



Europe's Wishful Thinking

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THIS IS THE SEASON of high-level international meetings and, therefore, the season of many discontents. Europe's concerns about the fall of the dollar and America's fiscal profligacy were aired at the World Economic Forum in Davos last week, as were America's concerns about the inability of Europe's governments to stimulate domestic demand. The Europeans are watching their export industries suffer as the euro soars, and the value of the dollars their companies' U.S. subsidiaries earn drop like a stone, as the Euro appreciates to some 50 percent above its previous low.

The Americans, in turn, made it clear that we are tired of being the world's economic locomotive, forced to tug along European economies that are wallowing in recession. That's what these sessions are for--what diplomats like to call "a frank exchange of views" on the topics of the day.

Fortunately, more fundamental issues were discussed when many of the assorted moguls and government policymakers reconvened in a sort of Davos-on-Thames conference convened in London by Britain's cerebral chancellor of the Exchequer, Gordon Brown. Rather than focus on short-term issues such as exchange rates, the chancellor's

invitees pondered the longer-run problem of how the entrepreneurial spirit that has produced such material well-being in America can be fostered in Britain and, by extension, other countries. The goal, says the chancellor, is to find ways "to remove all unnecessary barriers to wealth creation" (making one wonder just what a *necessary* barrier to wealth creation might be).

ALTHOUGH IT IS FAIR to say that the UK meeting came up with few specific proposals, it did focus the minds of policymakers, who usually spend much of their time figuring out how to redistribute wealth, on the importance of wealth creation. Such a focus on the longer-term sources of the wealth of nations will, in the end, do more to contribute to economic growth than slanging matches about whose economic policies are damaging whom. And the starting point for any such analysis must be a recent report by the European Commission reviewing what it feels must be done if Europe is to begin to match America's economic performance.

IT IS FOUR YEARS since E.U. leaders met in Lisbon and set out a strategy for economic reform that they claimed would enable Europe to outstrip the United States as the world's leading economic power. Britain's Tony Blair liked the idea of reform, and France's Jacques Chirac liked the idea of besting the United States. So reform it was to be.

One need only dip into the new report to understand that the seeds of American entrepreneurialism cannot successfully be planted in the hostile soil that is today's Europe. The tools that the European Commission would use to catch up with America, and move European GDP up from its present 72 percent of the U.S. level, include such winners as passing a "Framework Di-

rective on eco-design of energy-using products;" devising "social inclusion strategies" and establishing "National Action Plans (NAPs) . . . to set national targets" to improve social cohesion; and developing a "new industrial policy approach." There's more, lots more, including new regulations and taxes.

Meanwhile, back in America, President Bush is trying to reduce both the level of taxation and the burden of regulation. In short, the European Union aspires to American performance, and sees increased involvement of both Brussels' and member states' bureaucracies as the path to that goal, while U.S. policy is to reduce the role of government in business affairs.

EVEN IN BRITAIN, which has taken the lead in fighting the worst manifestations of the E.U. tendency to prefer regulation to markets, government just can't grasp what American entrepreneurship is all about. In a recent report, the Department of Trade and Industry, roughly equivalent to our Department of Commerce but with a much stronger interventionist bent, bemoaned the fact that half of London's small business don't have business plans--and then went on to report that a great many of these benighted firms are--surprise--chalking up higher sales and rising profits. Given the opportunity, any small businessman would tell the government planners that he is succeeding precisely because he spends his time satisfying customers rather than producing elaborate and beautifully illustrated plans of the sort that bureaucrats often use to substitute for accomplishment.

It should come as no surprise, then, that British productivity lags behind America's, and that the E.U.'s productivity growth rate has been declining since the mid-1990s (and is now only a fraction of that being recorded in the

United States). And there is an added lesson for policymakers in the fact that the countries cited by the European Commission as the least enthusiastic reformers--France, Germany, Belgium, and Luxembourg--are the loudest cheerleaders for greater and greater European integration. Those in our government who favor the creation of a United States of Europe might want to consider the implications for our economy--and particularly for our export industries--of a Europe so mired in regulation and taxes as to be unable to contribute to world economic growth.

INDEED, the failure of Europe to solve its problems is becoming more than a little annoying to those of our policymakers who follow European affairs closely. As they see it, we have to carry the burden of being the world's economic locomotive because Europe will not take the steps necessary to stimulate domestic demand. Instead, and like China and Japan, Europe is hoping for an export-led recovery, with Americans as the consumers of last resort.

Meanwhile, the European Central Bank (ECB) refuses to follow our Federal Reserve Board's monetary policy by lowering interest rates so as to stimulate business investment and consumer spending. And European governments either raise taxes (like the UK), or institute tax cuts too trivial to stimulate domestic demand. The hypocrisy of

relying on the American consumer to bail out Europe's unreformed economies, while at the same time criticizing the United States for running unsustainably large trade deficits, is so self-evident as to be embarrassing. To all, that is, save European politicians too timid to institute the labor market and other policy reforms that would produce a more balanced global economy.

That harsh view, it should be noted, is not confined to Americans. European Commission president Romano Prodi says that Europe's dismal economic performance should serve as "a strong wake-up call to governments," although just what he would have them do once awakened is unclear. And Otmar Issing, a member of the ECB's executive board, has bemoaned the lack of structural reforms in both labor and product markets, while the European Commission itself concedes, "Measures to increase the volume of, and improve the environment for, research investment have been fragmented and sluggish."

In the end, the issue is whether Europe can both cling to its social-market, welfare-state model, and at the same time achieve its stated goal of overtaking the United States as the world's most productive economy. So far, Europe has avoided that hard choice, preferring instead to grope for a probably nonexistent third way.

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