics companies. Five of the world's leading software companies are also here.

The main attractions: generous tax breaks, a green-and-clean working environment, and one of the world's best educated and highly skilled work forces.

The latest OECD education surveys shows Ireland with the fourth-highest number of graduates at degree level within the European Union. Indeed, 24 percent of Irish 25-34 year-olds have a tertiary qualification, compared to an OECD average of 23 percent. Ireland ranks eighth out of 21 countries.

In 1994, Ireland had the highest number of 25–34 year-olds in the OECD with science-related tertiary qualifications per 100,000 (higher than Japan and Korea).

And Irish teachers, after 15 years of service, are shown to be the third-highest paid in 18 OECD countries. Only Germany and Switzerland pay their teachers more at this stage.

In the current year, almost $3.3 billion will be spent on education—a 40 percent increase over the last five years. Former education minister Niamh Bhreathnach says this spending is essential. In a world of global market and multinational corporations, satellite television, and almost instant communication through the Internet and other technologies, she says one thing is clear—education is, and will continue to be, the basis for economic prosperity.

The new education minister, Michael Martin, says information technology is an education priority—at all levels. It will help to establish Ireland as the "information services hub" for Europe. And he says his policy objective is to ensure that every child is computer-literate by the end of their school life.

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Knowledge is at the heart of new products and processes. The knowledge revolution has surpassed even the industrial revolution in its impact on human life, and it continues to grow at a phenomenal pace.

That eminent educationalist, Frank Rhodes of Cornell University, put it like this: "Nations that can work smarter—not harder—will be the ones to lead the world in to the next century."

The Irish government is investing $71 million up to 2001 in acquiring information and communications technologies equipment, training, and curriculum manuals—as well as Internet connections—in more than 4,000 schools. And Education Minister Martin has set up a joint education-industry task force to improve the supply of technicians for high-tech industries, which, he says, are crucial to continued expansion.

Microsoft's Bill Gates agrees—and has even adopted a small primary school in the remote rural community of Carnacon, in Ballyglass, County Mayo. The three-teacher, 60 pupil school has been working with computers since 1982. School principal Art O'Sullivan says children as young as five years of age are working on computers while others compile pages for the Internet and work on software programs.

Bill Gates has declared the school "a center of excellence" for information technology and, according to Art O'Sullivan, is supplying the school with a variety of educational and business packages.

Although children in Ireland are not obliged to attend school until the age of six, 65 percent of four year-olds and almost all five year-olds are enrolled in primary schools. Post-primary (second level) includes secondary, vocational, community, and comprehensive schools—775 schools with just more than 370,000 students.

These secondary schools, educating 61 percent of second-level students, are privately owned and managed—the majority by religious communities and the remainder by the boards of governors or by individuals. The state meets 95 percent of salaries. In addition, allowances and capitation grants are paid to the 95 percent of secondary schools participating in the free education scheme.

A wide range of vocational education and training courses are also provided for students completing second level studies.

Almost 90,000 students also pursue higher education, or third level, in universities, technological colleges, teacher training colleges, and some non state-aided private, higher education colleges.

Alvin Toffler in *Future Shock* wrote, "Our schools are facing backwards . . . toward a dying system, rather than forward...their vast energies are applied to cranking out people tooled for survival in a system that will be dead before they are. We must search for our objectives and methods in the future rather than in the past."

That was written in 1971. Ireland, with an already rich heritage in the arts and culture, is now facing the new millennium and the information superhighway, sights firmly set on placing education at the forefront as an essential tool of communication—and continuing prosperity.

—*Mike Burns*

PARIS

BAC TO BASICS

Since it was created by Napoléon in 1808, the *baccalauréat* exam has been an obligatory rite of passage for every French teenager wanting to attend university. Come June, anguished students leaving the exam halls are interviewed on national television and are shown crowding around the notice boards listing the results a week or so later. The tears of those who fail and the jubilation of those who succeed are prime-time material because in France the "bac" is a national symbol of academic achievement, an Aladdin's lamp that opens the portals of higher learning to the brightest young minds in the land.

At least that is how it has been seen for the better part of two centuries. But within the last 30 years, the number of students obtaining the bac has nearly doubled, and this year 76 percent of the 628,112 candidates who attempted it, passed it. From a notoriously difficult, elitist exam, which only 30 percent of those leaving high school 10 years ago managed to pass, it has changed into a diploma accessible to the majority and no longer guaranteeing scholastic success.

So many thousands of French students are heading off to university this fall, brandishing their bac triumphantly, that the real selection process has had to be shifted, and it now takes place during their first year as an undergraduate. By next spring, quite a few of those who are starting university studies this fall will find themselves dismissed and, bac in hand, will be looking for alternative methods of preparing themselves for the cutthroat French job market with its daunting unemployment rate of more than 12 percent.

There is no doubt that the bac has been democratized—or "dumbed down," as some outspoken critics of the process claim—in several ways. For one thing, the teachers marking the papers have been asked to be more indulgent than in the past; for another, a whole series of new types of bacs have come along at the bottom end of the academic curve, bloating the success statistics.

In addition to the three classic types of bac—in sciences (the most highly rated), literature, and economics—several technical and professional bacs have been introduced for subjects like electromechanical engineering and metallurgy. These less academic bacs are the ones that are rapidly swelling the pass rate toward the goal set in 1985 by Pierre Chevènement, the education minister at that time, of having 80 percent of students graduating from high school with the bac in their pocket.

It has become a massive and expensive exercise in logistics. This year an estimated $37.5 million was spent administering the bac, which had a total of 628,112 candidates writing 4 million exam papers on 1,700 subjects.

The most outspoken of the teachers who are enraged at this mass industrialization is Robert Redeker, a 42 year-old philosophy teacher who for the past three years has sent out obituary notices to the newspapers in June, proclaiming, "The bac is dead!" He claims that the modern bac has become a veritable caricature of what it once was and rages against the French "obsession with the bac at any price." He did not correct any papers this spring; he was suspended for being so outspoken.

In its defense, the bac still looks pretty impressive when you measure it against university entrance exams in other countries. It takes two whole years to prepare for it, with mock written exams and training for the orals which accompany or replace them, depending on the subject. The actual exams are taken in four or five subjects, and the passing grade is 10-20. Students hovering around that threshold get the chance to better their mark with an oral exam. All the results are discussed and evaluated by a jury.

Father of the Bac: Napoleon created the *baccalauréat* exam in 1808.

Alain Boissinot, the director of France's high schools, concedes that the bac is no longer "a guarantee of success in higher learning, nor a weapon against unemployment," but he is adamant that it still "does pretty well in playing a motivating and valorizing role."

Over the years many reforms of the bac have been proposed and only partly adopted or rejected outright. Just about the only thing on which almost everyone in France agrees is that it should not be abolished. It is a cherished coming-of-age ritual that unites the whole country every spring, a symbol of the bright possibilities that beckon to us when we are young.

—*Ester Laushway*

BERLIN

WANTED: A NEW HUMBOLDT

As an industrial country short of raw materials, Germany's economy largely depends on skilled labor, qualified graduates, as well as innovating university research. The number of school leavers opting for higher education is increasing, while the proportion signing up for apprenticeships is on the decline.

Those who do not reach university entrance standards (*Abitur*) usually take a course of vocational training. But so do many of the higher education qualifiers. In principle, no young person in Germany should begin working life without vocational training. This training consists of practical on-the-job learning combined with theoretical instruction in vocational school. That means private enterprise and government are jointly responsible for vocational training. The dual system of which Germans are very proud takes from two to three and a half years.

The tendency of education qualifiers to opt for vocational training rather than university is worrying the authorities. The State of Saxony, for example, fears it may soon fall short of university-trained elite in technical professions. Moreover, higher education qualifiers take away apprenticeships from school leavers of junior secondary or intermediate levels. Kurt Biedenkopf, the premier of Saxony, has launched a media campaign to lure students to study there. He promises the region's 20,000 higher education qualifiers good professional prospects if they study technical or natural science subjects.

Saxony's science minister, Hans Joachim Meyer, advises students against a vocational training prior to university enrollment because it unduly prolongs their studies. Nationwide, nearly 40 percent of students now enter university after completing vocational training compared with 25 percent in the late 1970s.

German President Roman Herzog has called for "mental innovation." "Germany," he says, needs a "new Humboldt" if it is to turn its brainpower into new products and economic growth.

Wilhelm Humboldt introduced far-reaching education reforms during the 19th century that enabled Germany to compete internationally.

By international standards, German undergraduates are old. On average, German students study for almost seven years and are about 29 years old when they get their degree. The federal science ministry says that four years should be enough to get a degree in most disciplines.

Several factors contribute to lengthen German students' studies, among them the military draft, which raises the age of university entry for most male students, and the complicated university system, which many freshmen spend their first semester just trying to figure out. Also, German universities have a high dropout rate—28 percent—which many critics say is compounded by the lack of a viable tutorial system, which, with the exception of the eastern part of the country, hardly exists in Germany.

Germany's educational reforms of the late 1960s brought a shift from elite to mass education. The abolition of university fees in the 1960s and the availability of financial aid for students have encouraged study by more and more young people from poorer families. Professors lecturing to classes of 600 students is commonplace at many German universities. The universities also face growing financial pressure as state governments struggle to control their budget deficits. To improve their finances, some states (education is the responsibility of the states) are about to introduce enrollment fees of $53 per semester, penalties for students who study longer than 13 semesters, and guest students to pay $106 per semester. Baden-Württemberg's universities are the first to select 40 percent of their students themselves—a novelty in Germany. Till now, a central authority in Dortmund has considered an applicant's grades and preferences and assigned him or her to a particular university.

Students criticize German universities for not preparing them adequately for professional life. Their training, they say, is almost exclusively academic with very little practical application. More competition! More effectiveness! Shorter studies! Those are among the slogans that reform advocates have been voicing for more than a decade. But so far it has got them nowhere. Hartmut Schiedermair, president of the German University Association, deplores that the reform bill tabled by the federal minister of science does not even mention the word "science." "For the reformers," he sighs, "science is what is useful for the economy."

German President Roman Herzog has called for "mental innovation." "Germany," he says, needs a "new Humboldt" if it is to turn its brainpower into new products and economic growth. Wilhelm Humboldt, the education minister of Prussia during the early 19th century, introduced far-reaching educational reforms that enabled Germany to compete internationally.

—*Wanda Menke-Glückert*

LUXEMBOURG

AMERICAN SCHOOL, EUROPEAN EDUCATION

Frank Caldwell at 27 has already seen more of the world than his cousins in the American deep South will see in their whole lives. Now living in Madison, Alabama, Frank is an aerospace worker, but with a difference. He speaks French and German and sees events in an international perspective.

Frank is one of those many young Americans who, because of their fathers' jobs, have spent most of their lives abroad. In this case, the father was a US military man working for NATO, but he might as easily have been an executive of a multinational corporation, international civil servant, or diplomat.

Luxembourg has a disproportionately large share of such people—a third of the working population is made up of non-nationals. How do you educate their children, given that most are not permanent residents and will move on after two or three years?

The choices are essentially private tuition, attendance at local public schools, application to one of the European schools set up by the EU, or enrollment in an international school.

Like most Americans, Frank's parents opted for the last: specifically they chose the American International School in Luxembourg (AISL) for their two sons. Founded as an American school by the US corporation DuPont de Nemours in 1963, the AISL was recast in its present form in 1972.

The AISL is now an independent, non-profit, college-preparatory, English-speaking day school situated in the residential suburb of Limpersberg on the outskirts of Luxembourg city. Ten years ago, when Frank Caldwell attended, 45 percent of the students were American and 45 percent Scandinavian—these reflected the major national groups at that time active in Luxembourg but not members of the European Union.

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Most of the Americans worked for the Goodyear Tire Company—the biggest foreign employer in Luxembourg—and most of the Scandinavians for banks, Frank recalls.

Today the AISL has about 450 pupils, representing 30 nationalities. Nicki Crush, high school principal, says that most students are the sons and daughters of people in banking or other financial services though some come from diplomatic families and some are the children of EU officials. About 20 percent are American.

Most children attend for about three years, though a handful have been through the entire curriculum from kindergarten to graduation at 18. The academic goal, achieved by almost all students, is the International Baccalaureate Diploma, which was originated in Geneva in 1962 to meet the needs of the growing number of mobile international students who "belonged more to the world than to any single country."

The IB diploma is today accepted as a valid entry qualification by more than 700 universities in 75 countries, including Ivy League colleges in the US. Its history component is not country-specific but covers the world in general.

The Luxembourg government is generous to the AISL, providing its 8-acre campus site and four buildings free of rent and generally being "helpful and cooperative," says Crush. Fees range from \$6,600 a year in the kindergarten to \$17,000 in the twelfth grade.

Two aspects of the school seem especially noteworthy: the 70-strong staff establishment, which gives a remarkably low pupil-teacher ratio of 10 to 1, and the role the school plays as a kind of cultural center for English-speakers in Luxembourg.

Frank Caldwell remembers how virtually the whole American community would show up for school drama and music productions, sporting events, and cookouts, and Nicki Crush confirms that today the AISL, "does play a bigger role in the English—speaking community than that of a school—in a sense it's the social hub of the English-speakers in Luxembourg."

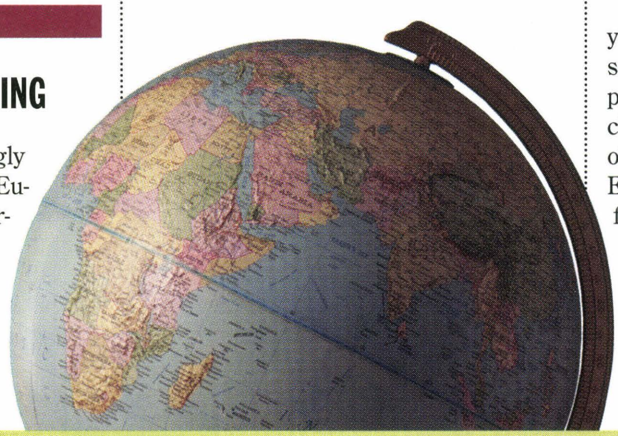
For many Americans those Luxembourg school years stand as a critical and memorable time in their lives. Frank Caldwell is this year organizing—in Atlanta, Georgia—the first ever meeting of AISL alumni and friends outside of Luxembourg.

—Alan Osborn

MADRID

MULTINATIONAL SCHOOLING

As Spain becomes increasingly integrated with the rest of Europe and the world, Spanish parents are more eager than ever to ensure their children will find their place in a multicultural, multinational, and multilingual future.



Believing in the old adage "start 'em young," many middle-class parents are sending their kids to bilingual preschools and kindergartens where children as young as three or four years-old receive at least some instruction in English. In the summer, special camps for learning English, French, or German are popular, and as kids aiming for fluency in English, for example, get older, they can spend part of their vacations abroad at language academies in Britain, Ireland, or further afield in the

GRADUATE SCHOOL EDUCATION IN EUROPE

Just a few years ago, European business schools seemed like yet another victim of recession. Having flourished in previous decades, MBA programs were cutting courses, faculty salaries; leading universities in Germany and Britain remained hostile to the US-inspired Master of Business Administration degree—earned within the EU. Many of Europe's best students continued heading for American business schools.

Today the situation and the mood couldn't be more different.

Most European schools are convinced that with effort and funding, they can build on their "European environment," and thus challenge US predominance. A major driving force is the approaching enlargement of the EU, which is having a magnet-like effect for students, faculty, and company recruiters, who see emerging a 21-nation bloc that deserves renewed attention from an educational perspective.

Partly as a result, enrollment and program diversity at some 50 MBA schools are rising again. Campuses are being modernized. A pilot accreditation has begun, extending to Eastern Europe. New courses on EU institutions and, in particular, emphasis on the euro are proving highly popular, including with large numbers of Americans. US and EU schools are expanding their alliances, in some cases, involving transatlantic ventures, double-degree programs, and even a US satellite campus in Barcelona.

"Business education in Europe today is like global business—we compute, we cooperate, and we are expanding," says Daniel Muzyka, professor and dean of the MBA program at INSEAD, and an American, which is unusual for one of Europe's leading business schools. Founded two years ago after the signing of the Rome Treaty in historic Fontainbleu, south of Paris, the European Institute of Business Administration's main goal was to give European managers a sorely needed world outlook.

INSEAD is one of "the Big Three," which also includes the International Institute for Management Development (IMD) in Lausanne and the London Business School in Britain. They are widely recognized as the very best international graduate business schools outside the United States, partly because no single nationality predominates the student body or faculty. "When I teach venture capital here, it's not just about Silicon Valley," adds Muzyka, whose graduate degrees are from Wharton and Harvard, "but it's about Asia and, of course, Europe."

As part of a major expansion of campus facilities, INSEAD is planning to take in a record number of students within two or three years—600 annually, compared to 483 currently from 56 countries, mainly from West and East Europe, with 14 percent from the United States, and Canada. This will make INSEAD one of the largest schools among MBA heavyweights worldwide. (Harvard Business School takes in about 800 per year, Chicago about 750, Northwestern about 620, the University of Chicago about 500, Stanford University 363, and McGill University about 156; IMD has no plans to increase its incoming class from around 80.)

The University of Chicago Graduate School of Business attracts executives from Europe, Latin America, Africa, and Asia to its Barcelona campus.

"INSEAD is certainly an exception in terms of expanding the student body, but throughout European Union countries, there is huge, new interest in business education, with the MBA becoming

United States and Canada.

But for parents who realize that the way for their children to really learn English is total immersion, or at least as close to that ideal as possible, international schools, where all subjects are taught in English, are the answer and the number of such institutions in Spain is on the rise to fill the increasing demand.

"I've seen substantial growth in the sector," says John Hutchinson, who has spent 24 years in international schools and recently retired as director of one in Madrid. He defines an international school as one that offers instruction in a language other than that of the host nation and says English-language international schools are far and away the most popular.

And it's not only Spaniards who are filling the desks at these schools. "There are more foreign nationals now working in Spain, so there are more students for the international schools," Hutchinson says.

One of the most prestigious international schools in the country is International College Spain (ICS), which opened its doors in Madrid in 1983 for students from ages 3 to 18 and offers the International Baccalaureate Diploma, or IB.

This degree enables students to follow a consistent, high-standard, international curriculum moving around the world as their parents traipse from one foreign posting to another.

Over the past several years, ICS annual enrollment has been around 500 students, but board of trustees member

more acceptable, says George Bickerstaffe, editor of the authoritative *Which MBA,* an annual guide to more than 100 business schools around the world, nearly half in EU member countries. "More and more undergraduates and company recruiters want a second career handle and are finding it in the MBA," says Bickerstaffe, who estimates that of the 800 business schools around the world, the majority are in the United States, about 200 are in Europe, roughly half in Britain.

Some of the several hundred European schools offering MBAs are, however, weak on content and quality teaching and are not even considered for inclusion in Bickerstaffe's annual listing, the only guide of its kind, which now covers 47 schools in Europe and 44 in North America. And yet, despite the recession and earlier predictions of doom, there has been no shakeout, nor major failures. Most European business schools do not have access to governmental or EU funding and are financed by business communities, including chambers of commerce, individual corporations, and through hefty fees generated by senior executive training programs.

For hundreds of less well-known, but serious schools, some form of European accreditation is needed, what EU officials refer to as a "quality label." A preliminary response is coming from the Brussels-based European foundation for Management Development (EFMD), which has established a pilot accreditation backed by its 400 members, including educational and business institutions, 18 leading European business education institutions are working on developing their criteria and procedures. They include "the Big Three," as well as other leading schools in France, Spain, Italy, the Netherlands, Sweden, Finland, and Slovenia.

During the next 18 months, as standards are agreed upon accreditation will be "open to all institutions which are committed to...excellence in international management education," says Gordon Shenton, dean of academic programs at Groupe ESC Lyon, one of the 18, and who is managing the program for EFMD. "A hundred could conceivably apply, but for the time being we are testing concepts," adds Shenton.

The MBA, however, is not a government-recognized degree in Germany and France, for example. "We don't worry and continue as the leader in our field," says Bernard Ramantsoa, director general of the HEC School of Management, funded mainly by the Paris Chamber of Commerce and widely regarded as the flagship of French business education.

HEC recently teamed up with the Amos Tuck School of Business at Dartmouth University and Templeton College at Oxford University to form a joint venture aimed at exchanging professors, research, and developing joint executive management programs. There are several other notable examples: In Italy, the Milan-based SDA Bocconi business school established a double-degree program in business administration and international relations with the Bologna branch of the Johns Hopkins University School of Advanced International Studies (SAIS).

New entries in the rapidly-expanding field of executive education, meaning for those who have at least 3-5 years of professional experience are being led by top US schools. The University of Chicago Graduate School of Business was first with its own satellite campus in Barcelona, with classes taught by its own teachers. Started in 1994, limited to about 80 executives who commute to the Spanish city over 18 months from within Europe, and from Africa, Latin America, and Asia, the MBA degree carries the coveted Chicago label.

Similarly, a first for Germany, Northwestern University's Kellogg Graduate School of Management this September welcomed its first batch of 45 executives to a joint MBA program developed with the Otto Beisheim Graduate School of Corporate Management, near Koblenz. Most of the students, many American, live and work in Germany and will commute to the campus of the private university over a two-year period, mainly on weekends.

"We are particularly proud of this joint program because of our (US) affiliation," says Heidrun Hoffmann, associate program director, noting that her school was the first in Germany to offer a major in business administration emphasizing the strategic leadership of corporations. "Our program also illustrates that the MBA is becoming more and more popular...more people here in Germany are asking for such programs," she adds.

Wharton is considering what it terms a "variety of options" to expand its role in Europe that could include a program similar to that of Chicago or Northwestern. "Considering that 22 percent of our foreign students are European and with the further emergence of the European Community as a global economic force, we continue working to attract Europeans to Wharton," says Chris Hardwick, the school's public affairs director in Philadelphia. He notes that nine years ago, Wharton was the first US business school to establish a European office in Paris that works closely with the school's 2,000 European alumni and with a major priority being funding scholarships.

—Axel Krause

Ramin Farhangi expects that to increase this year.

"One reason may be our fame as a good school, and also as the European and Spanish economies improve, more multinationals are setting up shop here with more foreign middle managers and their kids need a good education," says Farhangi. For Spanish students, ICS is attractive because of its international atmosphere and its record for preparing Spaniards for the country's tough university entrance exams, he explains.

—Benjamin Jones

ATHENS

EDUCATION REFORMS BADLY NEEDED

Education is such a key issue in Greece that the yearly university entrance exams make front-page headlines in newspapers and are covered on television. Competition is fierce for places at one of the country's half-dozen major universities and technical schools. Few high school students feel confident enough to take the tests without attending classes at private *frontistiria*—institutes that specialize in teaching foreign languages and coaching students for university entrance.

Despite the high regard for educational qualifications in Greece, standards of teaching and learning are considered unsatisfactory by many parents. They complain there is too much emphasis on learning by rote at high school; few schools have the resources to offer science and computer studies at levels that compare with northern Europe; and sports facilities are lacking. In many cities, there are not enough school buildings and students have to study in shifts—going to school in the mornings one week and in the afternoons the next.

The frontistiria are criticized for creating a parallel education system. They charge high fees for teaching in small groups but are often staffed by the same teachers who work in the overcrowded state high schools. Athanassios Danilatos, an 18 year-old who wants to study physics at university says, "I'd learn more by just going to the frontistirion for three or four hours in the evening and studying at home during the day. But I need the leaving certificate from high school in order to enter a university."

Greece's cash-strapped governments have difficulty in funding improvements in education. The education ministry budget is so tight that teachers cannot be sent to staff high schools in remote areas and on smaller Aegean islands. In recent years, successive governments have made financing higher education in the provinces a priority, but the quality of campus life suffers because lecturers often prefer to live in Athens and fly in for two or three days' teaching a week.

Politics also get in the way of learning. Greek universities are no longer hotbeds of political activity, but the parties' youth organizations still play an important role in student life and future politicians tend to start their careers in university law and engineering faculties. Moreover, appointments of lecturers and professors are still influenced by the government in power.

The shortcomings of Greece's educational system mean that a high percentage of university students feel obliged to continue their studies abroad. There are more than 40,000 Greek students registered at universities in other EU countries, mostly for graduate degrees. Daphne Economopoulos, studying for a master's degree in finance in the UK says, "Without a graduate qualification from abroad, I won't have a chance of getting a serious job in a bank or brokerage house."

Medicine, economics, and finance are the favored fields of study. And because Greek universities lack funding for research, many scientists make their careers abroad. The education ministry estimates that as many as 5,000 Greek scientists have jobs at universities and research institutes in northern Europe and the US.

In the longer-term, the government will have to address the question of lifting a constitutional ban on establishing private universities in Greece. Competition between state and private universities, say analysts, is the only way to improve standards in higher education, while private universities would be able to attract generous endowments from overseas Greeks.

—Kerin Hope

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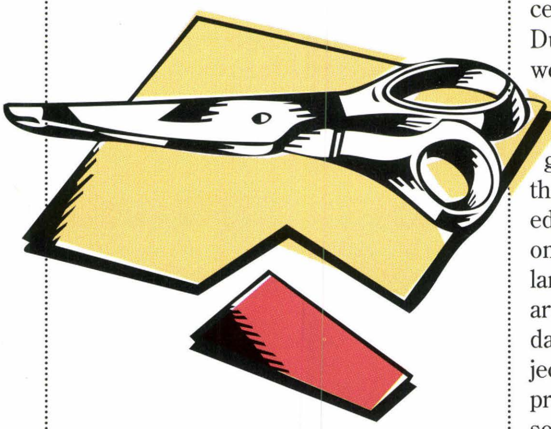
THE HAGUE

CHANGES IN DUTCH EDUCATION, AGAIN

When teachers and students returned to school late last month in the Netherlands, it began another year of change in the Dutch educational system. Dutch education seems to be in a permanent state of adjustment, as many decisions from the past decade are being reversed. This is particularly prevalent in secondary and higher education, as Dutch education suffers from an extraordinary high degree of centralization and of government interference.

The department of education is the biggest spender in the Dutch government, taking about 15 percent of the national budget. Over the last decade, constant efforts have been made to cut expenditure, and the education minister's budget problems have become something of a national joke. In particular, early retirement schemes for teachers and the student grant system consistently overshot their budget targets.

Although many schools are in theory private (i.e. they are of a religious—Catholic or Protestant—origin and parents have a certain influence on the management of these schools), education is largely financed by the government. From the age of 4 to 16, education is completely free. Also, college and university education are theoretically free (there is only one private university in the Netherlands), though a tuition (fixed for all higher education institutions at the same amount of about $1,300 a year) is charged, and all students receive a fixed governmental allowance (about $210 a month, plus a card for limited free travel on public transportation). But as the cost of living, even for the most frugal living student, is at least double that amount, students either work their way through university or their parents contribute substantially toward their expenses.



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The biggest changes concern the subjects to be taken in secondary schools and the duration of university studies. After lengthy debates, the latter were reduced to four years (except for medicine and engineering), but now it has been recognized that also for other studies one year extra may be desirable.

Four years ago, a system with a broad approach was introduced in Dutch secondary schools that would give all students, at least in theory, a minimum of subjects with the same level of difficulty, however, this turned out to be impossible. Now, the system is changing again, differentiating between more and less intellectually demanding courses (as was happening in practice, anyway). Also, allowing upper level high school students to choose their own courses has been abandoned. From next year onward, schools are obliged to offer four separate 'learning profiles' (culture, humanities, health, and science), and students are obliged to take one of these. Thus, in theory, the knowledge acquired in high school should connect better with the requirements of university studies.

The changes, which have occasionally driven teachers, school directors, and parents to the brink of insanity, have surprisingly had little effect on the level of education in the Netherlands. In recent comparative international tests, Dutch students turned out to be doing well. And, contrary to an often repeated claim that in the past everything was better and that education has only gotten worse, this parent can testify that he has great respect for the knowledge his children have acquired in secondary school. Admittedly, three foreign languages (English, French, German) are no longer obligatory like in the old days, and students can drop certain subjects after a number of years. But the present course load of my 16 year-old son, who just passed to his junior year in high school, remains respectable enough—mathematics I and II, physics, biology, history, Greek, English, Dutch, plus two optional courses, music and current affairs. And, from my occasional efforts to help him, I know it is not at all easy. Except for one or two subjects, he now knows far more than I do.

—Roel Janssen

BRUSSELS

SCALED DOWN SCHOOL SYSTEM

The Belgian education system is facing the squeeze. Long the most generous in Europe, the Belgian taxpayer seems no longer prepared to foot a much larger bill to support it than his or her counterparts in neighboring countries. And as Belgium struggles to get its budget deficit down to meet the requirements of Economic and Monetary Union, there is no prospect of extra cash being available from the central government to bail out the regional and linguistic community authorities responsible for the country's schools and universities.

Few would question the high priority that Belgium has traditionally given to education. Yet the way it has been implemented has undoubtedly been wasteful of resources. Because of historical conflicts between the state and the Catholic Church and between the different language communities, the system is effectively divided into four subsystems, each financed by the taxpayer. There are thus both Catholic and state schools and universities, with French and Dutch-speaking institutions in each category.

One result of this profusion of institutions has been a serious overproduction of practitioners in many different professions. Belgium is, for instance, the most over-doctored country in the world apart from Israel. Another potent source of waste is that there is no selection for admission to universities. Anybody who completes secondary schooling may enroll. This leads to an enormous dropout rate. At the end of the standard four-year course, it is not unusual for as few as one-third of the original students to graduate.

Now there is strong pressure on the universities to impose a *numerus clausus* on their entrants and sharply to increase the highly-subsidized fees. There is fierce resistance from student organizations, but the trend is clear. Within a very few years Belgian universities will all have switched to a more results-oriented regime.

However things turn out, one feature is unlikely to change. Belgium will remain the best country in the world for foreign residents to educate their children. Apart from the wide opportunities presented by the Belgian system, there is an unprecedented number of schools (in Brussels in particular) geared to the needs of non-Belgians.

Now there is strong pressure on the universities to impose a *numerus clausus* on their entrants and to increase sharply the highly-subsidized fees.

For English speakers, there is a choice of several American and British schools, and there are also French, Dutch, German, Scandinavian, and Japanese schools. Best of all are the European schools, primarily intended for employees of the EU institutions, but also open to other lucky applicants, which included my own two children. Overbountiful opportunities may no longer be on offer to Belgians, but foreigners will continue to be highly privileged.

—Dick Leonard

ROME

SO LONG CICERO, ITALY'S SCHOOLS SHAKE-UP

Farewell to Dante's *Divine Comedy* and to lengthy Latin translations—the two historical cornerstones of the

Italian school system are about to be put in mothballs forever, or at least they are about to be drastically deemphasized. The long verses from Dante's *Inferno* that generations of Italian students assiduously memorized and the difficult passages from Cicero and Seneca that had to be translated will increasingly become a thing of the past in Italian schools. The minister of public education, Luigi Berlinguer, promises that Italian schools are going to become more modern.

The plan appears ready to be implemented even as teachers and education officials trade ripostes on the front pages of Italy's major newspapers. However, the key issue of the plan appears to have less to do with curriculum and more to do with politics.

Private schools (which in Italy are widely considered to be less prestigious than public ones) will finally obtain government financing, perhaps as much as 35 percent of the cost per student. This change is applauded by the Vatican and Catholic organizations, which head the majority of private schools. The fact that Silvio Berlusconi, the leader of the right-wing opposition, has personally taken on the defense of private schools offers proof that the question is political and that the on-going battle is a showdown between progressives and conservatives after more than a century of arguing. It is almost ironic that the minister who will finally concede the conspicuous and long-awaited economic help to the private schools headed by religious groups is a member of the PDS, the Democratic Party of the Left or, rather, the former communists. The minister, a relative of Enrico Berlinguer, who for many years was the secretary of the West's strongest communist party, says simply that "Italy was the only country in Europe that didn't have a law concerning the equality between public and private schools." Public schools, in any case, will continue to be privileged because, as the minister made a point of underlining, "the preeminence of the state in education is prescribed and guaranteed by the state."

With an all-time low birthrate, Italy finds itself flush with elementary teachers for a smaller number of students.

The long verses from Dante's *Inferno* that generations of Italian students assiduously memorized and the difficult passages from Cicero and Seneca that had to be translated will increasingly become a thing of the past in Italian schools.

But, perhaps, this isn't even the real problem with Italian schools, regardless of how historically important the upcoming changes appear to be. What is much more alarming is the disappearance of the students. There are increasingly fewer students in this nation, which has one of the world's lowest birth rates. During the scholastic year 1994–95, the last year for which official data is available, in a population of 57 million people, there were 9.1 million school-aged students, from kindergarten through college: 1.5 million less than 10 years ago.

In order to defend the teachers' jobs—a category of civil servants that is poorly paid but maintains a certain prestige—the government had to resort to a few tricks. There isn't just one teacher—usually a woman—per elementary school class anymore—there are three. But even such maneuvers aren't enough. Italians, faced with unemployment and with families where women work as much as the men, still don't want to have children. The future doesn't look promising: only 1.6 million children go to nursery schools as opposed to the 7.5 million older children and teenagers in the successive age groups.

—Niccolò d'Aquino

LISBON

EDUCATION REFORMERS FACE UPHILL BATTLE

When Portugal's Socialist Prime Minister Antonio Guterres took office in late 1995 he declared education his "personal passion" and said it would be his government's number one priority. Guterres said Portugal's dire education record was unacceptable in the late 20th century and promised to do better.

This was no mean undertaking. Portugal has the highest illiteracy rate in the European Union, and even its primary education system cannot cope. Parents in northern Portugal recently removed their children from one school because they said the crumbling walls, leaking roof, and broken toilets were a hazard.

Things are not much better in higher education where the issues of funding and the status of universities and polytechnics have prompted some of Portugal's largest ever student demonstrations. The students complain that the government's education policies have so far been ill-defined and won't help them get jobs.

University students oppose a plan to make polytechnic degrees equivalent to those of the universities. They say this would devalue their qualifications. Students from both types of institutions are united against a proposal to increase annual college fees, which have remained unchanged at around $10 for the last 40 years.

One commentator compared his job to "surfing 24 hours a day on the Great Barrier Reef."

As a result of the student unrest, Education Minister Marcal Grilo, who has the unenviable task of implementing difficult and complex reforms with little extra cash, has come under the media spotlight rather more than his European counterparts. One commentator compared his job to "surfing 24 hours a day on the Great Barrier Reef."

But the government has made some progress on education. During a recent visit to Portugal, Hillary Clinton praised the administration for extending preschool education, an important issue in a country where a high percentage of women go out to work. Government officials admit that much remains to be done and that Portugal must improve its vocational education if it is to compete with its European partners. However, they say it is pointless to make quick, cosmetic changes and that real reform will take more time.

—Samantha McArthur

COPENHAGEN

MORE MATH

Though Denmark prides itself on high academic standards, the proficiency of Danish elementary school pupils regularly receives low grades in international comparison, especially in math and science. And business and industry complain that it is impossible to hire Danish engineers, let alone computer specialists, because young Danes prefer to study liberal arts.

This year the government and the local authorities responsible for the schools have mounted an offensive to upgrade the quality of teaching in math and Danish, the basics of the school system. The universities will now start to train elementary school teachers specializing in math and physics, and more teaching hours will be devoted to these subjects and the Danish language.

An effort is also being made to change the rather mundane image of engineers. Male engineers have traditionally had a hard time dating the opposite sex, not least because most of the students at the technical universities are male, and according to another popular theory, few of them are predisposed to marketing themselves aggressively at discotheques. In an effort to change this trend, large ads featuring attractive young male engineers have been posted around the country to alert females to this group of men whom they have hitherto grossly underrated. In a more conventional approach, students are advised of the good employment prospects for engineers and how computer literate engineers now easily outperform all other groups on the labor market in terms of salary growth rates.

Below the university level, private schools attracted one out of eight children starting school this August, and many of them plan within the next few years to provide each of their students with a computer in the classroom.

Schoolchildren in Helsinki.

Finns remain adamant about education, which extends throughout the lifetimes of many in this nation of 5 million.

In the still dominant public school system, the ambitions are more moderate but also rising. Denmark's second-largest town, Aarhus, is implementing an information technology plan that will provide one computer for every eight children by the year 2001. A special task force has been charged with designing the classroom of the future, and improving the quality of teaching is a separate research and development project. The consensus is finally emerging that future economic growth in Denmark will be knowledge-driven.

Critics do, however, stress that pay structures in teaching will have to be more flexible, and more competition introduced in the school system itself if quality is to improve dramatically. Teachers' salaries are comparatively low, and any kind of managerial position in the school system is remunerated at a level that bears no comparison to pay in the private sector. More able pupils often have to slow down their learning process to accommodate the needs of the less able. Parents, especially in the private schools, try to change this situation, but it is deeply embedded in the principles of the egalitarian welfare state.

—Leif Beck Fallesen

HELSINKI

FINNS LOVE SCHOOL

In the time of the so-called cold war, a foreign visitor once asked a Finn, "Is Finland a free country?" The Finn, slightly annoyed by the question, answered, "No, in Finland no one is allowed to starve to death or to stay illiterate."

Indeed, Finns remain adamant about education, which extends throughout the lifetimes of many in this nation of 5 million. Compulsory schooling takes place in Finland between the ages of 7 and 16. Basic education is given to all children upon reaching the age of seven (preschool is offered to younger children but is optional) in comprehensive schools consisting of nine compulsory forms and an optional tenth. Further education is voluntary, either in the three-year upper secondary schools or two to five-year courses in vocational schools. The universities provide higher education.

The comprehensive school aims at providing children with a general education. Compulsory subjects at the junior level are mathematics, religious knowledge, environmental studies, the second official language (Finnish or Swedish, depending on the child's mother tongue), foreign languages (mostly English), history and social studies, civics, biology, geography, physical education, music, art, and handicrafts.

The same subjects (except environmental studies) are also taught at the senior level (forms seven to nine). New compulsory subjects are chemistry and physics, home economics, and the second official language. Senior level pupils can also take such optional extras as economics, other foreign languages (mostly German or French), agriculture or computer studies. When the syllabus was reformed in the mid-1990s, the emphasis was on increasing alternative and optional subjects.

The local municipality is responsible for arranging general education although it receives aid from the state. Tuition, materials, and school meals are all free, and if the journey to school is more than three miles then transportation is provided.

There are two types of senior secondary education in Finland: the three-year senior secondary school, called *lukio* in Finnish, which represents the traditional academic line, and the vocational schools. One of the problems with the present system of vocational education is its fragmentation into many different lines of study. Most of them, however, enable the pupils to continue in a university.

Senior secondary education is based on modules or courses, each one lasting

CRESSON LEADS DRIVE FOR EU EDUCATION MOBILITY

Shortly after becoming European commissioner for education, research, and youth in 1993, Edith Cresson startled even knowledgeable Europeans by declaring that goods and capital still circulate more freely in the EU than ideas and people, particularly those related to research, business training, and higher education.

"My basic view hasn't changed,"she said in a recent interview with *EUROPE*, "but we are now beginning to make some headway on reforms and mobility (in education and research). It is a slow, difficult task."

Outspoken and affable, having risen in the ministerial ranks of previous Socialist governments to become France's first female prime minister under President François Mitterrand (1991–92), Cresson has no illusions about the future.

"Obstacles to EU mobility? We have quite a few: contradictory administrative rules; little or no harmonization of fiscal systems; a lack of mutual recognition of qualifications; an insufficient knowledge of foreign languages; and an absence of reception facilities," says Cresson, who holds a doctorate in demography and has directed studies in private economic research institutes and companies.

Today in Brussels, she directs a vast, complex number of programs that ranks her budget third in the European Union, but well behind agriculture and regional-structural development. However, with a few exceptions, like the ERASMUS student-teacher exchange program, they remain unknown or vague in the minds of most EU citizens. "Much of what we do in education and research involves dealing behind the scenes with at least several ministries in the 15 member countries, and until recently, we have faced the problem of unanimous voting in the Council," she says.

European Commissioner Edith Cresson

Indeed, what she considers her two biggest achievements since becoming commissioner occurred at the June Amsterdam EU summit, largely overlooked by much of the media. "First, we scored a victory by getting qualified majority voting in the Council for research-jobs related decisions and secondly, with agreement on funding (from the European Investment Bank) for high-tech projects of small and medium-sized companies," she recalls.

"Education, research, and job creation are all related, and the latter is our top priority in the long process of lifelong learning," she says.

To overcome obstacles, while winning support from ministers of education, the interior, and of social security programs in member states, Cresson has enthusiastically placed a single concept at the center of her EU strategy—mobility. "Our feedback in the past year or so of the existing obstacles shows that mobility has moved to the top of the political agenda," she says, "and this is most encouraging."

"Unprecedented action is therefore necessary to tackle these issues," Cresson explains, noting that she is already getting strong support from France's Socialist minister of education and research, Claude Allegre. He recently told *EUROPE*, however, that finding solutions will be long and difficult. "Diplomas still don't mean the same thing in one EU country compared to another, which raises some questions about ERASMUS, for example, which we are tackling" within the EU Council of Ministers for education, Allegre said.

ERASMUS, a flagship program for transnational mobility within the EU, has seen the numbers of participating students and teachers rise dramatically since 1988: to more than 170,000 students and 14,000 teachers currently, from, respectively, 3,000 and 745. Operating within a 1997 budget of $428 million, the Council recently agreed to fund an additional $28 million, well below what the Commission and European Parliament recommended. The annual amounts available to participants are, however, tiny: $844 on average actually paid to a student in the program.

The following are some other concrete examples of obstacles Cresson is striving to overcome:

- An EU citizen looking for work and seeking a training program in another member country loses his or her rights to unemployment and social security benefits if the training exceeds three months. In some states, upon returning, further training is required to regain benefits.

38 study hours. There may be several courses in the same subject before the final examination. Pupils study the following subjects: Finnish and Swedish, one to three foreign languages, mathematics, physics, chemistry, geography, biology, psychology, religious knowledge or ethics, art or music, physical education, and hygiene. Some of them are compulsory, others optional. Career counseling is also given.

At the end of the three years, pupils are tested in a nationwide standardized test. This exam is the basic requirement for a higher education, and every year there are some 40,000 new students who must compete for only 18,000 university openings. As a result, many of these newly qualified students must seek a vocational education or find a job.

In vocational education, pupils choose a basic line from 25 different trades and professions. Each of these is divided into two stages, a general and a specialized phase. The yearlong general phase has the same content for all pupils, after which they specialize in their specific trade. These specialized courses vary in level and last from one to four years. For example, in car mechanics a pupil can qualify as a skilled fitter after the short course, a technician after the middle course, and an engineer after the longest course. All those who have completed the longest specialized courses are entitled to continue their education at a university. About half of the vocational schools are run by the municipalities, a third by the state, and the rest privately.

• Similarly, volunteer educational work performed by a young graduate or student in another EU member for more than three months is not recognized officially, hence not covered by social security programs. In some member states, they are required to pay taxes on their allowances and expenses.

• In most EU member states, students entitled to grants or other forms of assistance lose them if they pursue their studies in another EU member country. This, the Commission stated in a report published last year, "has a most detrimental effect on young people" with modest incomes.

• Conflicting tax policies lead to "divergent" approaches to research with a "direct effect on the possibilities of mobility for researchers," the Commission reported. Certain member states deduct up to 50 percent of the value of a grant in taxes and social security contributions.

• Employees seeking to train in another EU country can face problems due to the lack of mutual recognition of qualifications and training courses. This obstacle has a "very discouraging effect." Once again, the Commission concluded, mobility is "greatly hindered."

Finding political support for implementing solutions is proving far more difficult than defining the obstacles. But progress is being made on several fronts. For example, Cresson and her aides in Brussels report that work is nearly complete on a comparative analysis of transferability of student grants within in each member state. This will greatly help the Commission drafting a recommendation that will allow relatively easy transfer of grants from one country to another.

Under Cresson's direction, the Commission is also drafting a proposal to establish a common legal framework for the promotion of apprenticeship and work-related training in Europe before the end of this year. This "would ensure the minimum conditions to enable young people to undergo part of their initial vocational training in another member country."

In other moves, the Commission is hoping to win approval for a proposal to extend application of social security schemes to employed persons and their families moving within the EU in connection with training programs; and for a proposal that would ease tax-related conditions of researchers receiving EU grants.

Meantime, established programs are continuing to attract growing attention. COMENIUS, linking 5,000 secondary schools this year in exchanges of all kinds, will grow to 8,000 schools next year. LINGUA, involving some 80,000 young people and 16,000 teachers in learning other EU languages, also at the secondary level, is also being expanded.

Another strategic goal is to diversify mobility into related fields. Thus, the European Voluntary Service (EVS) pilot action program—an EU version of the American Peace Corps—involving some 2,000 young people, who have worked on everything from restoring buildings in rundown neighborhoods to teaching and cleaning forestland throughout the EU. By next year, the number of participants will have nearly doubled.

A Belgian in his early twenties recently was assigned to work with underprivileged adolescents in a Danish school as part of the program, and told the Commission that it is proving a "super" educational experience for him and his students whom he guides in their studies. Because of the enthusiastic response among participants, their governments, and members of the European Parliament, EVS may be expanded to developing countries. Last year, several participants worked on school renovation and training projects in South Africa, for example.

Cresson reports that she is getting vital support from influential, experienced outsiders, with close ties to the EU. They include Belgian banker Etienne Davignon, a former European Commission vice president, who, Cresson says "has proven exceptionally helpful...he does not hesitate to use his extraordinary contacts to help win support for our programs at the highest levels in member countries, including, very recently, with a prime minister."

Cresson also has consulted closely with the Brussels-based European Round Table of Industrialists, grouping 45 leaders of European companies, which earlier this year published a report urging major investments in integration of information and communication technology into European education. The report recommended, for example, that EU member governments provide access to educational programs on new cable and satellite networks.

A unique and spectacular contribution to university-level education by business occurred in June, as computer software giant Microsoft announced it would donate some $80 million for establishing the first major offshore extension of its research division at Cambridge University. Planned interaction between scientists and businessmen at the campus north of London is aimed at creating an environment resembling that of Stanford University in California. Said Alec Broers, Cambridge's vice chancellor, "It might not be an exaggeration to say that Cambridge will be a communications and multimedia center to rival the best in the world."

—Axel Krause

The state, however, covers between 70 and 100 percent of all their expenses anyway.

Finland's first university, the Royal Academy of Turku (Royal, because in those days Finland was a part of Sweden), was founded in 1640, as the second university in the whole of Scandinavia. It was later transferred to Helsinki in 1828 when it became the new capital. Today there are several universities spread all over the country.

Alongside full-time education aimed at a degree or some other qualification, there exists a very diverse and informal system of continuing adult education. Originally this was intended to provide both a general education and stimulate leisure-time activities, often in preparation for work in the community.

Adult education is arranged through different associations and organizations and is partly state supported. Most of the courses are organized through a nationwide network of civic, workers', or folk institutes or even academies, with more than 600,000 students. Many political parties and trade unions have ideological and educational associations that arrange lectures, courses and seminars. Correspondence schools offer both general and vocational education, the latter often organized by industry and business. Radio and television courses are increasing and extremely popular.

—Thomas Romantschuk

VIENNA

AUSTRIAN MBAS

MBAs have become a booming business in Vienna, where three programs connected to US universities have sprung up in recent years, catering to Europeans and Americans alike. But the programs aren't simply clones of one another. While one is a full-time course of study, the other two are designed for working professionals.

As the historical gateway to Central and Eastern Europe, Vienna has emerged as the headquarters for hundreds of international corporations doing business with the East since communism collapsed in 1989.

As the historical gateway to Central and Eastern Europe, Vienna has emerged as the headquarters for hundreds of international corporations doing business with the East since communism collapsed in 1989.

Even before that time, Webster University had an MBA program in place in this graceful capital city. Established in 1985 by the St. Louis-based university, the program is designed for those who don't want to leave their jobs. "Most people economically can't afford that," said Lydia Jenewein-Goutas, director of admissions.

About 30 percent of the students are from Austria; 20 percent from America; and the rest from around the world. The students enroll in evening courses that meet once or twice a week.

The next program on the scene was a joint venture between the University of South Carolina and Wirtschaftsuniversitaet-Wien. Set up in 1994, the International Master's of Business Administration is the city's only full-time program.

Students spend the first seven months in Vienna, then head to Columbia, South Carolina, for eight months to complete their degrees. Two-thirds of the students are American; the remainder come from as far away as China and Argentina. IMBA Director Wilhelm Brunner said, "International means a lot in this program. It's not just faculty teaching something that is international."

Two years ago, California State University-Hayward, brought the IMADEC program to Vienna. Designed for managers, courses are arranged in 10 blocks, each lasting four or five days. To receive their executive MBA, each student must write a thesis and present it in Hayward.

Marketing manager Elisa Go said most students have degrees in subjects like law or medicine or engineering. "They lack certain kinds of management skills, so an MBA is perfect for them."

—Susan Ladika

STOCKHOLM

FREE EDUCATION

Sweden has a very democratic system of higher education. Practically all Swedish universities are free of tuition. Everyone has the right to favorable loans as long as they perform academically each semester. Students can also get loans for studies abroad. The government will grant loans for study anywhere in Europe or the rest of the world. Since Swedish universities are free of tuition, we are talking about loans for living costs for the students," says Nina Ersman, the press counselor at the Swedish embassy in Washington, DC.

A student loan is totally dependent on the individual student's economic condition, and no consideration is given to the economic situation of the student's parents or spouse, if he or she is married. A student may receive study assistance for a maximum of six years. The loan repayment terms are quite generous.

It is interesting to note that in Sweden almost all higher education institutions fall under the jurisdiction of the Ministry of Education and Science. Therefore, most of the institutions of higher learning in Sweden are run by the central government. Even the employees at the universities across the country are national civil servants.

In addition to the government-run university in Stockholm, there are other major universities located in the cities of Uppsala, Umea, Linkoping, Lund, and Göteberg. So far, there has only been one major private institution within the system of higher education, the Stockholm School of Economics, which is run by a private foundation with some central government support.

Another interesting fact about higher education in Sweden, according to Ms. Ersman, is that students at Swedish universities are required to become members of a student union, which functions as a "trade union" on behalf of the students.

—Robert J. Guttman

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ARTS & LEISURE

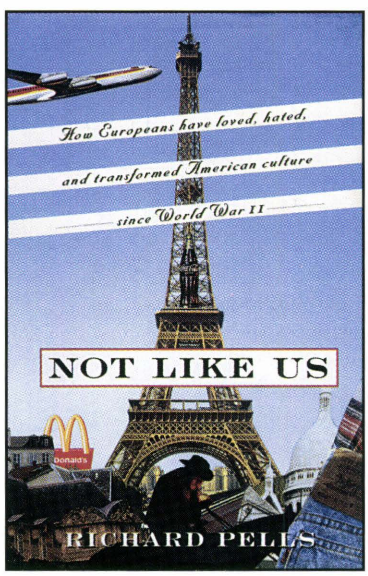
BOOKS

Not Like Us

By Richard Pells; Basic Books; 444 pages; $30

In the six years since the end of the cold war, much of the tension in transatlantic relations has been produced by issues rooted in culture and differing interpretations over what constitutes free trade in this realm versus protecting national values.

Popular culture, or Hollywood, is now America's second-largest export, surging ahead of farm goods and just behind aircraft. Against this wave, European nations are trying to preserve their languages and their struggling entertainment industries.



For all the passion that cultural conflicts arouse—for instance the dominance of American films in European movie houses—they are generally not well analyzed or understood for non-specialist readers. That's why this study by a University of Texas history professor is welcome for its insights and scope, even if European readers may not share the sanguine conclusion that just because French kids consume lots of McDonald's cheeseburgers and listen to rock-and-roll they are any less French.

First of all, as Richard Pells points out, Europeans have been arguing about an American cultural invasion for much of this century. Secondly, and most provocatively, the author concludes that American popular culture has not destroyed European culture in the manner that so many European intellectuals, government officials, and other varieties of alarmists decry. Rather, he argues, Europeans have resisted much standardization and homogenization and have adapted American products and culture to their own needs. And, in turn, Europeans continue to have a profound effect on American culture.

The author does not deny that signs of homogenization abound. It would be difficult to ignore all the golden arches, American films, and television programs, the clothing and Coca-Cola from Britain across the continent. (Pop music, he asserts, has been a hybrid of American and British since the 1960s.) And some of this is spread by the amazing pervasiveness of the English (American) language, now spoken however fluently or roughly by 70 percent of all Europeans between the ages of 18 and 24 and studied by an even higher percentage of schoolchildren. (Perhaps to spare embarrassment to his American readers, he does not provide comparable percentages on US youth speaking foreign languages.) Pells asserts the structure of the English language itself, its short words and phrases, contributes to its power as a vehicle for entertainment and advertising.

Though a member of the intellectual-academic elite of which he writes, Pells does not hesitate to criticize his European counterparts and to suggest they are responsible for some of the very results they abhor. In a book about equally divided between studying the exchange of people and ideas at the academic level and expositions on mass culture, he is well aware of the condescension that is implied in the popularity of some middle-brow American authors and filmmakers among European intellectuals. And he is bluntly and repeatedly critical of French and other European filmmakers who deplore the invasion of American films while churning out self-indulgent, subsidized movies of decidedly limited popular appeal. Motion Picture Association of America President Jack Valenti, himself, could be no more unflinching in his defense of American filmmakers and other purveyors of popular culture for understanding the tastes of audiences at home and abroad.

If there is a weakness in this work, it is in its apparent total reliance on English-language sources, both books and many newspaper articles. Given the place of language in these cultural debates, the absence of European language sources in the bibliography and notes raises the question of how deeply the author can understand the passions of some of the protagonists.

Nevertheless, Pells has produced a readable and important guide to a debate that promises to loom ever larger between Europe and the United States and between the West and the rest of the world.

—Michael D. Mosettig

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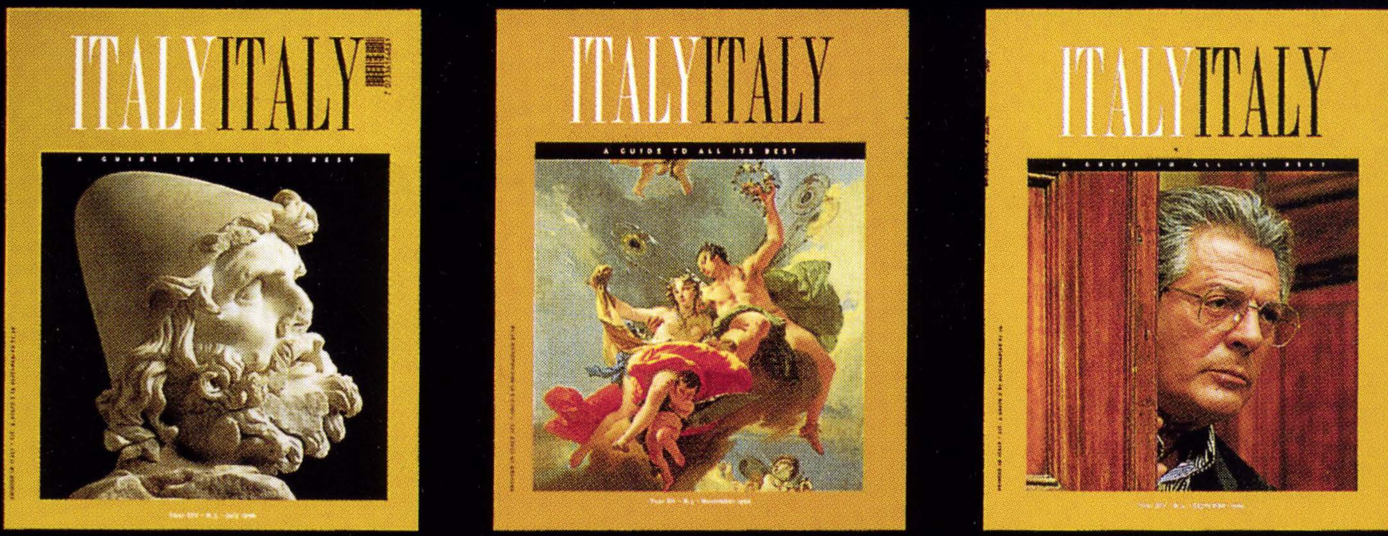

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