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Europe vs. Europe

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STRASBOURG, France.

Is it a sensible idea to move the site of government every three weeks? This is precisely what the European Union does every month, since much of its government moves back and forth -- with great wagon trains of trucks carrying government papers (and the luggage of the European parliamentarians) -- between this picturesque city in the Rhine Valley and Brussels, Belgium.

Not only have the Europeans been unable to agree on having one capital city for the EU, but they are split on almost every major issue, making the political differences between the major parties in the U.S. seem almost inconsequential. The fundamental disagreement is to what extent Europe should move away from the "social market economy" model that has left France, Germany and Italy in economic stagnation and towards a more classic market economy such as that practiced in the U.S.

The EU has roughly the same GDP as the U.S. -- each producing almost 30 percent of the world's GDP. But the EU has a third again as many people as the U.S., and hence the average European only has about two-thirds the income of the average American. The 25 nation EU, taken as whole, is America's biggest trading and investment partner, far outstripping China or Japan. Thus Americans and Europeans have an enormous interest in each others' economic well-being, because an economic "cold" on one side of the Atlantic will almost always be "caught" on the other side.

Europe has been growing at roughly half the rate of the U.S. for the last two decades, which is not good for Europe or America. However, within Europe, there are considerable disparities in growth rates between countries. Those in the center -- France, Germany and Italy -- have barely grown, while those on the edges -- Ireland, Spain, Britain and the new EU member transition countries in Central and Eastern Europe -- have been for the most part doing very well. These growth disparities are causing increased tension among the 25 EU member states, and may even result in the currently strong Euro -- which is the common currency of 12 European countries -- becoming dysfunctional.

The "Polish plumber" has become the metaphor for the philosophical split in Europe. France has all but closed its doors to allowing workers from the new Eastern European EU members to get work permits, on the misguided notion that these highly motivated people will take jobs from French workers. Britain, Ireland, Sweden and others have taken the opposite tack and welcomed the new workers from Poland, Lithuania, Slovakia and so on, because they understand that more people working productively create more wealth and hence more jobs. The result is Britain has an unemployment rate of only 4.7 percent, even though it has absorbed more than 200,000 new workers from Eastern Europe during the last year, while France and Germany have more than 10 percent of their workforce unemployed, despite (or actually because of) their restrictive work practices.

Europe is also split on trade policy. While many of the European countries understand that freer trade leads to lower prices and a higher standard of living, some countries, again notably France, are resisting. This past week, the French vetoed reducing farm subsidies, despite offers from the U.S. and some European countries to do so on a multilateral basis. This was highly hypocritical, given their calls for others, particularly the U.S., to give more foreign aid from coerced taxpayers. The best foreign aid would be to give African and other farmers from low income countries the opportunity to sell their goods in the rich states -- but the French, again, said "*Non*."

The high growth countries of Europe understand that high taxes, particularly on capital and labor, kill incentives and lead to economic stagnation. France, Germany and some others, fearing productive tax competition, have pushed for "tax harmonization," which is nothing more than a code word for a high tax cartel. The outcome of these tax and regulation struggles within Europe will determine whether Europe as a whole remains one of the two great economic powers on the globe, or slowly slips behind China and the other Asian countries.

Last week, in a chateau near Strasbourg, a small group of U.S. and European business leaders had a two-day meeting with representatives of several European free market activist groups. The goal of the meeting was to share ideas on how to encourage European political leaders to undertake more pro-growth economic policies so modern day Europe does not follow the fate of the Roman Empire. Looking at Germany, France and Italy, the pro-growth leaders found plenty to be pessimistic about. But they also understood that in times of crisis real change for the better can take place, which is why they are willing to spend time and money to help convince millions of Europeans to save themselves.

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