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Hope for Europe?

By Richard W. Rahn
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Europe is in crisis. It is depopulating because of birthrates well below replacement. Weighted down by oppressive taxes and onerous regulations, the economies of the major European nations are barely growing. Pessimism reigns. Yet there are the little flickers of light in the form of bright and energetic young people pushing constructive change, and increasing public recognition from some European leaders that the present course is unsustainable.

In times of crisis, some nations find a Ronald Reagan, a Winston Churchill or a Margaret Thatcher. If one looks closely at the increasing political divisions in France, Germany and Italy, it is now possible to imagine a future Continental version of Mrs. Thatcher or President Reagan.

In the 1970s, the U.S. and the U.K. were in crisis. Mr. Reagan rode into Washington with vision and optimism. He supported a noninflationary monetary policy, cut tax rates and reined in spending and regulatory growth and the economy boomed.

In the U.K., Margaret Thatcher faced even tougher economic problems. Much of British industry had been nationalized under socialist governments. Welfare state spending and the unions were out of control. Britain had become the poor man of Europe. Beginning in 1979, Mrs. Thatcher privatized industry, cut taxes, spending and regulations and broke the unions' hold on the economy. Britain went from the poorest major economy in Europe (in terms of per capita income) to the richest, leaving Germany, France and Italy in the dust.

The United States and the U.K. have had twice the rate of economic growth of Germany, France and Italy since the early 1980s. Unemployment rates in the U.S. and U.K. are under 5 percent while Germany and France are in double digits (11.8 percent and 10.2 percent respectively). Worse yet, more than 50 percent of Germany's, and 40 percent of France's unemployed have been out of work a year or more. The comparable number for Britain is 21.4 percent and only 12.7 percent in the U.S. The divergence is increasing, not diminishing, with the U.S. growing almost 3 times faster than France, Germany and Italy over the past four years.

Even more troubling, France, Germany, and Italy -- the three major euro economies -- are all in violation of the stability pact that sets the economic foundation for a viable euro. If they do not put their fiscal houses in order, the euro will not be sustainable over the long run, which would be a further calamity for the Europeans.

Now for the good news. Angela Merkel, who is favored to become the new chancellor of Germany this fall, and Nicolas Sarkozy, the current front-runner to replace Jacques Chirac as French president, have both very explicitly recognized Europe's problems. Miss Merkel has gone so far as to say Germany should learn about tax reform from the new E.U. members (referring to the flat and low-rate taxes on labor and capital in many central and eastern European countries), pension reform from the Scandinavian states (which are adopting Chilean type privatized plans), and workplace reform from the British (who have much freer labor markets than Continental Europe).

From their statements, it appears both Miss Merkel and Mr. Sarkozy have a clear vision. What is not clear is whether either will be able to organize a coalition strong enough to put through the tough minded measures required.

Looking at the European political landscape, my own guess is that neither Miss Merkel nor Mr. Sarkozy will have the conditions, luck and spine to do what Mrs. Thatcher and Mr. Reagan did. But what they may be able to do is buy a little more time for Europe until the people understand there is no constructive choice other than following the Anglo-Saxon model of lower taxes, spending and regulation.

The long-term hope is in the new group of highly intelligent young people emerging from the free market think tanks and taxpayer organizations sprouting up over Europe. Ironically, it was young people in Eastern Europe who led the way for radical economic transformation. In Estonia (the most successful of the transition countries), Mart Laar, at the time only in his 30s, led his country in the early and mid-1990s to economic prosperity through a radical free market program. In Lithuania, a group of very smart and brave young women formed the Lithuanian Free Market Institute in 1990 (when the Soviet Union still existed), and designed the policies that brought high growth to their country. Now in Austria, Denmark, Italy, the Netherlands, Belgium, the U.K. and other European countries, new free market policy organizations are being formed to bring about real change. Perhaps most surprising is France, the great bastion of statism, where Sabine Herold, the young spokeswoman for Liberte Cherie (an organization established to bring free market ideas to France), attracted more than 80,000 angry Parisians to a demonstration. Ms. Herold and some of her colleagues visited Washington policy institutes last month, and over the last two weeks other very bright, attractive, young French professionals associated with Liberte Cherie and other French free-market groups spent time in Washington with like-minded groups, learning the nuts and bolts of political organization from U.S. philosophical colleagues. It is from these new European free-market organizations that the Thatchers and Reagans of Continental Europe are most likely to emerge. Yes, there is hope for Europe.

Richard W. Rahn is director general of the Center for Global Economic Growth, a project of FreedomWorks Foundation.