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## Walker's World: The real problem with Europe

By MARTIN WALKER, UPI Editor

WASHINGTON, May 31 (UPI) -- Whatever happened to the European economies? Since 1990, the big three continental economies of Germany, France and Italy have grown at an average rate of less than 1.7 percent a year. By contrast, the United States grew almost twice as fast over the same period.

One result of this became strikingly clear last week when the German edition of the Financial Times published a league table of the world's 100 "most valuable" companies (which means ranked by market capitalization). Were it not for the British, whose refusal to join the euro currency renders them semi-detached, the Europeans would be dropping out of contention.

The top eight companies listed were American, starting with GE, Microsoft, Exxon, Pfizer and Citigroup. Only Britain made the top 10, scoring 9th and 10th place with oil giant BP and the HSBC banking group. The highest ranked French company was the oil conglomerate TotalFinaElf in 23rd, and the highest ranking German company was Deutsche Telekom was 40th.

Overall, there were 55 American companies in the world's top 100, and only 29 European. Nine were British, six were French, five were German, and Italy and Holland had three each. Spain had two and Finland one.

No wonder that Romano Prodi, president of the European Commission, in his appearance before the European Union's Economic and Social Committee last week lamented that Europe needed "a radical change."

Prodi was testifying on something called the Lisbon strategy, a highly ambitious plan drawn up at the EU summit in Lisbon in 2000 that was supposed to deliver the "most competitive economy in the world by 2010." The strategy called for liberalization of labor markets, intensified competition, Europe-wide coordination of education and skills training, and reform of corporation taxes and incentives for research. The "social partners," as the EU dubs the representatives of the EU's federations of labor unions and of employers, were to be brought into the process. And this was all to be combined with a budget and investment strategy that was supposed to unleash the talents of Europe and catch up -- and even overtake -- the great spurt the American economy had displayed in the 1990s.

Instead, the Lisbon strategy has become something of a joke. Giacomo Regaldo, who represents the employers' federation, said that both at EU and at national level, the budget process was simply broken. "The budgeters do not have the confidence of the business world or of consumers," he said. His counterpart from the labor unions, Mario Sepi, said that the Lisbon process was the lie of the emperor wearing no clothes: "It's been five years now. If we don't get going now, it will never get off the ground." Everybody has their excuses. The Germans say that their economy has been held back by the costs of unification -- and indeed, over \$1 trillion has been transferred from the former West Germany to the former East Germany since the fall of the Berlin Wall, without coming close to the full integration of the two economies. Emigration of young people ages 17-35 from the old East German province of Saxony is running higher now than in the year before the Berlin Wall was erected -- and it was built to stop exactly this defection of the best and brightest of the young.

Italy claims its economy is lagging because of the strenuous efforts it had to make to get its economy in shape to qualify to join the euro. That is a dubious claim. The Italians qualified (by cutting the annual budget deficit to just below 3 percent of gross domestic product) by cooking the books, collecting two years of corporation taxes in one, imposing a special one-off "euro tax" and so on. The current French government says it's all the fault of the last (Socialist) administration who imposed a 35-hour work week.

There are other reasons. Europeans choose to work less. According to the International Labor Organization's statistics, the average American works 1,815 hours a year, while the

average Frenchman manages 1,545 and the average German works just 1,444 hours a year. On average, that means an American is putting in 10 more working weeks a year than a German -- a matter of cultural choice between working to live and living to work. But the faltering of giants of the once-impressive European economy has profound implications for the harder-working Americans, because despite the headlines about trade wars, the U.S. and EU economies have never been closely intertwined. The value of the daily transatlantic economic relationship, including trade in goods, services and foreign direct investment, stands at around \$3 billion per day -- over a trillion dollars a year. It accounts for roughly 13 million jobs on both sides.

But the real integration of the Transatlantic economy takes place less in trade and more in the way U.S.-owned companies in Europe and EU-owned companies in the United States are the most important players in the process. Over 60 percent of all foreign direct investment in the United States comes from Europe. And over 75 percent of Europe's investment abroad is in the United States. These foreign affiliates had sales last year of over \$3 trillion -- five times more than U.S. and European direct exports to one another. The inter-penetration of the U.S. and European economies dwarfs all other trade relationships. There is more French investment into the state of Texas alone than the combined total of U.S. investment into China and Asia. Forget the fashionable talk about the rise of China and Asia; American firms have sunk 10 times as much investment capital into the Netherlands -- a relatively small European economy -- as into China. (These figures come Dan Hamilton and Joe Quinlan's new "Partners in Prosperity" report, issued by the Center for Transatlantic Relations at John Hopkins University. Hamilton presented the report to the Brussels-based Center for European Policy Studies Friday.) That means that Americans too should start worrying about the sluggishness of Europe. Most of our economic eggs are sunk into each other's baskets, and if the Germans, French and Italians cannot emulate the British and haul themselves out of stagnation and back into growth, then the shared miracle of the trans-Atlantic economy is going to wither, and we shall all pay the price.

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