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DR 34  
Liechtenstein:  
The industrialized fairy-tale

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Dear Mr. Nolte:

"Please," Secretary Kindle of the Liechtenstein Chamber of Industry said this morning, "we are no fairy-tale country. We are a land of people who must work hard ... Fifteen years ago we were a true underdeveloped country, and now much of what you see is still facade, without local capital, too sensitive to international recessions."

"It belongs to the realm of fables, when it is said that Liechtenstein lives from holding companies and from postage stamps," says a little guide-book for tourists, rather defensively.

But fairy tales and fables also seem natural in this miniature land, "the last monarchy in the heart of the Alps." How else can one accept the story of the attempted Nazi Putsch of 24 March 1939, thwarted by the Liechtenstein Boy Scouts? How else understand the fierce protestations of these 16,000 mountain people that they are an independent, sovereign nation, although their foreign relations, their postal service, their economy, their coinage are all Swiss?

A couple of hours after the talk with Herr Kindle, I was seated in the office of Adjunkt Kranz in the Government Chancellery of His Serene Highness the Ruling Prince Franz Josef II. Outside the window, the white fog that has blanketed the mountain valleys for a week suddenly vanished. Towering beyond the Rhine, icy and magical, the Alps of Churfirstin materialized, rather like a photographic print in developer. Surely this, too, belongs to the land of fairy tales and provides a reason as real as the tax figures I was examining, why it is a good thing to be a Liechtensteiner.

This dwarf state, too, self-consciously modern and progressive in a conservative Swiss-like way, has its problems, and it was one of these that had caused me to break a winter trip through the Alps to ask some questions in Vaduz. The factory owners of the neighboring Austrian province of Vorarlberg, I had read, were complaining bitterly that excessive numbers of local workers, badly needed in this age of over-full employment and boom, were being lured across the border to jobs in the Principality of Liechtenstein and the Swiss Canton of St. Gallen, and the Vorarlberg businessmen

were proposing to take action to reduce the number of Grenzgänger (border crossers). The Liechtenstein half of this complaint did not jibe with my accepted notions of a mountainous relic of Europe's feudal divisions in which a prince and a handful of peasants made their living by registering international holding companies of dubious reputation and by selling citizenships. What was happening to this "Call Me Madam"-like principality?

The musical comedy backdrop is still here:

Vaduz Castle, restored in the last century and now a thoroughly habitable residence for Franz Josef II (I have become curiously conscious of the habitability of ancient castles this year), rises from a bare stone cliff 300 feet above the village-capital, backed by the immediate looming mass of the Vorarlberger Alps. In the village itself the casual stroller soon notices that most of the new and expensive houses - and there are many - are also "offices". A closer look at one of these discovers a row of a dozen or more brass plates beside the doorbell, bearing the names of a mysterious variety of corporations, societies, holding groups and companies with English, German or French names.

No one in an official capacity here will say how many of these registered companies there are, and the list, like the tax records, is a state secret, but in the London Observer gossip columnist Pendenis recently mentioned the figure 3,000. The present population of Vaduz is 3,300.

This is the traditional Liechtenstein - or, more accurately, the Liechtenstein that struggled to survive as an independent entity after the multiple shocks of the first World War. Its modern representatives are perhaps unduly apologetic about it: "One had to make a living in whatever way was possible," Herr Kindle explained. The registration of tax-evading or audit-evading companies for a fixed payment agreed by contract without reference to income was one such way. It is legal enough (who is to tell a state it must levy taxes as high and on the same terms as its neighbors do?), and it is also practised by many Swiss cantons (with less publicity) and by such states as Monaco. The system continues today, albeit somewhat shamefacedly.

Perhaps more doubtful from a moral standpoint was the sale of citizenship, under a 1934 law that has been ended this year (the Chancellery said). It was a curious system, distinguishing "Normal-naturalization" from "Financial-naturalization". The former might take place after many years of residence and acceptance by a local community, and cost a "nominal" fee of 500 to 1,000 Swiss francs (\$125 to \$250). For either type of naturalization one had to be accepted first as a citizen of one of the principality's communes, and then as a citizen of the state itself. For a "Financial-naturalization" the commune exacted a payment from a would-be Liechtensteiner that usually amounted to 25,000 Francs (about \$6,000); then, fixed by law, a further payment of 50% of the sum levied by the commune had to be paid to the state. In addition, security was required to guarantee that the new citizen would continue to be self-supporting.

This method of becoming a Liechtensteiner, I was assured had become obsolete by 1945. Many who originally came in this way have become valued members of the community. One example seems to be a certain Baron Edward von Falz-Fein, whose ancestors went from southern Germany to the court of Catherine the Great and rose to considerable estate as servants of successive Tsars. After the revolution they were relieved of their property in Russia and fled the country, one of their branches finding its way here. Baron Edward, whom I take to be second-generation Vaduzer, owns a string of local enterprises, including a publishing house and the chief shop of the capital (curiously called the "Quick Tourist-Office"), and writes books about the principality for which his wife produces excellent photographs.

The Quick Tourist Office, like the factories of the Hilti Machine Tools company at Schaan (built 1955), of the Press and Die Works at Eschen (1941), or the Gerätebau-Anstalt in Balzers specializing in high vacuum machinery (founded 1946), belongs to the new Liechtenstein. The 3,026 workers now employed by the 24 industrial concerns that are members of the Liechtenstein Chamber of Industry represent 18.6% of the total population of the principality; by this reckoning Liechtenstein is the most intensively industrialized country in Europe -- standing well ahead of West Germany, Great Britain and Belgium -- and proud of it.

This industrialization and the problems it has brought with it - Austrian and Swiss Grenzgänger, excessive foreign ownership, a pressing need to revise an outdated tax structure - are all post-war phenomena, drastically altering both the appearance and social structure of the country. Liechtenstein begins to look more and more like Switzerland, and it is to Zürich that the Liechtensteiners drive in the evening for theater, night club, or business contacts. With some concern, patriotic Liechtensteiners talk about preserving their independence from the Swiss neighbor and are annoyed at foreigners who assume that the country is a Swiss canton in all but name.

Liechtenstein independence proves on examination to be more meaningful and extensive than one supposes, but it is hardly surprising that such a dwarf state has survived in the heart of Europe only because of a series of historical accidents and coincidences. Liechtenstein's is a pleasant example of ironic history.

It came into existence because it was always sold at the right moment. First, it passed out of Swiss history at the very hour in which the Swiss Confederation was assuming definitive form, because the Swiss family that had owned it sold it to a Swabian count in 1507. Thus it remained in the Holy Roman Empire (and under Habsburg suzerainty), as the County of Vaduz and the Lordship of Schellenberg. Then, after other changes of ownership within the Empire, it was sold again (Schellenberg in 1699 and

Vaduz in 1712) to Johann Adam, Prince von und zu Liechtenstein. The timing was again lucky. The Liechtensteins, a Lower Austrian family (Burg Liechtenstein, the family seat, is just outside Vienna), had for generations done worthy service for the Habsburgs, and Prince Anton Florian, who inherited Vaduz and Schellenberg in 1718, had been tutor to Emperor Charles VI. The Emperor, to honor his courtier, elevated the newly-bought family estate into an immediate Imperial Principality. The date, 23 January 1719, is celebrated as the birthday of the Principality of Liechtenstein.

Yet neither Johann Adam, nor Anton Florian, nor any of their successors for the next 115 years ever visited the Principality, and the Liechtensteins owned other more favored estates of equal value.

A century after its elevation as a Principality, Liechtenstein became an independent state because its Prince, an Austrian Fieldmarshall, was admired by Austria's enemy Napoleon. In 1806 the Holy Roman Empire had been dissolved, and the French organized the west German states into the Confederation of the Rhine, as a French satellite. The map was tidied by merging the smaller of these states into larger units, but tiny Liechtenstein was admitted to the Confederation as a full member. The Prince and Fieldmarshall because of whom this was done, since he could not serve the Austrian Emperor and be a vassal of the French enemy at the same time, now bequeathed the Principality temporarily to his third son; the fall of Napoleon in 1814 allowed him to reassume the rule of what, thanks to Napoleon, had become an independent country.

But the Fieldmarshall, too, never visited Vaduz. His eldest son, Alois II, who inherited the title in 1836, was therefore the first Liechtenstein prince to set foot in Liechtenstein. Under his rule the Principality was one of 38 members of the German Confederation and was further linked to Austria by a customs treaty of 1852.

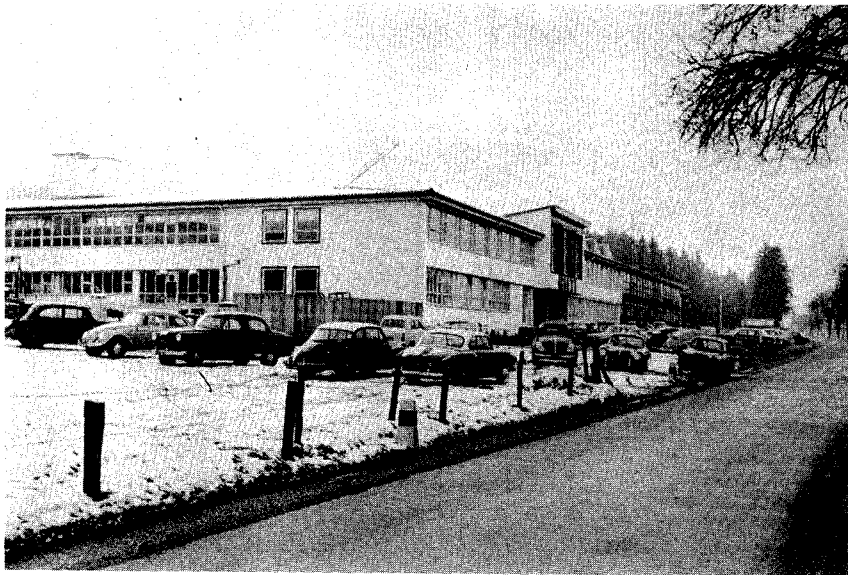
In 1866, in accordance with its obligations to the Confederation, Liechtenstein sent a contingent of 80 men to the Vintschgau to support Austria in war against Italy. When the war was lost, Bismarck dissolved the Confederation, but Liechtenstein, separated from the other German states by the Habsburg province of Vorarlberg, and by Switzerland, was spared inclusion in Bismarck's German Empire. No longer obligated to anybody, the Principality dissolved its army and remained blissfully neutral in the first World War. When the the Habsburg Empire disintegrated at the end of that war, so did the customs union of 1852; Prince Johann II declared all treaties with the vanished Empire null and void, and the Austrian Republic replied that this was really unnecessary since the new Republic refused to be the legal relic of the old Empire in any case.

So, as a result of historical coincidence, geographic location and the fortunes of a (generally) absentee ruling house, Liechtenstein emerged in 1919 as nakedly independent as any country could ever be.

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The Capital - Vaduz Main Street



The New Liechtenstein

The Hilti Machine Tool Factory in Schaan

It was not, in fact, a very comfortable situation. From both economic and fiscal standpoints, the tiny country could not stand alone. Inflation of the Austrian crown and the disappearance of the economic link with Austria left the Principality bankrupt, and the new Austria - a country in which not even the Austrians believed - was clearly not the right friend for the new age. (The neighboring Austrian province of Vorarlberg, like Liechtenstein inhabited by the same Allamanic branch of the German nation that lives in eastern Switzerland, actually tried to secede from Austria and become a Swiss canton, to the embarrassment of Berne.) Meanwhile, with the Austrian crown valueless, the Liechtensteiners began spontaneously to use Swiss francs, and the government followed their example, turning its back to the Arlberg and looking across the Rhine for help.

The links with Switzerland were forged gradually. In 1919 Berne agreed to represent Liechtenstein abroad; there is a Liechtenstein legation in the Swiss capital, but elsewhere Swiss embassies and legations handle Liechtenstein business on request from Vaduz. A postal treaty was signed in November 1920, and a customs treaty in March, 1923. Since January 1, 1924, the two countries have been bound in a customs union. The passport inspection on the Austrian border is conducted by Swiss officials, and there are no formalities between the Principality and Switzerland - except during the second world war, when there was passport control there as well.

The economic link brought many Swiss laws in its wake, and forced Liechtenstein to adhere to many Swiss commercial treaties with third states, so that today most Liechtenstein regulations connected with business or commercial life are in fact Swiss. But the Austrian civil code of 1811 remains in force, and criminal proceedings are carried out according to the Austrian system.

The court system reflects these two historical influences. The Staatsgerichtshof, the highest administrative court in the country, consists of five judges. The president must be a born Liechtensteiner, as are two of his colleagues. Of the other two, one is an Austrian civil judge, the second a public law judge from Switzerland. In the ordinary courts, the president of the High Court, (the first court of appeal) is Swiss, its reporter is Austrian, and the President of the Liechtenstein Supreme Court an Austrian university professor. (The present incumbent is, in fact, none other than the ubiquitous Dr. Franz Gschnitzer, Austrian Under-Secretary for Foreign Affairs and South Tyrol expert - DR 31!)

The Swiss connection saved Liechtenstein from disaster after the first war, but did not bring prosperity. The new economic links had barely been forged when the depression struck. Liechtenstein workers, who had taken to crossing the Rhine bridges in large numbers to work in Canton St. Gallen, were the first to lose their jobs and had to be re-absorbed by the local economy just when expensive public works projects - roadbuilding and flood control

in the Rhine valley - were putting a heavy drain on community and state finances in the Principality. Money-earners like a Casino had often been proposed, but were regularly rejected by Prince Johann II, whose reign of 70 years (1858-1929) was one of Europe's longest and had given the country its first liberal constitution of 1862 and its present democratic one of 1921: In 1925 a concession had been granted for a British horse racing Mutual Club, which had been profitable, but coordination with the Swiss lottery laws in 1934 meant giving up an enterprise that had in any case done the country's international reputation little good.

In 1926 the government hit upon the idea of a Persons - and Societies - Law to allow foreign holding companies to register in Liechtenstein and avoid high taxes and audits in their home countries. From this expedient and the sale of citizenships in the 1930's, the country managed to survive until the war.

Liechtenstein, too, had its Nazis. The Anschluss in March, 1938, brought Greater Germany to the border at Feldkirch and also brought about an abrupt end to twenty years of depression and economic chaos in Austria. There was work for all in the Third Reich and the Liechtensteiners who had lost their jobs in Switzerland a decade earlier found ready employment at high wages in Vorarlberg. The road home to the great German Fatherland, blocked by Bismarck's exclusion of Austria in 1866, was now open, and many Liechtensteiners thought it foolish to hesitate. Franz Hofer, Gauleiter of Tyrol and Vorarlberg, a man with a curious appetite for extra bits of territory, was eager to cooperate. Nazis in Vaduz and in Feldkirch plotted and waited.

On 24 March 1939, a week after Hitler marched into Prague, his local supporters here made their Putsch, supported by information that SS units in Feldkirch were ready to march on Vaduz. In Liechtenstein there were 12 policemen and a prince, Franz Josef II, who had only succeeded to the throne a few months before, and whose extensive property in Austria suggested tact and caution in dealing with the Nazis.

The only organized movement in the Principality to oppose the Putsch was that of the Boy Scouts. A movement that in many countries had been among the first to go over to Fascism or Nazism, in Liechtenstein it had somehow become the center of strong local patriotism and enjoyed (two scoutmasters of the time told me) the secret strong support of both Franz Josef II and his Head of Government, Dr. Josef Hoop. The Scouts turned out in full force and broke up the Nazi gatherings before they could move. Help from Feldkirch did not materialize, for reasons unknown to the Liechtensteiners, and the local Nazis became demoralized. The Putsch collapsed. There were other efforts later, none so serious.

So Liechtenstein escaped the second World War, as it had the first.

It emerged in 1945 undamaged and unimpoverished - both important advantages in the post-war Europe - but still a quaint

land of peasants, cows, postage stamps and holding companies, exporting seasonal labor to Switzerland.

The economic stars were favorable, the local government intelligently encouraging, the political situation stable, the investment opportunities as great as in Switzerland, the tax structure inviting. Export figures tell the progress story: 15.2 million Francs by 1950; 33.6 million in 1954; 73.5 million in 1959. (Switzerland accounts for over half the export total, taking 45 million francs in value in 1959, with West Germany second, Great Britain third, the USA fourth ... and Austria in seventh place with only 1.7 million francs.) Over half the gross national product is reckoned to come from major industry, and 50.8% of the working population is engaged in industry or handicrafts. Only 20.6% (1,240) is still engaged in farming.

With this industrial revolution have come the new problems. The tax structure is antiquated, the present tax law dating from 1923, when the Principality was a purely agricultural land. Income tax is graduated from 1.3% to a splendid maximum of 10%, and is not applicable to farm incomes at all. State property and inheritance taxes are approximately the same as the equivalent Swiss federal taxes, but the community property taxes are much lower. Social taxes are negligible. Meanwhile state expenditure has risen from .5 million francs in 1925 and 1.7 million in 1940 (in both of which years there was a budget surplus) to 7.7 million in 1955 and 11.6 million in 1960. There has been a deficit in every year since the war, reaching a maximum of over one million francs (24% of expenditure!) in 1950 and still 180,000 francs in 1960. All of this in a country without any expenditure for defense whatsoever.

The problem of excessive foreign ownership of local industry, local officials suggest, is common to all "developing" economies and will disappear with time. At present dozens of applications to found factories in Liechtenstein are denied for every one that is granted. Selection, Adjunkt Kranz said, is based upon a calculated desire to establish a diversified and recession-resistant industrial structure.

The reason why so few applications are admitted is not lack of land - although the entire country is only 157 square kilometers, two-thirds of which is mountainous - but lack of labor. A land that fifteen years ago was sending seasonal and industrial labor to any neighbor that would have them, was by 1959 employing 1,106 foreigners in an industrial complex with a total of 3,026 employees - i.e., 36.5% of the industrial labor force came from abroad. And of these 1,106 foreigners, 844 were Austrian. (Actually, in the spring of 1960 some 1,264 Austrians were employed in Liechtenstein; the extra 400 of them were working in small concerns, not members of the Chamber of Industries, or in commerce or tourism. All but two of the employees I have spoken to in the hotel in which I am staying are Austrian, from as far away as Styria.)



This is what has created the Grenzgänger problem, which Vorarlberg industrialists are finding so irritating - a total of 6,000 Vorarlbergers now live at home in Austria and commute daily to work in Liechtenstein and St. Gallen. In recent months they have been receiving leaflets at the border on their way to work, trying to persuade them to change jobs and come into Austrian factories instead. Now the Swiss have joined the leaflet war with refutations of the Austrian arguments.


The Vorarlberg employers' central thesis is that the higher take-home pay that can be earned in Liechtenstein or Switzerland is misleading and is only made possible because the social contributions that employers must make in those countries are appreciably lower. The Austrian employer, or he and his employee together, must pay for sickness-, pension-, accident-, and unemployment insurance, housing supplement, family supplement, public housing tax, an average vacation of 18 workdays, 12 additional paid holidays, vacation bonus, and Christmas bonus. The Austrian skilled worker at home has 12.5% of his gross income removed from his pay packet; if instead he goes to Liechtenstein or Switzerland to work, 2.4% is deducted for obligatory insurances, and he will usually pay 4.8% back in Austria for voluntary health insurance. Austrian employers estimate that they would have to pay a 35.6% higher gross wage than their Swiss competitors to give their employees the same take-home pay. Yet the Grenzgänger enjoy almost all the social benefits of the Austrian welfare state that their fellow-countrymen are paying for.

I've gone into this problem in some detail because it seems to me to be of more than local interest. This is the age of Sixes and Sevens in Europe, when countries of both the Common Market and Free Trade Area are struggling with the problems involved in customs union. Switzerland and Austria are both members of the Free Trade Area, and Liechtenstein has adhered to it through an "Additional Protocol", signed by the seven full members, (It had been thought to make Liechtenstein a full member, until it was remembered that the Principality has no customs establishment of its own). In this context Vaduz questions and answers take on wider significance. The problems that Liechtenstein has met in establishing a Common Market with Switzerland since 1924 were solved in the end by the acceptance of almost the entire corpus of Swiss economic law. In another direction the leaflet war between the industrialists of Vorarlberg and those of St. Gallen/Liechtenstein is a splendid microcosm of the sort of troubles a Free Trade Area must run into when some members have welfare states and others still bow to laissez-faire.

Meanwhile, the Principality of Liechtenstein watches these developments with interest and a trace of smugness. They long ago faced, out of necessity, the dilemma posed by the conflict between national patriotism, demanding unrestricted national sovereignty, and economic expansion requiring supra-national arrangements that inevitably infringe that sovereignty. The Principality has its

supra-national arrangement, and even if the rest of the world thinks they are only a piece of Switzerland, the Liechtensteiners know better.

Sincerely,



Dennison Rusinow.