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The Dangers of European Anti-Americanism

By Richard Rahn

The rise of anti-Americanism in Europe is a danger to both American and European pocketbooks, and our collective liberty. Here is why: Europe and America are each other's biggest trading and investment partners, and anything that damages that relationship is harmful to everyone involved.

This past year more than one trillion dollars flowed between the U.S. and the EU. The EU now accounts for 21 percent of U.S. merchandise exports and 19 percent of U.S. merchandise imports, and about 34 percent of U.S. services exports and 37 percent of U.S. services imports.

The U.S. is not only the largest recipient of foreign direct investment, but far and away the world's largest investor elsewhere. Of the more than two trillion dollars the U.S. has invested directly abroad, a little more than half ($1.1 trillion) is invested in Europe. Europeans account for 70 percent ($1.2 trillion) of the direct investment in the U.S.

The bottom line is that the U.S. and Europe are economically joined at the hip, and any actions which damage trade and investment between these two economic giants hurt everyone. The U.S. and EU have a combined population of about 650 million people, and their combined GDP equals 57 percent of the world's total.

The U.S. has also provided a security umbrella over Europe for almost 65 years. Europe has adopted much of American culture - from movies and music to fast food and dress, and increasingly the English language (the American version). Even France has about a thousand McDonald's restaurants. Given the growing economic and cultural ties, why the rise in anti-Americanism (despite the hopeful signs coming from Sarkozy's election)?

Some Europeans will argue that it is only anti-Bush-ism - in that they dislike the Bush foreign policy and his personal style. And it is generally true that Europeans dislike Bush more than they dislike Americans. But there is more to it. Europe by and large was pro-American when Europe was growing faster than the U.S., and the U.S. was protecting them from the Soviet menace. But over the last two decades, the major European economies have grown more slowly than the U.S., and the Soviet threat has disappeared.

The increasingly globalized world where the U.S. appears to be more aggressive and economically competitive causes fear and resentment. The U.S. success and dominance highlights the weaknesses of the European welfare state. Only the U.S. morass in Iraq and the relatively low level of the dollar (which most likely will soon be reversed) has given the Europeans reasons to smile.

If the anti-Americanism were confined to verbal belly aching, it would not be much of a problem. However, it is now leading to destructive policies. The Europeans have been more reluctant to further liberalize global trade than the Americans and, in fact, destructive protectionist forces on both sides of the Atlantic are gathering strength.

Some of the European nations have been concerned about capital out-flows (brought on by their own excessive taxation and regulation), and demanded that other countries help them enforce their tax laws (e.g., the EU Tax Saving Directive). Recently, some of the new Democratic leaders in the U.S. Congress have proposed equally destructive proposals to prevent U.S. monies from flowing into lower tax jurisdictions - some of which are in Europe (e.g., Senators Dorgan's and Levin's bills to penalize certain capital outflows).

When members of Congress and others whine about U.S. companies moving abroad, they have no one to blame but themselves, because they have made it uncompetitive for some companies to come to or stay in the U.S. The U.S. used to have one of the lowest corporate tax rates in the world but now it is at the top of the list. The EU has an average maximum corporate income tax rate of 25 percent (with some EU members as low as 10 percent) versus 40 percent in the U.S. Even France and Germany now have lower corporate tax rates than the U.S. The Europeans correctly rely more on consumption taxes (the VAT), which are rebated on exports. There is no rebate for corporate income taxes, putting U.S. firms at a disadvantage.

The EU has brought anti-trust actions against some U.S. multinationals, not because these companies' activities hurt EU consumers, but because they hurt their EU competitors. The EU has also challenged the protection of intellectual property held by some U.S. companies. The EU has attacked the U.S. for not doing enough about climate change, even though EU members have not met the goals of agreements they signed, such as the Kyoto Protocol.

Economic warfare between the EU and U.S. can be averted if officials on both sides will act more responsibly. Many tax disputes would disappear if the U.S. would move to a territorial tax system (like most European nations have) and to a consumption-based tax system, such as a national sales tax, rather than an income tax - which would have the significant side benefit of increasing economic growth in the U.S. The EU needs to move more aggressively towards trade liberalization and deregulation - which would greatly increase economic growth in the EU. The solution to much, but not all, of the tension between the EU and U.S. is to create more economic opportunity on both sides of the Atlantic - but particularly in Europe.

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